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The New Grand Bourgeoisie under Post-Communism

Central Europe, Russia and China Compared

Iván Szelényi*

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Abstract

In the former socialist redistributive economies, the transition to market economy and the conversion to private ownership followed different trajectories. The paper offers an overview on how a new class of grand bourgeoisie was formed in three different regions of the transition: Central Europe, Russia and China. In Central Europe this new class often was recruited from the ranks of the socialist technocratic elite who used their managerial skills, inside knowledge and political connections to convert public property into private wealth. The large propertied class of Central Europe is well formed, and private property rights are secure. In Russia, the new grand bourgeoisie was typically 'appointed' by the top political boss, and as leadership changed, the members of this class had to assure the new leader of their loyalty. Failure to do so meant loss of property, exile or jailed. In China, the transition to market economy occurred 'from below'. Many of the wealthy started out with small private businesses that expanded over time. Once they became known to be wealthy, they needed political protection and were vulnerably to political rivalry. Private property in China—much like in Russia—is still rather insecure, and politics are in command.

Keywords: post-socialism, transitional economies, wealth, privatization, bourgeoisie

JEL classification: D31, P20, P31

* Yale University, New Haven, CT; email: ivan.szelenyi@yale.edu

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Acronyms

ITI International Trading and Investment (Polish investment company)

FDI foreign direct investment

MBOs management-buyouts

PPF Privni privatizačni fond (Czech privatization fund)

SOEs state-owned enterprises

TRG Rompetrol Group, NV

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UNU World Institute for Development Economics Research (UNU-WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

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1 Three pathways out of socialism

In my earlier work I have struggled with the question of the different trajectories taken by the former socialist societies in shifting from socialism to capitalism. I focused mainly on the processes which took place amid the social hierarchy, what happened to the former elites and where did the new propertied bourgeoisie come from. From this angle I identified three different pathways out of communism, hypothesizing that Central Europe, Russia and China each constituted a different variety of post-communist capitalism and subsequently followed different pathways (Eyal, Szelényi and Towsley 1998; Hanley 2000; King 2001, 2002; Stark 1990, 2001; Stark and Bruszt 1998; King and Szelenyi 2005; Sachs and Woo 1994; Verdery 1996, 2003). Data for the original study were collected during the early stages of transition (1993). Thus it is timely to revisit the problem, and ask whether the divergence observed in the early stages of transition among the post-communist regions still exists and to review where the formation of a propertied bourgeoisie, in particular, the 'domestic grand bourgeoisie' is standing.

In 1993 I termed Russia's exit from socialism as *capitalists without capitalism*, a system that gave birth to a class of oligarchs (see also Gustafson 1999: 10-57; 108-33). Oligarchs used their close interaction with political power to transfer the ownership of former state firms to private property during the process of voucher privatization (King 2002; Hanley, Yershova and Anderson 1995; Klebnikov 2000; Varese 2001; Stoica 2004; Silverman and Yanovich 2000). Consequently, domestic private ownership became well developed, even though the institutions of the market were much less advanced (Woodruff 1999; Burawoy 1996, 2001; Fligstein 1996; Gerber and Hout 1998; Gustafson 1999).

In contrast I found little evidence in Central Europe for the conversion hypothesis. Foreign direct investment (FDI) was the leading force for privatization, former political elites typically were mobile downward and former management appeared to prefer cushy managerial positions in firms privatized by multinationals rather than the risky venture of becoming private proprietors. As far as the domestic class structure was concerned, this was managerialism and I labelled the system *capitalism without capitalists*, since market institutions were reasonably well developed by 1993, but there was little sign of the emergence of a domestic grand bourgeoisie. I also assumed that China followed a different trajectory, one that was incidentally closer to the classical model of transition to capitalism: it was *capitalism from below* (Naughton 1994; Goodman 2008; Zhou 1996; Nee 1989; Nee and Opper (2010), or in Huang's (2008) terminology, *entrepreneurial capitalism*. To the extent that a capitalist class was developing in China during the 1980s, it was likely to have emerged from among the small entrepreneurs gradually gaining prominence.

Before turning to the question of how the new grand bourgeoisie was actually formed and the extent of this class, I offer a few comments on the three trajectories. Over the past 16 years there have been powerful converging forces operating in the post-communist world. Hence while it was obvious in 1993 that post-communist countries, after extensive convergence under socialism, were adopting the old pre-socialist pathways and thus diverging from one other, some of these unique features began to disappear by the first decade of the twenty-first century.

Central Europe currently does not fit the term *capitalism without capitalists*. Although still strongly dominated by foreign capital, a new propertied bourgeoisie was in the making, and even though joining the dollar-billionaire club was hard, some did make it. And the term *capitalists without capitalism* no longer applies to Russia. The duration of many of Russia's nouveau riche was short-lived; a number of the oligarchs of Yeltsin's era are in jail or in exile, and market institutions now work more effectively than they did during the early years of transition. Nor can China any longer be described as *capitalism from below*. China started privatization of the public sector in 1997 and the earlier, more spontaneous, bottom-up decentralized version of capitalism was replaced with a top-down, state-led growth strategy, in which the role of politics increased rather than declined (Walder 2002; Tsai 2007; Yusuf, Nabeshima and Perkins 2006; Huang 2008).

Nevertheless despite these convergences, there are still three distinctly different worlds of post-communist capitalism. Central Europe remains on a neoliberal trajectory, despite the emergence of a domestic bourgeoisie. The economies of this region are still heavily dependent on FDI and exports, and politically they are multi-party liberal democracies. With the rise of Putin, Russia has moved away from the kind of capitalism that emerged under Yeltsin. Putin brought the oligarchs under control by reminding them that their loyalty was to their state patron and thus greatly increased the capacities of the central state (Hoffman 2002: 470-89). Russia is a *managed democracy*, and given the prominence of Putin's personality in running the country, it could characterized as *personal authoritarian neopatrimonialism*. Many (or most?) of the Russian rich became wealthy by 'appointment', receiving their wealth as 'patrimony' (Gustafson 1999: 35-57) from Yeltsin and his entourage. If the new 'tsar' (Putin) doubted their loyalty this patrimony was taken away. With privatization under the watchful eye of an increasingly powerful central state, China was beginning to resemble Russia, although political power was less dependent on one individual. The Chinese state and government operate increasingly in a corporatist manner (Oi 1999; Lin 1995) incorporating various interests (including the new bourgeoisie) in the party. It can be labelled as *one party corporatist hybrid economy* (Nee and Su 1996; Nee and Cao 1999). Many of the wealthy in China are self-made men who started from the bottom but once at the top, they need the protection of the political bosses, who co-opt them into the existing communist party-state structure.

2 The new grand bourgeoisies: relationship between economic wealth and political power

The study in 1993 was snapshot, taken arguably too early, just two years after the collapse of the Soviet Union. Now 16 years later—years that proved to be rather turbulent in all three regions—it is time to revisit the problem, although similar survey data as in 1993 study are not available.

I am currently working on a project with Tamás Kolosi,[1] to analyse the various ways used by the wealthy to become members of the grand bourgeoisie. We have collected data on 210 Hungarians named over the past decade on lists identifying the country's

1 Tamás Kolosi is a sociologist who after 1989 entered business while continuing to be active in scholarship. Today he is one of the wealthiest Hungarian private entrepreneurs.

top-100 or top-150 richest individuals. The outcome of our project is a book tentatively titled *How to become a billionaire*? In this paper, however, I focus on the top-ten Central Europeans (only two of whom are on list of the Hungarian rich) and compare these with the top-ten businessmen in Russia and China to explore whether the differences hypothesized above are still evident. So, the purpose of this paper is to explore how different or similar the process of upper-class formation was in the three regions of post-communist capitalism, under neoliberalism, authoritarian neo-patrimonialism and corporatist neopatrimonialism.

The so-called theory of political capitalism[2] is a good point of departure for understanding the pathways selected by the new domestic bourgeoisie in the various post-communist regimes. Staniszkis (1991a, 1991b) and Hankiss (1990) formulated as early as 1988 a powerful theory that the source of the formation of the new bourgeois class was political capitalism. In Poland and Hungary, the communist elite began to recognize that disintegration of the socialist system was inevitable and made an attempt to take advantage of it. As the process (later labelled *spontaneous privatization*) started, high-ranking party and state officials tried to position their children (and occasionally themselves) in the emergent new capitalist economy to capture command positions (Rona-Tas 1994; Hanley, Yershova and Anderson 1995; Hanley 2000). Staniszkis's and Hankiss's accomplishment was quite extraordinary: they recognized the development of political capitalism at a very early stage (i.e., the use of a political office by officeholders to enrich themselves or at least their families) and their recognition of the fact might have played a role in preventing this process from coming to full fruit. In 1988-89, having successfully converted their political capital into economic benefits, former top-ranking communist cadres were becoming the wealthy of a new class of grand bourgeoisie.

Now twenty years later, we can revisit the political capitalism theory to examine the mechanisms that facilitated entry into the new class of the grand bourgeoisie. Already in a study in 1993 (Social Stratification in Eastern Europe after 1989) we noted that the theory of political capitalism was arguably a self-defeating prophecy: thanks to Staniszkis and Hankiss, public opinion sufficiently early was aware of the dangers of consolidating the advantages of communist political office into capitalist enrichment, and very few (if any) political officeholders managed to join the ranks of the grand bourgeoisie (Eyal, Szelényi and Towsley 1998).

This is not to say that political capital was unimportant,[3] but it worked in ways different from what was expected at that time, and it worked through dissimilar channels in the various post-communist regimes. Based on the insights gained from the 1993 survey and later work, the following factors seem to have facilitated the formation of the new grand bourgeoisie.[4]

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2 See for Ganev (2009) for an excellent review of Max Weber's concept of political capitalism.

3 As Ganev (2009) points out, political connections are important for all kind of capitalism.

4 In what follows I rely strongly on my interviews conducted with Tamás Kolosi in November 2008 in the preparation of our book.

2.1 Formation of the bourgeoisie class

Political capital

Political capital is significant, but its impact arguably had varying effects in different regions of the post-communist world:

– Individuals, who under communism had been in high political office, were more likely to be similarly placed in the post-communism period, and were thus able to promote the enrichment of their clients (they might or might not have received personal compensation for this from the oligarchs) through management buyouts (MBO) or voucher privatization;

– Political capital was transformed into social or networking capital. After transition, individuals in non-top political positions (for instance, with the Communist Youth League) took advantage of the social networks they had nurtured earlier in achieving business success during communist rule (Walder, Li and Treiman 2000);

– Often, the link to post- and anti-communist new political elites was an important channel to benefit from privatization, either through (MBO) or vouchers.

Technocratic expertise gained under socialism

While highly-placed political officeholders within the old regime rarely evolved into the grand bourgeoisie, many middle-to-high ranking managers and technocrats became very wealthy.[5] They either privatized the firms they were already running (not necessarily as CEOs, but as members of the managerial team) through MBOs, by purchasing other firms or creating new ones. An essential factor was their expertise and knowledge of the investment markets and/or their connections to financial institutions, or even the political bosses of those institutions (a necessity in order to be able to obtain loans for voucher privatization).

Second economy during socialism

Some of the new grand bourgeoisie members had started out from very small shops that gradually expanded after market transition into large firms. This background was beneficial for learning how the market operated. These small 'socialist entrepreneurs' occasionally also accumulated some capital, which they used to their advantage once privatization opened up new opportunities.

There is also a 'selection problem' here. It is assumed that becoming a successful entrepreneur implies, in all likelihood, that the individual is 'entrepreneurial', having the talent and aptitude for business. Hence, those destined for success later might have already been in business before private business became dominant.

Foreign experiences

Some of the nouveau riche are people who had lived abroad in the west for a number of years. They could have been stationed abroad in various businesses, had become familiar with the ways of the market and had established contacts, enabling them to

[5] Szalai (1989) pointed out as early as 1989 that the big winners of transition were likely to be the technocrats; see Andreas (2009) for details on China.

pounce on domestic business opportunities after the fall of communism. Others accumulated some capital abroad (in jobs which may not even have been business related) and were well positioned for a commercial take-off after 1989. Thus having experience of a capitalist country offered the appropriate attitude, networks and initial capital to the potential nouveau riche.

New businesses

Some members of the new grand bourgeoisie are young, started their careers after the fall of communism, and will simply follow the same pathway to the bourgeoisie class as those in the developed capitalist economies. Some of these are the business magnates of the post-communism era, similar to Steven Jobs. They start with little capital, build on innovative ideas, take risks—or then they may just be lucky (or, then again, success may be a combination of all these factors).

3 The upper classes in Central Europe, Russia and China

Next, let us take a look at the individuals in Central Europe, Russia and China ranked by various sources as being among the top-ten with respect to wealth in order to examine how important the various pathways to grand bourgeoisie might have been.

First, a word of caution with regard to the 'data' presented, as the top lists utilized here are unreliable. Some of the very wealthy may well be in 'hiding', while the fortunes of others may be grossly overestimated. Hiding may be especially relevant in China where political suspicion of private ownership still exists. For instance, when in 2008 the Hurun Rich List identified Shuanghua Du, the chairman of Rizhao Steel, as the second wealthiest man in China, the party secretary of Rizhao Steel became very concerned, sending a representative to Hurun to persuade them to drop Du from the top-ten list, but without success.[6] Yet, the concerns of the party secretary were not unfounded: the individual ranked as number one by Hurun in 2008, namely Guangyu Huang the chairman of the GOME group,[7] has disappeared, is probably arrested and under investigation. In 2009, Rizhao Steel was nationalized; to the best of my knowledge, Du is free and in good health. But several others who had appeared on these top lists have been prosecuted and jailed. On top of this, given the lack of clear differentiation between public and private ownership, the wealth of the 'princelings' (the children of high cadres who run the state-owned enterprises, SOEs) is likely to be underestimated. They may actually own significant assets, classified as publicly-owned, but which are in fact private property.[8]

It is unclear as to whether it is wise to be known in Russia as particularly wealthy. During the first decade of the twenty-first century, a number of oligarchs believed to be among the wealthiest Russians ended up jailed (Mikhail Khodorovsky) or in emigration (Boris Berezovsky). The clash between the elite of the newly rich and political authority

6 *China Business Focus*, available at: www.gotoread.com.

7 The GOME group is the largest consumer electronics firm in China (with an assumed wealth in 2008 exceeding US$6 billion).

8 I am grateful to Peng Lu who brought this to my attention.

can be attributed to different causes. Private property may still be insecure in China, while the oligarchs in Russia may have expressed premature demands for political power. But there are serious measurement problems in both countries in estimating the wealth of the rich.

It would be more realistic to analyse the top-100 richest individuals, rather than the top-ten, but unfortunately the resources to carry out such an extensive examination are not available. Therefore, this paper presents the findings from a pilot study used to test how much we can learn by identifying who the very rich are. Nevertheless, a comparison of the three top-ten lists should provide interesting insights.

First of all, there is substantial deviation among the countries in terms of the volume of private wealth. In Russia in order to qualify for the top-ten list, the cut-off point in 2008 was a fortune worth tens of billions of dollars, while in China one-tenth of this was sufficient. In Central Europe, one needs about as much wealth as in China to make the Forbes list, although the number of dollar-billionaires in Central Europe is approximately ten, much less than in China.

In the 2008 Forbes list, there are six individuals from Poland (their respective wealth estimated to be between US$1-2.6 billion), one[9] from the Czech Republic, two from Romania, but no-one from Bulgaria, Hungary, Slovakia or Slovenia. Nevertheless I added two Hungarians to the list, Demján and Csányi, since they were certainly very close to the billion dollar net worth in 2008. The comparison of the volume of wealth between Russia and the Central European countries indicates that the road to wealth was much faster in Russia than in Central Europe (or in China). This is consistent with the hypothesis that voucher privatization in Russia was a particularly useful tool for the fast appropriation of large chunks of public good. In Central Europe where competitive bidding was more common, it was difficult to make a killing fast, and the likelihood that foreign firms with substantial capital would win the bidding was realistic. The relatively small fortunes of the Chinese billionaires are also easy to explain. In China, privatization was delayed for the first two decades of market transition, thus the spread of capital accumulation was more gradual over a much longer period.

There is also great variation in the volatility of the three lists. The Central European list is, by far, the most stable. Individuals ranking among the top-ten in 2009 had been identified for many years among the top 10-25, but this deviates somewhat from the billionaires in Russia. The Russian 2008-09 lists are quite stable, but what is most interesting is not so much the fact as to who is on the list but rather, who is not. Khodorovsky and Berezovsky, two of the leading oligarchs, have dropped from the list altogether: both have been (rightly or wrongly) convicted of criminal wrongdoings.[10] None of the wealthy in Central Europe has faced criminal prosecution, with perhaps one exception.[11] But most noticeable among the rich in China is the volatility (and

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9 Petr Kellner, owner of a private equity group (PPF Investment) who made his fortune by cashing in on the Czech version of voucher privatization. In 2008 he was listed with a surprising US$9 billion in assets).

10 Berezovsky fled to England, and was convicted in abstentia.

11 As far as can be ascertained, Dinu Patrciu, a Romanian, had trouble with law enforcement. He was briefly detained over irregularities in connection with the privatization of Petromidia, part of

inconsistency) of the estimates. There are two separate sources (Forbes and Hurun) available for the estimation of private wealth in China. My Chinese colleagues recommended using the Hurun ranking since it is believed to be more reliable, but it is intriguing to note how little overlap there is between the two and how much these change over time. I consider the lack of volatility to be an indicator of the stability of the formation of the grand bourgeoisie. In this respect Hungary seems to be ahead of both Russia and China, but even in Russia property rights are more stable near the top of the economic hierarchy than in China. Furthermore, as elsewhere in the world, many of the very rich in all three country-groups lost substantial fortunes in 2008-09, with particularly dramatic losses in Russia. For instance, the wealth of Oleg Deripaska, the aluminium king, was estimated at US$28 billion in 2008 but only US$3.5 billion in 2009, a loss of nearly 90 per cent and a drop from first place to tenth. Even the one of most fixed of the Russian oligarchs, Roman Abramovich who has a diversified portfolio of oil, aluminium and airlines, lost more than half of his fortune. But despite some massive personal losses, the global fiscal crisis did not change the ranking-order needed in China or Central Europe to qualify among the top of the propertied class (albeit still requiring one to two billion in assets to be listed). The adjustment in Russia was much greater: in 2008 to qualify among the top-ten, one needed a fortune valued at US$20+ billion, while according to Forbes no-one owned more than US$10 billion in 2009. This is probably a reflection of Russia's dependence on oil and minerals for its wealth, and the drop in the rubble value. But it can also be the result of the country's heavy borrowings: in assembling their new fortunes, the bourgeoisie arguably in Russia are even more dependent on loans than those in Central Europe or in China. It also should be noted that according Forbes, most of the wealth lost in post-socialist countries, especially in Russia, was recovered by 2010 while the accumulation of private wealth continued in China. For the first time there were more dollar-billionaires in China than in Russia, thought the richest individuals in Russia were wealthier than the Chinese.

Finally, it would appear that the process of class formation in the three regions differs. The reliability of the data at my disposal on the methods of wealth accumulation can be disputed. Although I am more knowledgeable about the wealthy in Hungary than those of the other countries under review, the information even for the Hungarians is based on merely reasonably intelligent assumptions. Data for Russia and particularly for China are sporadic. Nevertheless, it is striking to note the older age of the Central Europeans, and how many more were in managerial, sub-managerial and/or various technocratic positions already during socialism. Thus, it would appear that the golden road to the top of the new class hierarchy in Central Europe was open to the former socialist technocracy. In many cases, they privatized the firms they had managed earlier, or used their skills and networks to create new privately-owned companies. In sharp contrast, political connections in Russia seemed to have been the main avenue to the grand bourgeoisie. The classical political capitalism theory does not hold for Russia. The Russian billionaires are very (almost 'outrageously') young, eight out of the top-ten are still in their forties so they are far too young to have been in major positions before transition. But it is a fact that many had/have close personal connections with the new political elite (and the new political elite in Russia are from the ranks of the old communist elites, as are Yeltsin and Putin). Close ties to the Yeltsin family certainly

Rompetrol Group, but was released without charges of wrongdoing (*Bucharest Business News Online*, 28 May 2005).

were a good way to become rich, but unable to transfer this liaison to Putin, some lost their property as fast as they had accumulated it. Finally, in China, if publicly available information is to be trusted, most, if not all, of the new wealth is held by those who started small businesses that eventually prospered. In a way, it is the classical road to capitalism. Given Chinese Communist Party's continued commitment to the notion that it is a 'socialist country' and given the increasing strength of the state after 1989, the newly wealthy cannot survive without establishing and maintaining close relationships with political authorities (almost to the point of occasionally appearing to be corrupt). Nevertheless the genesis of China's new wealth is not political office, or clientelism, but private entrepreneurship.

Next, each of the three country-groups is reviewed in detail with regard to the characteristics of those who made it to the upper echelons of society and how they might have achieved that status.

3.1 Billionaires in Central Europe

The picture would be strikingly different if Ukraine had been included. Ukraine has a number of dollar-billionaires, including Rinat Akhmetov,[12] and Victor Pinchuk. The wealth of these men was estimated by Forbes to be several billion dollars. But the character of Ukrainian billionaires, much like the character of the Ukrainian economy, is closer to Russian patrimonialism than to the neoliberalism of Central Europe.[13]

By all estimates, the wealthiest person in the former European socialist countries outside the former USSR is *Petr Kellner*.[14] He graduated from the University of Economics in Prague during the late 1980s where he studied industrial economics. In 1990 he began to work for the Czech company, Impromat, which imported and sold Ricohet photocopiers. This is where he met Milan Maděryč and Milan Winkler, a turning point in his life. When the Czech government announced its scheme of voucher privatization, these men moved in to jointly create in 1991 an investment fund PPF (Privni privatizačni fond), by buying up the privatization vouchers and purchasing stocks of more than 200 corporations. Not only is Kellner's wealth[15] comparable to some of the Russian oligarchs, but so is the manner in which he enriched himself. It would appear that when a country selects voucher privatization as its major property transfer scheme, it can inflate the ways in which private wealth is generated. In 1995 Kellner already had sufficient resources (vouchers and inexpensive loans) to buy a 20 per cent stake in the largest Czech Insurance company, Česká pojišt'ovna, and later in Komerčni Bank. In 2000 he took advantage of a bitter confrontation between the American cosmetics billionaire Ronald Lauder and Czech businessman Vladimir Zelezny[16] and invested extensively in the popular Czech Nova TV, the target of the bidding rivalry between Lauder and Zelezny. Kellner eventually sold his stake to

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12 Akhmetove, the owner of System Capital Management, is believed to be a protégée of former Prime Minister Viktor Janukovich; Pinchuk is the president of investment groups Intertpipe and Maecenas, the son-in-law of former President Leonid Kuchma.

13 See www.goodlifenews.net/in/158.

14 See www.lonelycitynews.com/powerful-players-Petr-Kellner.

15 His wealth estimated to be five times that of other Central European nouveau riche.

16 See www.globalbusinessleaders.org/WebPage/LeaderBio.aspx?leaderCd=100&levelcd=c03r009.

Lauder at a massive profit (over 0.5 billion dollars). In 2007 PPF signed a contract with Assicurazioni Generali and created a region-wide insurance business in Central and Eastern Europe. PPF is currently exploring investment opportunities in other transitional economies, especially in Russia, Ukraine, China and Vietnam.[17] While other investors became cautious during the 2008-09 global fiscal crisis, Kellner used this opportunity to buy and expand,[18] becoming embroiled in early 2009 in the process in legal battles with Oleg Deripaska over the Russian insurance company Igosstrach.[19]

There are parallels in the backgrounds of the Polish and Hungarian billionaires. Many of the Poles came from the private economy that was evident already during socialism (Ryszard Krauze and Boguslaw Cupial in particular: born before 1960, they all tend to be somewhat older). Leszek Czarnecki and Michal Solowow were both in their twenties in 1989 (both were born in 1962), both graduated from engineering college and both started their careers after the change in regime. The story of Jan Wejchert (and his close business partner Mariusz Walter) is rather interesting. He is some ten years older than either Czarnecki or Solowow and gained business experience abroad after 1968. It is likely that the Wejchert-Walter duo had some political connections already under socialism.

Table 1
Billionaires in Central Europe, based on the 2008 Forbes list

	Wealth 2008, US$	Age 2009	Main business	Source of wealth
1 Petr Kellner, Czech Republic	9.3 billion	44	Investment, insurance, banking	Voucher privatization
2 Leszek Czarnecki Poland	2.6 billion	47	Leasing, banking, insurance, real estate	Technocracy, second economy
3 Dinu Patriciu Romania	2.5 billion	58	Oil	Technocracy, MBO
4 Michal Solowow Poland	1.9 billion	46	Media, chemical industry, ceramics, real estate	Privatization of public firms with subsidized government loans
5 Jan Wejchert Poland	1.3 billion	59	Media	Foreign experience, possible political connection?
6 Ryszard Krauze Poland	1.3 billion	52	Software, pharmaceutical, oil	Private business during socialism with government contracts, political connections
7 Ion Tiriac Romania	1.2 billion	69	Banking, insurance, real estate	Foreign experience
8 Boguslaw Cupial Poland	1 billion	52	Telecommunication, cable production	Second economy
9 Sándor Demján Hungary	1 billion	66	Real estate	Technocracy, second economy
10 Sándor Csányi Hungary	1 billion	56	Banking	Technocracy, MBO

Note: Demján and Csányi have been added to the list by the author.
Source: Forbes (2008).

17 See www.ppfinvestments.com/en/news/10shtml.

18 See www.businessnewseurope.eu/pics//1/1458_0209_PPF_Petr_Kellner.

19 See www.paisawaisa.com/community/photo/imagedesription.aspx?photohold=3189.

One of the two Romanian billionaires, Dinu Patriciu, is a typical example of a technocrat who earned his wealth through management buyouts. The other billionaire, Ion Tiriac, used the skills, connections and assets accumulated while working in the west to assemble his business empire. Thus the Czech, Polish and Romanian billionaires, although individually following different trajectories of wealth accumulation, are in fact rather similar with the super-rich in Hungary but quite different from the nouveau riche in Russia or China.

Leszek Czarnecki,[20] a native of Wroclaw, graduated from the Wroclaw University of Technology with a PhD in economics. He became a businessman in 1986 when he created Przedsiębiorstwo Hydrotechniki i Inźynierii TAN S.A. In 1991 he joined the first Polish leasing company, Europejski Fundusz Leasongowy, which eventually became the country's largest leasing firm. Some ten years later, he sold his shares to the French bank Credit Agricole at a substantial profit. His flagship is the Bank Getin Holding and, as with many other Polish billionaires, an important source of wealth was the extraordinary growth of the Polish stock market around the middle of the first decade of 2000. Czarnecki is quite an adventurer, a sports fanatic, a deep sea driver, and he is rumoured to have paid US$20 million for a seat on a flight to the international space station; a trip he has not taken yet.

A native of Kielce, *Michal Solowow*,[21] also has an engineering degree from the local college. Upon graduation, he set up a construction company during the mid 1980s with an initial investment of US$10,000. Selling this firm in 2002 for US$44 million, he focused on Barlinek, turning it into one of the world's largest floorboard producers. His other assets include a ceramics production firm (Cersanit), a real estate company (Echo) and the daily *Zycie Warszawy*. Like Czarnecki, Solowow is also a sports adventurer, and a rather well-known racing driver. He started racing at the age of 17, but could afford to buy his first car only in 2000. He races some 20 days a year and has had some success, placing 4th, for instance, in 2007 in the general classification of the European Rally Championship.

Jan Wejchert and *Mariusz Walter* started to work together in the mid-1980s. Jan Wejchert left Poland temporarily in 1968 to work for a while in England, France and Switzerland. Already in 1976 he was responsible for the Polish subsidiary in Frankfurt of the German trading company, Kosnoprod GMBH Co., the first western firm to invest in Poland. In 1984 he joined forces with Mariusz Walter and set up the ITI (International Trading and Investment). Responding to the demand of the market, they initially produced potato chips but then branched out into video production. After the fall of communism ITI managed amid intense competition with major entrepreneurs (e.g., Ronald Lauder) to expand into the leading media and entertainment group of Central Europe. In 1997 they became the majority stakeholders in TVN, Poland's major commercial TV network. TVN is available via air or cable to almost all Polish households and has been listed since 2004 on the Warsaw Stock Market. In 1999 ITI launched Onet.pl, the major Polish internet portal. Jan Wejchart's son, Lukasz Wejchert (a graduate from Dublin Portobello Business College), was initially the vice president of

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[20] See www.getin.pl/en/index.php?/level=page&id=7menue=4,23.

[21] See www.krakowpost.com/article/186.

Onet.Pl, but has been its interim president since 2004. Jan Weichert passed away during the fall of 2009.

Mariusz Walter[22] graduated from Gliwice Institute of Technology. During the 1960s he worked for a student radio station and eventually got a position with the Polish Public Radio. After moving in 1963 to Warsaw, he joined the Polish Public Television, rising through the ranks to editor-in-chief. He has produced some 300 television programmes, numerous documentaries and has become one of the best-known media personalities before he left the television world in 1982 to join forces in 1984 with Jan Wejchert in various business ventures.

Jan Wejchert and Mariusz Walter have turned their business empire into a family firm. Mariusz Walter passed the presidency of TVN to his son Piotr Walter, while Lukasz Wejchert assumed the role of vice president. The board of Jan Wejchert's political and educational foundation, Politikos,[23] consists almost exclusively of Wejchert family members. ITI owns Multikino, one of Poland's leading multiplex cinema operations, with Jan Wejchert's wife (Aldona Wejchert) as the president of the management board. Bozena Walter (Mariusz Walter's wife) and Aldona Wejchert both serve on the Charity Foundation of TVN, *Nie Jersteś Sam*. Graduating from the Warsaw School of Economics, Aldona Wejchert completed her education at LSE; Bozena Walter has a degree in oriental philology from the Jagiellonian University. Undoubtedly, this is one of the new great family dynasties in the making in Poland.

The business success of the Wejchert-Walter families seems to have roots similar to those of the nouveau riche in Central Europe. The families were also well endowed in cultural capital: Wejchert benefited from his experiences abroad and western business networks. Both families must have been relatively well-off already prior to transition (hence, their access to initial capital). But they were not immune to speculation that they might have been able to cash in on political capital as well. In 2007 the-then Polish Minister of Defence, Antoni Macierewicz, issued a report 'on the activities of soldiers and civil employees of WSI' (Polish Military Agency), claiming that Jan Wejchert was actively cooperating with the Polish special military services and was engaged in the set-up of spy network in West European countries.[24] ITI sued and, according to an ITI press release, the Ministry of Defence issued the following apology:

> Acting on behalf of the State Treasury, the Minister of Defence apologizes to Mr Jan Wejchert, Mr Mariusz Walter and the ITI Group for the violation of their personal interests by including in the report prepared by the Chairman of the Verification Committee, published in Monitor Polski no. 11 of 16.02.2007, unauthorized, injurious information, questioning their business trustworthiness, claiming that Mr Jan Wejchert, Mr Mariusz Walter and the ITI Group were cooperating with the special military services of the People's Republic of Poland (PRL), participated in placing agents of the PRL military intelligence in Western European countries and financed the agents' operation. The

[22] See www.itiholding.com/board/walter.htm.

[23] See www.politikos.org.pl.

[24] ITI Group Press Release, 9 May 2008.

> Minister of Defence expresses his profound regrets that such situation took place.

It is an interesting apology and it is also interesting to note that Wejchert and Walter obviously were satisfied since they made it public through a press release.

The third wealthiest Central European on the 2008 Forbes list is *Dinu Patriciu* (born in 1950). Trained as an architect at the Bucharest Institute of Architecture, he has held a professorship there since 1975. He started out in the real estate business, built more than forty housing and commercial projects in Romania, but also in the United Arab Emirates. In 1998 he led an investor buyout of Rompetrol SA., expanded it into Rompetrol Group, NV (TRG), served on its supervisory board from its inception as private company and became CEO in 2001. Patriciu and TRG have been active in the Balkans and in Central Asia (including Georgia and Kazakhstan). He was also involved in politics, and was member of the Romanian Parliament for a number of years (although he retired from political office in 2003, he still seems to exercise substantial political influence, perhaps not only in Romania but even in Moldova). This again is an example of the interaction of politics and business, where business uses politics, rather than politics utilizing private wealth.

Nevertheless, the business-politics interaction is never one way. Patriciu was accused of corruption a number of times and was investigated on charges of organized crime and insider information. In 2005 he was briefly arrested and questioned [25] about the operations of Petromidia, part of TRG but as far as can be determined, he was never charged with criminal activity.

Ion Tiriac[26] was listed in the 2008 Forbes as the seventh wealthiest Central European entrepreneur. He started out as a hockey player, taking part as a member of the Romanian national team in the 1964 Winter Olympics. Soon he switched to tennis and won the men’s double (with Ilie Nastase in the 1970 French Open) and reached the Davis Cup finals several times. In 1983 he became a tennis coach, working, for instance, with Boris Becker for almost a decade, starting from the mid-1980s. When he discovered Becker he was ranked 174th in the world, but within a year, Becker won the Wimbledon at the age of 17. Once Tiriac withdrew from sports, he concentrated on business in Germany.

After ten years of self-imposed exile, Tiriac returned to Romania after the fall of communism, armed with considerable experience of western market economies as well as some initial capital. As manager, he had earned a percentage of the endorsement income of his trainees (about 30 per cent) as well as some of the prize money. For example, he had signed up Becker with Ford, Coca-Cola, Deutsche Bank, etc., endorsements that earned Becker millions of dollars each year. On his return home, he was a national hero, at least among ordinary people, as the man who, during the dark years of Ceausescu, made the world remember that there was a country called Romania. In 1991[27] he founded the Banca Tiriac, the first private bank in post-communist

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[25] See www.bbw.ro/articol_43282/dinu_patriciu_arrested.htm.

[26] See www.aoar.ro/cv/tiriac.htm.

[27] Interview by P. Brock of *People Magazine* (1991).

Romania. He has a diverse portfolio: real estate development (building residential complexes in Bucharest, Timisoara, Braşov, Sibiu), insurance business, airlines, car dealerships and car leasing.

Tiriac's only son is *Ion Alexander Tiriac,* Jr. His mother is Mikette von Issenberg, a famous model in her day, whom Tiriac met in Paris in 1974. Ion Jr. was 14 years old, when *People Magazine* (1991) interviewed his father. He was sitting in the corner quietly during the interview and said in passing: 'I want to do like my father, but less. He does too much' and when the conversation turned to his father's hunting habit (Ion Tiriac Sr. is an avid hunter), he added: 'I'm not such good shot with pheasants, but I am not so bad with wolves. This early interview seems to explain a lot about Tiriac, both in terms of his attitude towards hard work and hunting. So far, Tiriac Junior has attracted quite a bit of media attention—not because of his business success, but because of his colourful personal life. He fell in love with Ilena Lazariuc, the actress/model daughter of the Romanian pop singer star, Anastasia Lazariuc. Before their marriage in August 2009 the couple had been linked to a drug scandal.[28] All this may change with the stabilizing effect of marriage, and the Lazariuc-Tiriac family may become a new dynasty in Romania.

As far as can be determined, the emerging bourgeoisie society in Central Europe was never a part of the Communist Party's entourage of high state officials. The rise to the top of the social ladder was more likely to have been related to their professional skills, an early kick-off in the grey or informal economy, useful foreign experiences and good personal networks.

Sándor Csányi was born into a poor agrarian family in Hungary but graduated in 1974 with a college degree majoring in accounting. After graduation he got a job at the prestigious ministry of finance where he worked in the bank supervisory unit until 1983. After leaving the ministry, Csányi held a couple of jobs in various new banks (during the 1980s Hungary began to set up new commercial banks and to work for these was a challenge for young bankers). In 1992 he was appointed CEO of the-then still publicly owned saving bank, OTP. When the government in 1994 decided to privatize OTP, Csányi could have followed the lead of other Hungarian banks to approach a western bank that might have been interested in buying OTP.[29] But Csányi was more ambitious: he decided to put OTP on the stock market and to give stock options to himself and other top management members of the bank (a sort of MBO). Many of his colleagues, who had sold their banks to foreign investors had kept their managerial jobs, thus securing their position within the Hungarian upper middle class as extremely well-paid professionals.[30] Csányi, on the other hand, took the risky road and became one of the leading members of the Hungarian grand bourgeoisie.

Sándor Demján graduated from college with a major in commerce in 1965. He started to work with AFESZ, a network of formal corporative, in fact, state-owned stores. Very

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28 See www.spotlightingnews.com/gfx/786_1jpg.

29 George Soros, the American-Hungarian billionaire-philanthropist, had expressed interest in acquiring OTP.

30 This includes Tamás Erdei, Csányi's old friend from the ministry of finance, who by the 1990s was the CEO of Hungarian Foreign Trade Bank, which was sold to Bayerische Landesbank.

early he made some innovative moves, the most important of which was to establish in 1973 a new department store (Skala) which he ran like a private business with extraordinary success. In 1986 he created the first socialist commercial bank (Hungarian Credit Bank) and in 1996 TriGranit. This eventually grew into one of the largest real estate development firms with operations all over Central Europe.

It is also interesting to note that Csányi clashed in 2008-09 with the Hungarian intelligence services (who released a taped phone conversation of Csányi with a private investigation firm which implied that he might have been involved in information gathering on politicians whom he would have wanted removed from office). But he was not even questioned by the prosecutor's office; rather, it was the minister responsible for intelligence services and the chief of intelligence who was forced to resign over the affair. Initially the tape was released to stir up a case against Csányi in his attempts to gather illegal information on politicians, but this turned into an issue of the intelligence services illegally taping Csányi's phone conversation and illegally releasing the tapes. The narratives of Wejchert-Walter and Csányi demonstrate that businessmen are beyond the reach of harassment by the intelligence or politicians in Hungary. Here the clout of business is in sharp contrast to that in Russia or China where businessmen, once they fall out of favour, often end of in jail or in exile.

3.2 Billionaires in Russia

Mass privatization in Russia was organized mainly through vouchers (King 2002, 2003; Murrell 1993). Yeltsin's main economic adviser, Gaidar, who eventually became prime minister, promised the people of Russia 'capitalism within one hundred days'. And, in a sense, he did deliver: property relations were transformed extremely fast, not quite in a hundred days, but it did not take much longer to form 'identifiable property

Table 2
Billionaires in Russia

		Wealth 2008, US$	Age 2009	Main business	Source of wealth
1	Deripaska, Oleg	28 billion	41	Aluminium	New private business, MBO and political capital
2	Abramovich, Roman	24 billion	43	Oil, aluminium, airlines	Informal economy and political capital
3	Mordashov, Alexei	21 billion	43	Steel	MBO
4	Fridman, Mikhail	21 billion	45	Finance, banking, oil	Second economy, political capital
5	Lisin, Vladimir	20 billion	53	Steel, metallurgy	Political capital, MBO
6	Prokharov, Mikhail	20 billion	44	Financial, metallurgy	MBO, political capital
7	Potanin, Vladimir	19 billion	48	Metallurgy, aluminium	Political capital, MBO
8	Kerimov, Suleiman	18 billion	43	Oil	Political capital
9	Khan, German	14 billion	47	Oil	New private business, social network
10	Alekperov, Vagit	13 billion	58	Oil	Socialist technocracy, MBO, political capital

Source: Forbes (2008).

rights', the aim of neoliberal reforms. In the voucher system, all firm employees received vouchers or coupons worth a certain share of the firm. This can be interpreted as a 'socialist policy' based on some type of Proudhonian inspiration: everyone was to become a private proprietor. But in practice the voucher system turned out to be a major avenue for management buyouts and, in fact, even an effective way to allocate property to well-connected people able to assess the real value of these publicly-owned firms. Soon, a secondary market developed for the vouchers: workers, not knowing what to do with their vouchers and not having enough to utilize them to any advantage, generally sold them well below their nominal price.

Privatization in Russia proceeded in three steps

The first of the oligarchs, Berezovsky, describes this process astutely: 'The first stage is privatization of profits. The second is the privatization of property, and the third is the privatization of debts', cited in Klebnikov (2000: 170).

The privatization of profits occurred very early. Once Gaidar liberalized prices, it unleashed hyperinflation within a few weeks. This enabled the new private entrepreneurs to purchase goods from still publicly-owned firms with promissory notes rather than cash, sell the products at high prices and repay their loans to producers once the value of the rubble plummeted, and securing profits in hard currency with western banks.

The second stage, privatization of property, was set into motion when President Yeltsin announced in 1992 the plan for voucher privatization: 'We need millions of owners, rather than a handful of millionaires… The privatization voucher is a ticket for each of us to a free economy', said the President.[31] Chubais, the future vice premier, was responsible for privatization. Under his watch, privatization vouchers were mailed out to all Russian citizens, who were at a lost as to what to do with them. But as hyper-inflation had eroded their savings, and their jobs had been lost, people readily offered their coupons for sale virtually at any price on the emerging secondary market. A small group of entrepreneurs and business-minded managerial personnel bought up the vouchers, privatizing state-owned enterprises well below their value. Klebnikov, for instance, estimates (2000: 135) that Gazprom, which sold for US$250 million in 1994, was worth US$40 billion by 1997 (Klebnikov 2000: 135).

The third stage, privatization of debts, was the 'loans-for-shares' system implemented by Chubais in mid-1995. Vladimir Potanin is known to have been the architect of this scheme. The central idea was for the leading Russian banks to offer US$2 billion to the government, with the most productive still state-owned firms as collateral. Since the government was unable to repay the loans, the banks became owners of the companies in a second round of auctions (ibid.:198).

Elements of voucher privatization were present in other European post-communist economies. The voucher system was used in the Czech Republic: this was how Kellner, the wealthiest post-communist entrepreneur outside Russia, earned, or rather 'gained' his fortune. Similar techniques were applied in Hungary, where the government issued the so-called 'compensation tickets'. These were vouchers which in principle reflected the value of property lost through confiscation or nationalization during communism.

31 Cited in Aslund (1995: 235).

Although these could be used for privatization, most recipients did not have enough compensation tickets for any meaningful action, so they sold their shares on the secondary market, generally well below nominal value. Investors with proper information and connections often made a killing this way.

In Russia, however, privatization by voucher was the main method of transferring property rights and this offered a unique opportunity to become rich fast for the young smart entrepreneurial people who were close to the well-connected elite. Crucial in Russia was how close one could get to Yeltsin, and specifically to his daughter, Tatyana Yeltsin. Those who managed to get close to father and daughter constituted what eventually became known as the oligarchs.[32]

The unique features of Russia's transition to capitalism were (i) the importance of having access to Yeltsin and the new political elite in order to take advantage of voucher privatization; (ii) the emerging oligarchs formed a tightly connected group in a personal and business sense; and (iii) wealth had been received as 'patrimony' from Yeltsin, so when Putin came to power, property rights had to be renegotiated. Only those who were able convince the new 'tsar' of their loyalty managed to retain their property (as did Roman Abramovich). The relationship between the ruler and property holders appears to be a rather traditional dilemma in Russia.

Boris Berezovsky (born in 1946)[33] was the first and the most prominent of the new 'nobility', or the founding member of the club of oligarchs. Berezovsky earned in 1983 a PhD in mathematics, becoming director of one of the laboratories at the Soviet Academy of Sciences (Klebnikov 2000: 53). But he was more interested in networking and business than in science. As a member of the scientist elite, he could by-pass the small shops phase, and concentrate on the existing large state-owned firms. Already in 1989 he approached Avtovaz, the Soviet car manufacturer, and proposed setting up a private firm to provide computer programming for them. Avtovaz was interested, and in May 1989 Berezovsky established Logovaz, with himself as its general director (Klebnikov 2000: 53-4). But computer servicing was not sufficiently innovative for Berezovsky, so almost immediately Logovaz took on the sale of Avtovaz automobiles. Apparently, his first profit of a few thousand dollars was made from the re-sale of a Mercedes he bought secondhand in Germany and sold in Russia, but he also made money from the import of computers and computer software. His most profitable venture was the re-export of cars. He managed to get an export license for cars and since it was assumed that he would export the highly non-marketable Lada, he was able to buy these at less than production costs, paying in promissory notes rather than cash. But Berezovsky never exported the cars, preferring instead to sell them on the Russian market, well over the official price. Many wanting a car would have had to wait for years for one from Avtovaz; at Berezovsky's outlets, they could simply sit in a car and drive away.

There seems to be no indication that Berezovsky was closely linked with high-ranking Soviet party officials. He had good relations with the young reformers, Yegor Gaidar and Anatoly Chubais in particular (Klebnikov: 2000: 75) and Valentin Yumashev.

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32 Tatyana was married to Leonid Dyachenko, whom she divorced and married Valentin Yumashev in 2001.

33 Frontline World (October 2003).

Yumashev was a journalist who eventually became Yeltsin's chief of staff and Tanya (or Tatyana) Yeltsin's second husband. But during the early 1990s Chubais was a ghostwriter for President Yeltsin, helping him with his 1989 book and with the *Notes of a President* (published in 1994). It was Yumashev who introduced Berezovsky to Tatyana, married at that time to Dyachenko (a commodity trader, who later became Berezovsky's business partner in Sibneft), but already a good friend of Yumashev.

Valery Streletsky who served as head of the anti-corruption department of the Presidential Security Services stated during an interview with Klebnikov (2000: 202-3):

> The key factor in the privatization process was the attitude of Tatyana Dyachenko to this or that banker/oligarch …. She would go to the president and say: this man is good man and that man is bad man; this should be supported and that should not be supported … Tatyana Dyachenko is the only person the president listens to.

Berezovsky's entry into the family was via the *Notes of a President*. He had suggested to Yumashev/Tatyana Dyachenko that he would take care of the publication of the book, get it printed in Finland and come up with the money to cover costs. He did come up with the cash and offered to transfer the royalties to Yeltsin's account. The actual financial arrangements of the agreement are unclear: did he take a fee for himself, transfer all royalties, or transfer funds even beyond the royalties earned by the president? Berezovsky probably did meet Yeltsin for the first time in person when the book was released, yet Yeltsin offered a toast and his thanks to Berezovsky at that time.

With his newly acquired contacts Berezovsky managed to acquire major managerial positions and eventual ownership of Avtovaz, the car manufacturer, as well as shares in the Russian national airline, Aeroflot, and in a major oil company Sibneft but his economic empire also included the aluminium industry and some important media outlets. In 1995 he also acquired the most popular TV station in Russia, TV Channel 1, which had a tremendous impact on public opinion in the country (Klebnikov 2000: 159).

In appreciation of Yeltsin's contribution to his business success, in 1996 when a communist candidate represented a real threat to Yeltsin's re-election, Berezovsky not only supported the president's campaign but managed to persuade six other oligarchs, the so-called 'big seven'[34] to push for Yeltin's re-election.

In addition to Berezovsky, other members of the 'big seven' were Mikhail Fridman (fourth place in the 2008 list), Vladimir Vinogradov (bankruptcy in 1998), Mikhail Khodorovsky (currently in jail), Vladimir Gusinsky (currently in exile in Israel), Vladimir Potanin (seventh ranking on the 2008 list) and Aleksander Smolensky (his bank collapsed in the 1998 Russian financial crisis).

In 2000 Berezovsky and some other (still existing members) of the 'big seven' (namely Khodorovsky and Fridman) supported Putin's election, and were bringing Putin 'into the family', to use a mafia term. But Putin did not want to be bossed around by the oligarchs. Berezovsky had been elected to Duma (the Russian legislature) in 1999 and

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[34] At that time, they controlled about half of the Russia's economy. See 'The Big Seven: Russia's Financial Empires'. Available at www.worldbank,org/html/prddr/trans/feb98/bigseven.htm.

held various important political positions under Yeltsin, but he soon clashed with Putin and fled to England. Later he was sentenced in abstentia to prison. While no murder charges were proven against him in a fair court of law, he was suspected of being involved in the 1995 slaying of Vlad Listyev, Russia's most successful TV producer. Berezovsky vehemently denied any involvement. Listyev had supported privatization of TV 1, but had advocated fair bidding for advertising time. This clashed with Berezovsky's interests. It is also interesting to note that Paul Klebnikov, an American journalist of Russian descent and the author of the book *Godfather of the Kremlin* which describes Berezovsky as a mafia boss, was murdered in 2004. In Putin's Russia, Berezovsky himself is now public enemy number one: several assassination attempts against Berezovsky are rumoured to have taken place in London by Russian agents (*The Times*, 18 July 2007).

Mikhail Khodorovsky started his career in Komsomol, the Soviet Communist Youth Organization and used his political connections effectively. Klebnikov (2000: 203) offers a crisp description of his trajectory:

> He had a classic career path of a Yeltsin–era business magnate. In 1987, as top leader of Moscow's Communist Youth League, Khodorovsky established a trading cooperative financed with Communist Party money; the following year he established a bank. In 1990-93, Khodorovsky entered the Russian government, serving first as economic adviser to the Russian Prime Minister and then as deputy minister of fuel and energy.

His first business venture was, in fact, a coffee-shop before he set up his bank, Menatep. At a loans-for-shares auction in 1995, he acquired ownership of Yukos, one of Russian's major oil companies. Fridman's Alfa Bank in consortium with other investors also made a bid for Yukos, offering US$350 million. But the government had asked Menatep to register auction applications; Menatep disqualified Alfa Bank, and a front company for Menatep purchased Yukos for a mere US$150 million. According to Klebnikov (2000: 209), this was a rather typical technique at auctions. During an interview with Colonel Streletsky, the colonel said:

> Why did the state sell its property so cheaply? Because this was a corrupt clan selling to itself … A certain proportion of the government apparatus had linked up with …. Berezovsky and other [businessmen]. These people knew the best way to steal, but to steal they needed the government apparatus. The government apparatus, meanwhile, needed money, so this alliance was concluded (Klebnikov (2000: 209).

By the end of the Yeltsin era, Khodorovsky was considered the wealthiest individual in Russia. But much like Berezovsky, Khodorovsky was politically far too ambitious for Putin's liking. Khodorovsky probably sensed trouble with the new political boss, so early in 2003 he proposed a merger of Yukos with Sibneft, Russia's other major oil company. When Berezovsky fled the country, he had passed ownership of Sibneft to Roman Abramovich (number two man on the list of wealthiest Russians as recently as 2009), who had regarded Berezovksy as his 'mentor'. The friendship, however, was not without qualms: Berezovsky sued Abramovich, claiming he was not properly compensated for his shares. Berezovsky had attempted already in 1998 to merge Yukos and Sibneft into a gigantic oil firm, Yuksi, but failed because of resistance by Abramovich at that time (Klebnikov (2000: 276). In 2003, however, Abramovich agreed to the Yukos-Sibneft merger. Khodorovsky, accused of tax evasion and fraud, was subsequently arrested in the fall of 2003, was still in jail in the summer of 2010, and is likely to be there for some time. This means that Abramovich now controls a big chunk of Russia’s oil industry and eventually the Berezovsky-Abramovich controversy was also settled.

Vladimir Gusinsky,[35] the third oligarch to fall under Putin’s disfavour, started out as a self-made man. Gusinsky was engaged in semi-private ventures already during the communist era, gradually moving into media ownership. He started out in the 1970s as a gypsy cabdriver (Klebnikov (2000: 276), but was also engaged in various black market activities (ibid.: 151-2). Gusinsky’s political connections helped him to build his media empire. During the 1980s he organized various events for Komsomol, becoming in 1986 director of the so-called goodwill games, a popular TV programme sponsored by the Komsomol. In 1989 he created *Most*, a joint venture with an American firm (*Most* means bridge), which initially did consultancy work only, but expanded into a bank and a holding company, one of the largest in post-communist Russia. During the late 1980s, he met Yuri Luzhkov who in time became Moscow’s mayor (rather successful, albeit somewhat controversial) and one of the major political rivals to President Yeltsin. Gusinsky and Luzhkov became good friends: they even travelled together to the United Sates on a tour. Luzhkov’s friendship was apparently helpful in turning *Most* into one of the largest business conglomerates in Russia. *Most* had an armed security force of 1,000, and one of the leaders of this force was a former high-ranking KGB officer. When the Americans, with whom Gusinsky was on rather good terms, complained about his employment of a former KGB agent, he commented: ‘The [KGB] people are like fine cars. They’ll go wherever you drive them….We’d be ready to hire the devil if he could give us security’ (Klebnikov 2000: 151).[36] Indeed, during the early 1990s, major businessmen in Moscow needed security forces because the city was ruled by either Russian or Chechen mobs. Without protection from one group or the other, life was virtually impossible. Klebnikov claims Berezovsky had protection from the Chechens, while Gusinsky preferred Russian ‘protectors’. Hence, Berezovsky and Gusinsky (both are Jewish) were not just business rivals siding with different political mentors, but they were also protected by competing security outfits. Not surprising, then, that they suspected each other of being responsible for the assassination attempts against them and for the plots for their arrest by law-enforcement agencies. The two giant oligarchs sat down around 1996 and agreed to cooperate rather than to try to destroy one another. It is likely that Luzhkov helped Gusinsky to gain control of Channel 4. The media in Gusinsky’s control was quite critical of Yeltsin, but Berezovsky persuaded him in 1996 to support Yeltsin and to prevent the election of a communist as president. Putin, however, did not tolerate the critical tone of Gusinsky’s media. Gusinsky was accused of fraud and, at the request of the Russians, was arrested in Athens in 2003. By that time he had taken the safety precaution of living in Israel, and was allowed to return to Israel (rather than being extradited to Russia) only at the intervention of the US government.

Although *Roman Abramovich* was not a member of the ‘big seven’ club, he was still one of the early oligarchs. He was brought into the Kremlin circle by Berezovsky, even

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35 See www.how-to-make-million-dollars.com/russian-billionaires/gusinsky.html.

36 See also *Washington Post*, 7 April 1995.

moving to live inside the Kremlin. He became a close friend of Yeltsin's daughter, Tatyana Yeltsin, who often spent time at Abramovich's *dacha*.

Abramovich, similarly to Gusinsky, started out in the shadow economy. It is rumoured that he began his business activities during the late 1980s by selling plastic ducks out of his Moscow apartment and working as a street trader.[37] Later he set up a number of small companies. In 1993 he met Berezovsky, who liked him and introduced him to the 'family'. After Yeltsin created Sibneft by presidential decree in 1995, the two men acquired the company in a loans-for-shares programme, paying approximately US$80 million for the whole lot. Already then, it must have been worth several billion.[38] This is a classical—and much debated—example of Russian privatization. Abramovich after a time also branched into the aluminium business. Privatization of the aluminium industry was surrounded by hostilities, rumours of corruption, blackmail and even the murder of plant managers and journalists.[39]

Abramovich is a survivor. He has not only survived the aluminium war, but also the change in regime from Yeltsin to Putin. In 1999 he was elected to the Duma and in 2000 the governor of Chukotka. When Putin cancelled the governorship elections in 2005, he re-appointed Abramovich to serve a second term as governor (although Abramovich resigned from this post a few years later). Abramovich's survival may be due to the fact that he kept a low profile at least until quite recently, unlike Berezovky or Khodorovsky. Only few people knew what he looked like: at one point, a newspaper offered a reward to the first person to photograph him. After 1999 he has become better known.

Oleg Deripaska (regarded in 2008 as the wealthiest Russian)[40] is also in the 'family' in more ways than one. He became related through marriage to the Yeltsin family—his wife is Polina Yumashev, whose father, Valentin Yumashev, was chief of staff and son-in-law of President Yeltsin (Yumashev is Tatyana's second husband, which makes Polina Tatyana's step-daughter). Deripaska also had close ties with Abramovich: they jointly created RusAl. Deripaska was only 23 year old when the Soviet Union collapsed, but was already in 1994 chief financial officer of Aluminproduct and he used this position to acquire aluminium plants with vouchers. After Putin's rise to power, given Deripaska's close ties to Yeltsin, he was assumed to be the next to face accusations of tax evasion, fraud or corruption. He has, nevertheless, not only survived so far, but has in fact blossomed (he lost a large chunk of his fortune in the 2008-09 recession but regained most of it due to government bail-out). His success was clearly due to talent, seizing opportunities as they opened up through voucher privatization and being in a position to take advantage of these opportunities. Of course, Deripaska's membership in the 'family', his personal ties to Yeltsin and to members of the oligarchy were a great help.

37 See www.dailymail.co.uk/news/article-560523; also www.russiatoday.ru/top_news/2008-07-03.

38 See www.dailymail.co.uk/news/article-486164 .

39 See www.timesonline.co.uk/tol/news/world/europe/article4272509.ece .

40 Deripaska, having lost probably as much as 90 per cent of his fortune, dropped to 10th place within a period of one year.

Like Deripaska, some other members of Russia's wealthiest top-ten began their business ventures with buyouts attained through vouchers. *Alexei Mordashov*, financial officer of a steel mill, was in his early thirties when privatization started.[41] Advised by an elderly mill manager to buy vouchers to make sure the company did not fall into the hands of outsiders, Mordashov bought most of the vouchers for himself. Currently, his firm, Severstal, is Russia's third largest steel company. Age-wise, *Vladimir Lisin* is one of the oldest of the Russian top-ten. He was born in 1956 (Deripaska was born in 1968, Mordashov in 1966). Most of the super-rich were born during the 1960s, with the exception of Lisin and Alekperov. Lisin started out as a welder, but had been promoted to various managerial positions already during the 1980s. He became a member of the board of directors of a major steel company, Novolipetsk (and in time, its chair). Gradually, by acquiring Novolipetsk stock, Lisin became its sole owner in 2002. The company was listed on the London Stock exchange in 2005, which substantially boosted his wealth.[42] *Mikhail Prokhorov* was the chairman of the board of Onemix Bank in 1993 when the Russian government launched privatization. Working with Vladimir Potanin, he used the bank for the acquisition of Norilsk Nickel. He managed the firm well, sold its unprofitable non-mining operations and turned it into one of the most profitable natural resource corporations in the world.

Among the Russian oligarchs, *Mikhail Fridman* exemplifies the new rich who started operating in the informal economy. Fridman used his political connections only later in the process, when he was already on his way to wealth. Fridman's first business venture in the 1980s was selling theatre tickets. These were in great demand, and to secure a ticket, one needed connections. A black market, known as the theatre mafia, developed, mainly through students attempting to make some money. Fridman saw the opportunity and turned the occasional black-market transaction into a regular business. He also launched a small cooperative that offered window washing services to various state companies. In addition, he operated courier delivery coops, and in 1988 created his own photo cooperative, Alfa-Foto. With the accumulated capital, he and his friend, German Khan, set up in 1989 a commodity trading company, the Alfa-Eko, which had evolved by 1991 into the Alfa-Bank. At this point, Fridman began to nurture his political contacts, and recruited Peter Aven, the Russian minister of foreign affairs, to head the bank after leaving his cabinet post. Alfa-Bank became one of the biggest banks in Russia (Fridman was a member of the big seven club as early as 1996). This success enabled Fridman to enter the oil business in a big way: after acquiring Tyumen Oil, he sold it to BP, becoming the major shareholder and chairman of the new giant: TNK-BP.

In all the above cases, political connections with the post-communist elites were used in one way or another. However, none of the above oligarchs made their fortune while holding political office nor had they been the offspring of high cadres.

One of the most prominent *political capitalists* is *Vladimir Potanin*. He was born in 1961 into a family where the father was a high official with the ministry of foreign trade. Potanin attended the prestigious Moscow Institute of Foreign Relations where high cadres for the diplomatic services, foreign trade (and it is assumed even for the KGB) were trained. He worked in the ministry of foreign trade and although he started private business as early as 1990, he maintained high profile in politics and public

41 See www.forbes.com/lists/2008/10/billionaires08_Alexei-Mordashov_QW68.html.

42 See www.russiaprofile.org/page.php?pageeid=resources-whoiswho-alphabet-l-lisin.

administration, serving in 1996-97 as acting First Deputy Prime Minister of the Russian Federation. Potanin is also known as the brain behind the loans-for-shares programme, the scheme used by many of the nouveau riche to accumulate wealth. The scheme called for state companies to be offered for sale through auctions, but only selected people were invited to bid. Potanin was among the few invited to the auctions by Tatyana Yeltsin-Dyachenko, and was thus able to acquire some twenty formerly state-owned companies. Potanin's main acquisition was Norilsk Nickel, a company located on the Arctic Circle with some of the world's largest reserves of nickel, copper, cobalt, platinum, etc. This had been a former concentration camp, which was taken over by the management in 1991. In 1995 through the subsidiary of Onexim Bank,[43] Potanin purchased Norilsk at a loans-for-shares auction for US$170 million (Klebnikov 2000: 204-5). This was exactly the method Khodorosky used for his purchase of Yukos.

Vadit Alekperov is the oldest among the Russian rich: born in 1950 in Baku, he was engaged in the oil industry all his adult life. With an engineering degree, Alekperov gradually rose to managerial positions, and was appointed in 1983 director of oil production in Kogalym, in western Siberia (Klebnikov 2000: 190-2), which he turned it into one of the most productive oil field in the USSR. Having earned the reputation as an oil expert, he was appointed in 1990 as deputy minister of oil and gas industry in the USSR. In this position, he advocated vertical integration of various oil firms and managed to create one such large firm, LukOil. After leaving the ministry, he took over as president of LukOil in 1993. When the company was privatized in 1994 in a voucher auction, Alekperov and his top managers bought a quarter of its equity, becoming in time its majority shareholders. Alekperov and LukOil moved aggressively and acquired major oil concessions in Azerbaijan by joining a consortium of major western oil companies (BP, Amaco, Exxon). He has also been involved in building a major pipeline from Baku to the Black Sea. LukOil has entered similar deals with Chevron with regard to the Tenghiz oil fields. Alekperov was rich and powerful already by mid-1990s.

Among the 30 case studies, the account of Alekperov is the closest example of *political capitalism* in the classical weberian sense of the term, although it needs to be emphasized that this way of accumulating capital is rare even in Russia.

The avenues in Central Europe and Russia for joining the ranks of the new grand bourgeoisie were strikingly different. In Hungary the golden road to the grand bourgeoisie was open for individuals who had been incumbents of middle- or high-level technocratic/managerial positions already under communism. Generally, these men were not very young; most had been born in the 1950s, a good decade before the fall of communism, the time when the Russian oligarchs launched their careers. A few of the wealthiest Hungarians had been engaged in the second or informal economy during socialism or had had foreign experience in the pre-transition time. None of Hungary's top-ten had been in a high political position before 1989. While most took advantage of links to the new political elites in promoting their businesses, it was the political elite who, by the end of the first decade of the millennium, were approaching new grand bourgeoisie for campaign contributions and advice. In Russia we find little evidence for the classical political capitalism thesis. Only Potanin and Alekperov seem to have used their political office to promote their business interests. *Suleyman Kerimov*, often

43 The subsidiary had established by Potanin during the early 1990s on the ruins of the Soviet Union's primary foreign trade bank.

identified as Russia's richest civil servant (and indeed, as a member of the Federation Office of Russia, he is high ranking), may fit the category, but the information on him is somewhat contradictory. But the oligarchs, although composed of people without political office or family histories of high political cadres, were closely linked to post-communist political elites. They usually formed a tightly organized network and built their futures on favours from the political elites. Once the political master changed (Putin replacing Yeltsin), they needed to convince Putin that their loyalty to him was unconditional. Abramovich, Deripaska and Potanin succeeded to transfer their loyalty, but Berezovsky, Khodorovsky and Gusinsky fell out of favour, losing most of their property. Many Russian oligarchs had started out in the informal economy, and became ultra-rich by nurturing their contacts with the post-communist elite (most of whom were from the old communist guard). Fridman is the exception here. No-one among the top-ten managed to leap-frog from being a small businessman to the ranks of the new grand bourgeoisie without the benefit of intimate political connections.

While it has been consistently argued in this paper that the available data offer little support for the classical political capitalism thesis even in the case of Russia, it is important to note that this may be just a measurement error. It is difficult to estimate how much private wealth officeholders had accumulated while in office, as they were likely to hide their fortunes. Prime Minister Chernomyrdin was involved in the privatization of the oil industry and the CIA estimated as early as 1996 that his assets were worth US$5 billion (Klebnikov 2000: 235). This could have easily made him the richest, or at least one of the richest, men in Russia at that time. But Chernomyrdin is not identified on the Forbes billionaire list. Was the CIA wrong or was he hiding his assets? Typically, the incumbents of high political offices were accused of relatively minor corruption violations. For instance, Chubais accepted a US$90,000 advance on a book contract while in office and this was enough to push him from the job (ibid.: 115). According to Klebnikov, Yeltsin was known to be rather worried about corruption, but he himself received approximately US$16,000 a month from an honoraria account for his book *Notes of a President*. No data are available on the private wealth of Tatyana Yeltsin-Dyachenko-Yumachev, but neither she nor her husbands feature on the Forbes lists. She could be hiding assets, or she might not have received billions in kick-back. The nature and extent of the 'gifts' or 'bribes' high Russian officeholders are known to have received are no different from what we know in western democracies.

But again it needs to be emphasized: we do not really know. After considerable contemplation, I decided that the purpose of this paper is not to give accurate estimations of wealth, nor to try to explore the extra-legal ways the upper class assembled its riches. Rather, the purpose is to report what is publicly known and to try to understand how the enormous amounts of wealth were accumulated within the existing legal framework. This paper is not concerned with corruption, but rather about the rules of the game. It has tried to provide insights into the enrichment path of the super-rich in a manner that they themselves would accept as accurate.

3.3 The billionaires of China

The data from China suggest the formation of the new propertied grand bourgeoisie in this country followed a different trajectory. As far as can be determined, eight of the top-ten started from small businesses; business ventures that expanded and made the owners dollar-billionaires. There are two exceptions: *Zhengrong Shi* became a billionaire through the skills and income he earned while living in Australia; *Zhjinan Rong* is the son of high-ranking official. However, even here, it is more the case of exchanging economic capital into political capital, and its reconversion to economic capital, rather than the classical case of political capitalism.

The Chinese data may not be as reliable as one would wish, and a study of the formation of the country's domestic grand bourgeoisie requires greater care than in the other two regions. China is a communist country, at least politically, and while private ownership is legal, it is viewed with suspicion.

Table 3
The mega-rich in China

		Wealth 2008, US$	Age 2009	Main business	Source of wealth
1	Huang, Guangyu	6.3 billion	39	Household appliances, real estate	Small private business growing large
2	Du, Shuanghua	5.1 billion	44	Steel	ditto
3	Yang, Huiyan	4.9 billion	28	Real estate	Family business
4	Peng, Xiaofeng	4.0 billion	34	Solar panels	Small private business growing large
5	Liu, Yangxing & family	3.7 billion	58	Animal feed, aluminium, finance	ditto
6	.Rong, Zhjijan	3.7 billion	67	Electronics, diversified	Political capital, family business
7	Shi, Zhengrong	3.2 billion	46	Solar power	Foreign experience
8	Zhang, Jindong	3.2 billion	46	Household appliances, real estate	Small private business growing large
9	Xu, Rongmao	3.1 billion	59	Real estate, hotels	ditto
10	Zhang, Zhixiang	2.9 billion	42	Steel	ditto

Source: Hurun Report (2008).

As mentioned earlier, the party secretary of Rizhao Steel had good reason to be concerned when Du, their CEO, was ranked among the super-rich in 2008 by Hurun. Many who had been identified as the very rich had caught the attention of the taxation office and other state agencies, triggering careful scrutiny into their wealth to determine its source, with the possible, ultimate result of ending up in court or jail. Thus, while most of mega-rich in Hungary want to show off, their counterparts in China may prefer to remain anonymous. This may be true particularly for the princelings, who are the children of high cadres, often the managers of formally publicly owned firms, which de facto may be their private property. Even with these reservations, one cannot fail to notice that eight of the ten wealthiest started from small family businesses, which eventually grew into large capitalist corporations.

It is also interesting to note that no woman has been identified among the top-ten either in Russia or in Hungary (and all the billionaires from Poland, Romania, the Czech Republic are males), but there are two women in China; *Huiyan Yang* and *Yin Zhang* (Zhang was not listed among the top-ten in 2008 but was, for instance, named by Hurun in 2006 as the wealthiest individual in China).

The upper class in China is characterized by a unique feature. As one would expect, much of the wealth is defined as ‘family fortune’. While wealthy Hungarians appear to be keen to build ‘dynasties’,[44] and the Russian oligarchs are too young to think along these lines, dynasties are already in existence in China. What is intriguing is that in many cases, the fortunes are referred to as belonging to the family, hence Hurun lists them as Liu and family; Xu and family; Zhu and family. This is no surprise for those familiar with the Chinese business culture: kinship is a major feature of entrepreneurship, not only is wealth passed on to the children, but brothers and sisters, or even cousins, are involved in business ventures.

Let us start with *Huiyan Yang*, the owner of Country Garden. She is a real estate mogul, whose wealth is assessed at approximately US$5 billion, and is a typical example of wealth accumulation that started from a small business and expanded. Her story also highlights the importance of family ties in the process of achieving the upper levels of society. Huiyan Yang is the daughter of Guoqiang Yang (Yeung Kwok Keung in the Hong Kong translation). Born in Guangdong Province in 1954, Yang grew up very poor in the city of Foshan (Barbazona 2007). He laboured as a rice farmer as well as construction worker and married a bricklayer who was on the same construction crew, a typical story under Chairman Mao and the early years of reform. But as the reform continued into the early 1990s Yang started a small real estate business, acquiring distressed property, even wastelands when the market was stagnant. By the end of the decade, the government allowed companies to acquire public land and sell plots to home buyers, and Yang moved fast in 1997 to establish his company, Country Garden (known as *Biguiyuan* in Chinese). Eventually Country Garden became one of the largest real estate development firms in China, specializing mainly in affordable housing.

Yang made careful plans to pass his business over to his children. He brought his second daughter, the heir-select Huiyan, to board meetings when she was still a middle-school student and he sent her to an American university to prepare her for the CEO job. In 2007 he handed over 70 per cent of the Country Garden shares to Huiyan, instantly making her the richest young woman in the world, ranking ahead of another wealthy lady, *Yin Zhang*, the newspaper queen of China. But the road of the petty bourgeois to wealth does not mean, at least not in China, the lack of appreciation of political capital. In 2007, Huiyan married the 24-year old son of a senior official of a northeastern province and, according to *China Daily*, this ‘pleased Yang’s father’.[45]

The story of *Guangyu Huang* (born in 1969; he is also known as Wong Kwong Yu) is not very different from Guoqiang Yang, except for the fact that being much younger *Huang* was simply on a faster track. He started out as a street vendor selling radios and watches. Eventually he turned his street stall into China’s largest consumer electronic retailer, GOMNE. It might have been his bad luck that Hurun ranked him in 2008 as the wealthiest Chinese: soon after, he was accused of stock market manipulation, resigned his GOMNE chairmanship and disappeared. There is no mention of him in the 2009 Forbes list of billionaires. The Chinese police have confirmed that he is under investigation and several top officials in provincial government have been arrested in connection with Huang’s corruption charges.

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44 Péter Futó is a good example. He has already passed the day-to-day management of his empire to his son.

45 See www.chinadaily.com.cn/china/2007-04/20/content_863758.htm.

Shuanghua Du did not start as a small entrepreneur in the manner of Yang or Huang, but in 1987 he did set up a rather small steel firm (with an investment estimated at less than US$300,000). The business grew exponentially, particularly after its relocation to Rizhao City. It is the largest steel enterprise in Shandong province and, of late, in China, but it is hard to determine the division of ownership between private and public. This makes estimating Du's private wealth difficult. He has played his cards carefully. As *China Business Focus* reported in 2009, Du believes that a combination of public and private ownership is ideal. Du is appreciative of his party secretary:

> Du asked the staff to study the speech of Chairman Mao in the Second Session of the Seventeen Congress … He also asked the staff to study and understand the spirit of the 'two essentials' (the spirit was proposed by Chairman Mao in the Second Session and the Seventh Conference).

This is certainly unusual for a member of the new grand bourgeoisie, but it is the Chinese way. Nevertheless, the secretary of Du's communist party cell was right to be concerned. It was reported in July 2009 that the state-owned Shangdong Steel Group, a major rival of Rizhao Steel, was being reorganized, most likely with the objective of extending governmental control to Rinshao.[46]

Jindong Zhang also started small and grew into a major businessman without the benefit of political connections (as far as it is possible to determine). Born in 1963 in Anhui province, Zhang worked for a couple of years as a manual worker in a clothing factory. He opened a small shop in 1990 with his brother Guiping Zhang, selling air conditioners and other appliances in Nanjing, which in time expanded into Suning, a large appliance trading company (his brother left the business to him and is now in real estate).

Among China's top-ten richest men are two for whom experience abroad was an important factor in their success. *Zhengrong Shi* (born in 1963), a farmer's son, grew up in extreme poverty. In the aftermath of the great famine his family was so poor that his parents had to give him up for adoption. But he did well in school. Shi moved to Sydney in 1988 on an exchange scholarship to the University of New South Wales, and completed his MA.[47] During his stay in Australia, he became knowledgeable about solar technology and after moving back to China in 2001, he persuaded the city of Wuxi to set up a solar-cell company. In 2005, the firm was bought up by a US company and his own private firm, Suntech Power, became the first Chinese company to be listed on the New York Stock exchange.

Rongmao Xu is another returning migrant, who has made it to the billionaire club. Xu was born in 1950, a difficult period, as he was plagued by the problems of the Cultural Revolution. After graduating from high school, he was sent to the countryside as a 'barefoot doctor', and as soon as he was able, he migrated to Hong Kong, where he worked in a textile company. This was in the 1970s. Able to save some money in Hong Kong, he returned to China 1988, with the intention of setting up a small knitting factory. But he quickly realized that private hotels offered a better business option. He launched his career by building the first private three-star hotel in China, even though it was still illegal at that time. But apparently Xu's timing was just right. Real estate prices

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46 I am grateful to Peng Lu for this information.

47 See www.time.com/time/specials/packages/prinmoit/0,29239,1663322_166993.

started to boom, and he branched out into the property markets in Beijing and Shanghai, making a fortune. He gradually acquired public companies that were listed either on the Shanghai or Hong Kong stock market and his empire now consists of several privately-owned firms: Shimao Holding, Shimao International and Shimao Property.

There is very little evidence of the role played by political capital in the formation of the Chinese grand bourgeoisie. The case of *Zhijan Rong* (or *Larry Yung Chi Kin*) perhaps best exemplifies the case where parents' political status and possible political connections through a highly placed cadre father might have had an impact on his enrichment. Zhijan Rong's father was Yiren Rong who during the 1990s was vice president of China. Zhijan Rong[48] was born in Shanghai and attended Tianjin University where he graduated in 1964, majoring in electrical engineering. In 1966 he was sent to the countryside, but was able to return to Beijing already in 1972. In 1978 he obtained a one-way exit visa to Hong Kong. His father was not a high-ranking official at that time, but had good connections to Deng Xiaoping. It is possible that this contact might have helped Rong senior with his son's visa, albeit on the condition that he had to leave his whole family, including his wife and children, behind. In Hong Kong he had access to some of the capital his family secured there before communism. As the reforms were unfolding, Rong began to cooperate with mainland China to set up various businesses with the Chinese government as a majority shareholder. He concentrated on electronics and computing, and is currently the president of the Hong Kong-based CITIC Pacific Limited, a conglomerate with a highly diversified portfolio that ranges from steel production, aviation, construction, manufacturing, auto industry, etc. In 2008, Rong was ranked as the 6th wealthiest on mainland China.

Zhijan Rong's success story could be construed as political capitalism: Zhijan Rong was allowed to move to Hong Kong because of political connections and he formulated his private ventures in collaboration with the Chinese state-run businesses there. And his father, Yiren Rong, was, indeed, a close associate of Deng Xiaoping, advancing over time to become the vice president of China. Still, this is very rare, and exemplifies a very different utilization of political capital than what was apparent in Russia or even in Hungary.

Yiren Rong[49] was born in 1916 to an affluent Chinese family. His father Desheng Rong and uncle Zongjing Rong were the pioneers of modern industry in China: by 1940 they owned dozens of textile, manufacturing, printing companies and flour mills all over the country. With the tightening of Maoist rule, Yiren Rong, given his background, faced hard times, but he was acquainted with Deng Xiaoping. After Deng Xiaoping emerged as the leader of China, he sought Yiren Rong's help in efforts to bridge China with the world. Rong was asked to set up the China Investment Trust and Investment Corporation (CITIC) that was doing business for China through Hong Kong. In recognition of his contribution to the modernization and opening up of China, Rong was honoured with the position of vice president. When he passed away in 2005, he was praised as 'an outstanding representative of the national industrial and commercial circle in modern China' and as a 'superb state leader … a great fighter for patriotism and communism'. This seems to represent the case of economic capital being

48 See www.chinaentrepreuer.blogspot.com/2008/06/rong-zhijan-citic-pacific-group-part-1.html.

49 See www.chinadaily.com.cn/english/doc/2005-10/27/content_488274.htm.

successfully converted into political one, rather than the other way around. This is uniquely a Chinese approach that would have been unimaginable in Russia or Central Europe. It was attempted in Russia by the oligarchs and the new grand bourgeoisie in Central Europe are also increasing their claims for political influence, or even direct political power.

4 Concluding remarks

There are three channels for achieving the ranks of the new grand bourgeoisie and these are typical of the three different post-communism societies. In Central Europe, the golden road to higher society was the opportunities offered by being in a technocratic-managerial position, and using one's managerial skills and connections to acquire publicly-owned property in competitive auctions. None of the super-rich had held high-ranking governmental or political positions under communism and even though most had had political connections, this was not the main factor promoting their wealth: contacts merely facilitated their enrichment. The political sphere currently is more reliant on the super-rich than these are on political bosses. In Russia, the way to the upper-upper class was via personal contacts in the highest political circles, particularly with Yeltsin family. Enrichment depended on voucher privatization. Even though there were privatization auctions, these typically were not open to all and did not really constitute fair bids. Auctions were by invitation only and those participated who had been invited by the political bosses. This induced rather insecure property rights because a change in political leadership would introduce suspicions of lack of loyalty. In China, the new upper-upper class often evolved from small businesses and humble backgrounds. These small businesses gradually prospered, but contrary to Russia or Central Europe, the source of new wealth in China was not the privatization of SOEs. But given the neopatrimonial nature of the Chinese party-state, entrepreneurs had to seek patronage in the party-state in order to keep their businesses running and safe from political prosecution.

The link between political power and economic wealth was important in all three post-communism societies. In this respect the main difference between the three societies is not in the strength of business-politics, but in the nature of this relationship, in other words: it is in the security of private property rights. Private property rights in Central Europe are secure. This is a fact: there is not a single case of private property being diverted by political authorities from the new private owners to the new entourage of political bosses. On the other hand, private property rights in Russia and China are rather insecure, but in different ways. In Russia, private property was given to the oligarchs by the grace of the political authorities. Given this genesis, a change of political leadership could re-assign the assets to new cronies in exchange for their unconditional loyalty and service. In China, given the importance of socialist principles for the legitimacy of the political regime and the increasing control of the central state over the economic process, private property accumulated through entrepreneurship is typically viewed with suspicion. The new rich need the protection of political authorities in order to survive and to prosper, but finding protectors can be perceived as 'corruption' by other fractions of the party-state elite. Hence, accusations of corruption and tax evasion can subject private property to re-appropriation by political authorities.

In sum, while the upper-upper class in Central Europe can be considered as only modestly wealthy, its position is fairly secure. The mega rich in Russia and the reasonably rich in China are highly insecure; there is little reproduction and great deal of circulation in the Russian and Chinese upper-upper class, though this circulation is driven by different mechanisms.

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