

# Q&A: Economist Wermuth Keeps Shepherding Progress

By [Roland Oliphant](#)

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Wermuth sees energy efficiency as essential to securing Russia's future.

After nearly two decades in and out of Russia, Jochen Wermuth no longer pretends to be a disinterested observer.

"My wife is Russian, my children are Russian, and my main home is in Russia, so the answer will probably be biased," he warns when he is asked to comment on the country's prospects.

**Jochen Wermuth**

## **Education**

1988–1992 — Brown University, Providence, Rhode Island, bachelor's degree in mathematics and master's degree in economics

1992–present — Balliol College, Oxford,  
doctorate in economics in progress

## **Work Experience**

1993–1995 — Finance Ministry of the  
Russian Federation, member of the economic  
expert group

1995–1997 — Finance Ministry of the  
Russian Federation, head of the economic  
expert group

1997–1998 — Deutsche Bank, Global  
Markets Division in London, director of  
Russian debt capital markets origination

1998–present — Wermuth Asset  
Management GmbH, founding partner and  
chief investment officer

Favorite book: “The Little Prince” (1943) by  
Antoine de Saint-Exupéry

Reading now: “The Monk Who Sold His  
Ferrari” (1999) by Robin Sharma

Movie pick: “Operation Valkyrie” (2004)  
directed by Jo Baier

Favorite Moscow restaurant: Troubador  
Karaoke Bar, Radisson Royal Hotel

Weekend getaway destination: Florence, Italy

But Wermuth, 42, is equally clear that the country will never move forward without taking a good hard look at itself — warts and all.

Last year he gained notoriety after he took the microphone at the VTB capital investment conference and demanded that Vladimir Putin explain why, after 12 years, he had failed to tame corruption.

"Russians and foreigners both laugh at me when I talk about investing in Russia," he told the then-prime minister.

Putin took the question in stride, but it was in sharp contrast to the praise the leadership hears from some foreign investors who prefer to praise the "opportunities," "growth markets," and the "investment climate" in Russia. And Putin reacted to Wermuth's complaint by setting the goal for Russia to move up the World Bank's Ease of Doing Business Index.

But then, there are probably few foreigners better-qualified to give constructive criticism to Russia's leadership.

Having studied the reunification of Germany and the integration of the East German planned economy into a West German one, Wermuth had the experience to advise the Yeltsin government on market-economy transition.

After answering an ad in the Economist for just such a position, he found himself on a plane to Moscow in 1993 — and had a ringside seat as reformers struggled with inflation and privatization.

Later, working as an adviser at the Finance Ministry's macroeconomic department, he was one of the first to warn of the looming danger of a default — two years before a widening funding gap led to the economic disaster of 1998.

The "Greater Europe" investment funds he founded in 1998 have put over \$1 billion into Russia.

Wermuth's main business these days is the Europe-Tatarstan Clean Tech fund, an investment outfit that specializes in funding Western sustainable-technology companies that could help green the Russian economy. Investing in green technology is something that he speaks of with more passion than the average fund manager could bring to the job — even comparing the dedication required to that of the July Plotters, who heroically failed to assassinate Adolf Hitler.

But Wermuth insists the country is turning a corner. "They need modernization. And what is modernization? To an extent, it is simply greening the economy."

This interview has been edited for length and clarity.

**Q: What attracted you to Russia in the first place?**

**A:** The history is really one of our two countries. Germany had been to war with Russia twice. My grandfather was in the war, and I felt that anything we could do to overcome the animosity and bloodshed, and work together was something useful to do. So I studied the unification, the transformation of the planned economy to a market economy in 1991 to 1992. Therefore I happened to be one of the few people who had developed expertise to be able to help Russia when the opportunity arose. There was an ad in the Economist, they were looking for advisers.

**Q: What prompted you to ask Putin about corruption during the VTB conference?**

**A:** I find it disgraceful and unhelpful when large corporates who sell products in Russia show up to large investor conferences and tell the leadership of the country that the investment climate is fantastic and everything is wonderful, like when French Finance Minister Christine Lagarde did so at the same time France was looking to sell the Mistral helicopter carrier to Russia. Because all of the large Russian and large French companies — and small French and small German companies — and anybody in Russia is well-aware of many of the problems, and it doesn't help for you to say that the emperor is wearing beautiful clothes when he is really naked.

But I was very happy with the overall impact. I proposed in the question to join the WTO to help put in place the rule of law, and Putin did end up supporting the WTO while just a few minutes earlier he had been skeptical.

I was also happy with his commitment to Europe and European values, and I think that is the way we are going to have to move forward; the interest of Russia and all of the Russians is

to try to work with that ambition — that Russia should really see itself as a European country.

**Q: What is your personal experience with corruption?**

**A:** Our company is proud to say that we have not paid a bribe. What does that mean? Concretely it means the following: my local GAI post stops me and they ask me about my driver's license. Then they claim it is not translated, but it is translated; then it is "but you have no visa," but I have a visa; "but the pressure in your tires is not right." Actually, yes, it is.

My record is a three-hour session behind bars while they checked if the car was really mine. But after three hours, they just say, "Oh, God, you can just get lost." And today when I go past the same GAI post, they say, "Ah, it's the idiot German," and off I go.

It sends a signal that we don't pay bribes. And yes, it was expensive, yes, it took me three hours, but it paid off in the long run.

I had very good friends who thought it was wise to bribe people or pay protection money, only to find that the people "protecting" them later took over their business.

I've never paid a bribe here. My grandfather was in a trench with a Russian. They had knives, but they put them back and did not kill each other. I'm talking about the war. If you are invited as a German to work in the Finance Ministry of Russia, a country where you killed 33 million people, don't you think you'd behave yourself?

**Q: Does that history really influence how you behave as a German in Russia?**

**A:** I think it does. There has been a very long trusting relationship between many of the Russian tsars and German bureaucrats. Peter the Great said that every region of Russia should have a Russian governor and a German vice governor. There was a finance minister in Russia in 1917 called Sergei Witte, and Andrei Illarionov discussed with us that I could become a deputy minister of finance. So people have a very close relationship.

And the Russians have certain expectations: They are told the Germans are all very boring and penny counting, but reliable and honest. We're very lucky, because when you say you're German they think you're as perfect as when the door on the Mercedes closes and goes "plop!" — it makes this "perfect sound." So we have this advantage for being German. But then you also have to deliver.

Of course there are many Germans who behave like this, but as you know there have been cases where bribery is actually coming from German companies. In Germany until 1999 it was tax-deductible to bribe abroad. So not every German is born honest.

**Q: Did you and other Western advisers give the Yeltsin government bad advice?**

**A:** Part of the narrative that is supporting the current, I would say, overly heavy-handed approach to democracy is that the 1990s were utter chaos and that it was the fault of the liberal reformers that it was utter chaos. I don't buy that narrative at all. I think that the reformers in Russia did very many of the right things that created the basis for the economic growth that we have seen since then.

So I think it is wrong to say that liberal reformers caused chaos in the 1990s. What caused chaos in the '90s was the pent-up imbalances that were left over by the Soviet Union. In '91 there was no food on the shelves, in '93 to '95 there was hyperinflation because of the money printed by the Soviet Union, not because of what the reformers did. So I think the reformers — and the role of Westerners is overstretched here — the reformers managed to do three things: "liberalization, stabilization, and privatization." They aimed for macroeconomic stabilization and they got close to that, but they were stopped because parliament was still Communist-controlled, old guard-controlled. They moved ahead on privatization, and I think on that side the biggest mistakes were made, because to privatize without having rule of law meant that many people got nothing and a few people got everything.

But, on the other hand, if you wanted to have a market economy and political support for a market economy it might have been the right political decision to move the assets quickly into private hands.

You need private property because it is state property that causes the corruption.

**Q: How much do you think high-profile cases like the Khodorkovsky affair and the Magnitsky case deter investment?**

**A:** I like to say that the perception of Russia is 10 times worse than reality. I certainly agree with the statement that the press reports the case of the man biting the dog rather than the dog biting the man. So it is true that negative press coverage impacts Russia. Having said that, I also think Russian reality is 10 times worse than it needs to be. So there are many, many, many, problems that really need to be dealt with. And these big cases are only examples of many, many more small cases that are very similar if not worse.

And then you get people who work in regions where the situation might be as bad or even worse than the perception. And so we have two issues, perception and reality; to deal with it you really need to put in place an independent judiciary. What is an independent judiciary? It means that the president would have to be in a position to lose in a court case in a Russian court. The court has to be above the executive. If that is established, either by law or example or by constitution, then I think there would be a great, great future for Russia.

I am very encouraged by the events of the last year, because the biggest criticism I always got about Russians was that they don't understand what rule of law is, they don't know what normal government looks like. They want to have a tough, strong leader. The fact that 100,000 people went to demonstrate when it was minus 20 degrees outside indicates to me that Russians, like all other humans, well understand what basic human rights are, and they were demanding them.

There is nothing better than when the president says it looks like an AIDS demonstration, and then you get a 50-meter white condom that says "Protect Yourself Against Putin." That's the greatest humor. That kind of thing made Churchill say this country is undefeatable when he was driving through Moscow in minus 40 and he saw people eating ice cream.

This country is undefeatable. It has great humor, a great spirit, and I think the Russian government itself understands the need to modernize.

**Q: How did you get interested in energy efficiency and ecological matters?**

**A:** I met a cute girl collecting signatures for donations in 1992 on Cornmarket Street in Oxford and I signed up to support Greenpeace then and haven't stopped. We made our first investment in clean tech in 2000, and I found a Russian Nobel prize winner, Alexander Prokhorov, who had a technology that was a breakthrough worldwide: production of solar grade silicon in an integrated process from sand to the monosilicon wafers using magnets rather than chemical and mechanical cleaning. It would have been great for the world, but I didn't have that much money to get it all the way to global growth, so I decided to raise money, outside money. I did that, raising over \$1 billion, and now we have a dedicated fund 12 years later.

**Q: Is there hope for creating a green mentality here?**

**A:** We had one unfortunate event, which was that my dear friend Andrei Illarionov in the early 2000s came out against the Kyoto Protocol, and that did large damage in Russia, I think. But other than that, I think we now have movement in the past few days and weeks — which we are part of, I guess — which is that the Russian government seems to finally be turning the corner and looking to support Kyoto-2, which is great news.

It has understood that if it does not embrace new and clean technology it will just become or stay, whatever you may call it — an oil pumping economy, which is often characterized by lots of corruption and by very little need for intelligent people. You have both capital flight — nobody wants to invest in such a country — but you also have human capital flight.

So the Russian government has realized that it needs modernization. What is modernization? Well, in essence it is the greening of the economy.

We talked to Medvedev at the World Economic Forum. We had dinner with him and explained to him the concept that you really have to move to green tech because otherwise Russia will fall behind.

**Q: What inspires you? Who are your role models?**

**A:** What inspires me is trying to get Russia to more resource efficiency, both for its own sake and also for the sake of the planet. The way that Russia wastes energy means it can have a huge impact on the global climate if it moves to use energy more efficiently.

I had a great mentor named Garret Fitzgerald. He was a former Irish prime minister. He was an honest man who turned around that country's fortunes and established the basis for Ireland to grow very quickly thereafter. He taught me that you can be a politician and a decent guy. To me that was an oxymoron, but he really was a politician and a decent guy. He was very smart, very kind, very hard working. He died at 82 years old, and the last thing he saw was the Queen arriving in Ireland at a stadium where there had been a shooting during the Irish War of Independence some 90 years earlier — a great gesture of consolation he had worked for all his life. Incorruptible.

Then there is Claus Schenk Graf von Stauffenberg, the officer who tried to blow up Hitler. Maybe it's a bit radical. But it's that sort of mission I believe one has to have these days. If we

want our children and our grandchildren to survive we have to work very, very hard because there are many people doing nothing. So great dedication but nonviolence. No bombs in suitcases.

*Correction: An earlier version of this interview incorrectly quoted Wermuth as saying Claus Schenk Graf von Stauffenburg was a Nazi officer. In fact, Wermuth said he was a member of the German army, not of the SS.*

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