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Why Chubais Is Not Schwarzenegger

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Viktor Vekselberg — the modernization tsar, godfather of the Skolkovo project and guiding light of Russia's nanotechnology industry — purchased a building on Krasnopresnenskaya Naberezhnaya from the Hungarian government in 2008 for $21.3 million and then resold it to the Russian government for $125 million.

The most shocking thing about the sale is not even the $104 million markup but the minutes of a meeting held by Deputy Prime Minister Alexander Zhukov on Nov. 19, 2007, that were published by anti-corruption blogger Alexei Navalny. That record reveals that the Russian government knew Hungary was selling the building but rather than buying it directly wanted to use Vekselberg as a middleman.

Another luminary of nanotechnology, Rusnano chief Anatoly Chubais, also had good news for ordinary citizens: Rusnano will spend $700 million of taxpayers' money to build the world's largest plant for plastic electronics in Zelenograd. The main product: a $400 electronic tablet device to replace textbooks.

Two years ago, then-California Governor Arnold Schwarzenegger also proposed eliminating school textbooks, but in contrast to the plan by Chubais, his goal was to reduce state expenditures. Schwarzenegger simply said children could bring their laptops to school if they wanted. The proposal by Chubais is the exact opposite. He plans to hand out $400 electronic textbooks to schoolchildren at an astronomical cost to the government. Market demand plays no role in this plan whatsoever. In a sense, this is no different than when the government unloaded rotten boots on army soldiers during tsarist times.

The Russian economy has degenerated into a system in which government officials siphon off funds and enrich themselves through kickbacks and other forms of graft. The bureaucracy does not seem to be occupied with any other activity of substance. Officials are willing to overcome incredible obstacles to obtain their share of the wealth.

Consider the recent story with Bank of Moscow. VTB bought a 46 percent stake in Bank of Moscow for 103 billion rubles ($3.5 billion). But while VTB president Andrei Kostin, who has close ties to the administration, tried to gain control of the bank through the front door, the owners pulled out everything they could through the back door. The result is that the $3.5 billion stake is actually worth about 1 cent.

Meanwhile, Bank of Moscow gave $1.1 billion in credit to Vitaly Yusufov, son of former Energy Minister Igor Yusufov, to buy out the 19.9 percent stake in the bank held by its former CEO, Andrei Borodin. (As collateral, Yusufov put up a defunct East German shipyard he had purchased for $40 million.) In the end, according to complaints made by Borodin, Yusufov paid about $700 million for the shares.

Apparently, the deal involving Yusufov was supposed to proceed in the same way as the building purchase with Vekselberg. That is, Yusufov was supposed to wait for a year for the sake of appearances, then resell the stake for $2 billion to $2.5 billion, with everyone involved receiving a cut. The catch is that serious problems were discovered with the bank’s assets and the shares are essentially worthless.

But there is a simple solution. The Central Bank can start pumping money through the Deposit Insurance Agency to the Bank of Moscow, and a reduced credit rate (0.1 percent for five years to be prolonged for another five years) will create a virtual profit for the Bank of Moscow because of bookkeeping rules. This will make it possible to buy the stake from Yusufov as planned.

And all of this is happening in plain view of the public.

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