

# Wealth and poverty in modern Russia

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Since the beginning of the year, protests have been under way, primarily by pensioners, against the transformation of social benefits into substantially smaller cash payments. (See: "Russia: wave of protests against welfare cuts," 27 January, 2005; and "Russia: Putin lays siege to social benefits," 21 September, 2004.)

Government propaganda has sought to attribute the spread of protests to problems in the implementation of the new laws on social security benefits, while insisting the laws themselves are necessary and inevitable. However, protests by pensioners are only the tip of the iceberg. The underlying cause of growing discontent is the enormous degree of social inequality that has resulted from the introduction of capitalism in the former Soviet Union.

In his New Year speech, President Vladimir Putin maintained that the social situation of most Russians had improved over the previous year. Just a few days later, however, the outbreak of protests indicated what broad sections of the population thought about this question.

Even a cursory examination of the social situation in modern Russia reveals a deeply divided society. An array of statistics documents the reality of two different worlds that hardly come into contact with one another. One—the world of wealth and luxury—is inhabited by an insignificant minority. The other—the world of social decline and an arduous struggle for life's necessities—is inhabited by millions upon millions.

Figures showing the distribution of wealth reveal the glaring nature of this social polarisation. According to government data, the incomes of the very richest members of Russian society are 15 times those of the poorest—one of the highest levels of social inequality to be found among the world's leading countries. In Moscow, this difference is 53-fold.

According to figures published by the World Bank at the end of last year, 20 percent of the Russian population lives below the poverty line, which is defined as a monthly income of 1,000 roubles (less than 30 euros, or \$38).

The great majority of Russian families are teetering on the edge of poverty. The World Bank has calculated that an average decrease in income of 10 percent would produce a 50 percent rise in the poverty rate. The majority of the poor in Russia are to be found among working families headed by adults with average technical professional training, and in families with children.

Most of the poor workers are employed in the public sector, including teachers, physicians and low-ranking civil servants. The occupations with the lowest incomes—including those employed in the health services, such as nurses and medics—are of great social importance. The poor living conditions of those employed in these sectors contribute to a decline in the structures upon which a

functioning society is based.

The well-off receive greater privileges and benefits than the poor or the near-poor. The World Bank writes that medium-level social allowances (with the exception of those for children) paid to the relatively rich exceed those received by poorer social layers.

Russia's National Statistics Office officially classifies a total of 31 million people (22 percent of the population) as poor. Other surveys, however, place the poverty rate at 40 percent or higher.

The All-Russian Centre for Living Standards published the following figures for the varying degrees of poverty:

At the end of 2003, average monthly income was calculated at 2,121 roubles (60 euros/\$77 a month), with those who are employed receiving 2,300 roubles (65 euros/\$83) and pensioners receiving 1,600 roubles (45 euros/\$58). Those whose income falls below these levels are defined as poor. A second category, those who are badly off, includes families where per-capita income lies between 2,121 and 4,400 roubles (60-126 euros/\$77-\$161). A significant section of the population can be found in these two categories.

The Centre for Living Standards regards the "middle layers" as households with a per-capita monthly income of between 4,400 roubles and 15,000 roubles (126-430 euros/\$161-\$550). By Western standards, this level of income would represent poverty.

Pensioners and young people constitute the poorest sections of Russian society. The Social Opinions Fund has found that practically no young people (just 1 percent) are saving for their old age. Two thirds of young people who were asked said they could not afford to buy anything. Young people living in the countryside or in small cities are at greatest risk of being poor. In contrast to Western countries, where poverty is often concentrated in the large cities, the poor are more frequently found in Russia's villages and towns.

Families with children are exposed to the constant danger of poverty, particularly those with two, three or more children.

Children from families with low incomes have substantially decreased chances of going on to gain an apprenticeship after graduating high school. Only 15 percent of children from poor families go to the more specialised technical colleges and universities. A low level of education is an important factor in the persistence of poverty.

The poor are more frequently ill or succumb to alcohol. The incidence of tuberculosis in Russia is 10 times higher than in Europe.

Scientists have calculated that since the beginning of the 1990s, some 8 million Russians have died prematurely. The mortality rate has risen one-and-a-half times over the same period. In 2003, it

reached a high point at 16.4 deaths per 1,000 inhabitants.

The average Russian man can presently expect to live only to 58. That means married women, on average, are widowed for 15 years. This is due both to women's greater life expectancy and to the younger age at which women marry.

Despite the adversities of everyday life in the Soviet Union, for most people the social situation was substantially better than that which exists in contemporary Russia. Today, the minimum wage covers only 27 percent of what is needed to sustain an adult of working age; the child benefit covers just 3 percent of necessary expenditure for a child; and the minimum pension covers only 46 percent of the minimum expenditure of a pensioner.

In the Soviet Union, the minimum wage amounted to one-and-a-half times the minimum required consumption. Russia's minimum wage would have to be trebled to cover the minimum level of consumption.

A serious struggle against poverty is impossible without a real reform of the educational system and health service. Both would have to be made accessible to broad layers of the population. However, the tendency is in the opposite direction.

For increasing numbers of Russians, it is becoming clear that further capitalist "reforms" will not improve their situation.

Then there is the other Russia. It finds its personification in figures like Roman Abramovich, governor of the remote region of Chukotka (just across the Bering Strait from Alaska) and owner of a controlling interest in the Russian oil giant Sibneft. He is considered the richest man in Britain, where he now resides. Two years ago, he acquired the English soccer club Chelsea for an astronomical sum.

Russia is ranked third in the world for the number of billionaires, and thirteenth for having the largest enterprises.

Taken as a whole, the fortunes of Russia's billionaires amount to nearly half as much as the total value of the largest Russian enterprises. By comparison, in the US, this sum amounts to 6 percent.

The greatest part of shareholdings in the largest Russian enterprises can be found in the hands of this tiny social layer. According to the World Bank, in 2003, the 23 largest business groups account for 57 percent of all of Russia's industrial production.

*Forbes* magazine has calculated that, measured against the economic output of the country (\$458 billion), there are more billionaires in Russia (36) than anywhere else in the world. The total assets of these 36 richest Russians amounts to \$110 billion—24 percent of the country's economic output.

Most of the Russian billionaires and multimillionaires control raw materials and their associated industries. According to *Forbes*, this applies to 66 of the 100 richest Russians. The 34 others have gained their wealth from new business fields—above all, telecommunications, construction, food production and retail trade.

The incomes of the top managers are also incomparably greater than those of the ordinary citizen or pensioner. *Gaseta.ru* cites data showing they receive annually between \$1 million and \$3 million.

The president of Lukoil gets \$1.5 million. If the business achieves certain goals, he enjoys a bonus of \$2.2 million. The vice president gets \$800,000 annually, with up to \$1.1 million in

bonuses. The picture was the same at Yukos, until it was liquidated by the state.

In large-scale enterprises like the United Mechanical Engineering Works and the Tyumen oil company, basic executive salaries amount to \$500,000 and more. Oleg Deripaska, the boss of the Basis Element aluminium producer, paid taxes of \$294 million in 2001 on his income in the Siberian Republic of Khakassia. His pay constituted 10 percent of the total income of the republic.

The "new Russians," as they are sometimes called, often live abroad, where they can be found in the most expensive hotels, clubs and restaurants. They possess racehorses, yachts and mansions. Practically every billionaire has his own yacht and airplane. They particularly enjoy buying expensive antiques and jewelery, as well as purchasing real estate in the most expensive areas of Europe's capitals. A special attraction for them is London.

Russians constitute a third of all foreign investors on the London property market. Over the past 10 years, the number of British visas given to Russians has increased eightfold. Of 250,000 Russians living in London, 700 are multimillionaires.

New Year celebrations are the high point of profligate consumption for the Russian *nouveaux riches*. The *International Herald Tribune* reported recently that some 20,000 Russians "wallowed in luxury, ate, drank and went shopping" in the elite boutiques of the ski resort of Courchevel, which lies in a snow-covered corner of the French Alps. In this spa resort can be found four-star hotels like Les Grandes Alpes, where a room costs between 550 and 1,250 euros (\$704 and \$1,600) per night. In the hotel restaurant, one can drink wines for a mere 1,750 euros (\$2,239) a bottle. A new suite opened in the hotel Byblos des Neiges recently that measures 220 square metres and costs 6,500 euros (\$8,318) a night.

The *International Herald Tribune* writes that Russian ski teachers are being employed to cope with the wave of Russian tourists in Courchevel, where Russian advertisements can be seen everywhere. "This is wonderful business for us," explained the owner of one local four-star hotel.

This is the reality behind the invocations of "national unity" proclaimed by the Putin government. It is no wonder that ordinary Russians increasingly demonstrate their discontent and protest against the worsening of their situation. These protests will inevitably continue and intensify under conditions in which the government lacks any solution for Russia's mounting social problems.



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