Forbes's billionaires list and the growth of inequality in Russia

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3 April 2006

The American business magazine *Forbes* recently published its list of the world's billionaires for 2005, which included 33 Russian citizens, illustrating once again how the political life of contemporary Russia, under the leadership of President V. Putin, is aimed, first and foremost, at the satisfaction of the interests of post-Soviet big business and oligarchs.

The wealth of the planet's richest people grows with unprecedented speed. In 2005, the number of billionaires reached 793, having risen by 102, and their net worth exceeded $2.6 trillion, having risen by 18 percent. The average wealth of a member of the list is $3.3 billion.

The indicators of the "Russian part" of the list, which grew by six people since the previous year, correspond exactly to this general tendency, and sometimes even exceed it. The net worth of the Russian *nouveax riches* nearly doubled in the course of a year, from $91 billion to $172 billion. Twelve of them figure in the world's top 100. In the lead is Roman Abramovich, the governor of Chukotka and owner of the British soccer team Chelsea. His wealth grew—especially because of the sale of the company Sibneft—by nearly $5 billion, and is estimated at $18.2 billion. He rose from 21st to 11th place in the world list.

After him follows the head of Lukoil Vagit Alekperov, the former deputy minister of the USSR's state-run oil industry, whose wealth more than doubled to $11 billion. Next are Vladimir Lisin, the head of the Novolipetsk Steel; Viktor Vekselberg, buyer of Faberge eggs and pretender to the governorship of Kamchatka, director of the Siberia-Ural Aluminum Company SUAL and the oil company TNK-BP; Alfa Group Consortium head Mikhail Fridman; and other well- and not-so-well-known "heroes."

As noted in an editorial in the newspaper *Gazeta*, the majority of the new members of the "Russian list" had to make information about their income public, including from their companies' initial public offerings (IPOs). As a result, it turned out that the wealth of the Evraz Group vice-president Aleksandr Frolov constitutes $2.3 billion, while that of the Novatek general manager Leonid Mikhelson is $2.5 billion.

Russia climbed to the third place in the world, after the US and Germany, for its number of billionaires. Furthermore, Moscow rose to the place of the city with the second largest number of billionaires, after New York: in the latter there are 40; in the former, 25; and in London, 23.

The number of Russian making the *Forbes* list could be higher, since many large Russian corporations have still not made an IPO, and, according to "tradition," prefer to conceal both their true masters and their income. Furthermore, representatives of Gazprom and United Energy System of Russia (UES), enormous monopolies that nominally belong to the state, are absent from the list.

The *Forbes* list documents a worldwide tendency that has manifested itself with acute force in recent years. It consists in the massive accumulation of wealth in a few hands, which is accomplished not so much by achievements in the field of production as by the constant redistribution of social wealth from the bottom to the top by means of lowering taxes on the rich and allotting business new privileges, while simultaneously destroying social mechanisms and structures created in the postwar period.

The speculative and profoundly parasitic character of the world's billionaires' riches is underscored by the fact that the wealth of many of those on the list rose because of the growth of international financial markets. In India, where the share index rose by 54 percent over a 12-month period, 10 new billionaires appeared. In China, which attracts a significant portion of international investments thanks to cheap labour and a repressive bureaucratic regime, the number of billionaires was 8, which is four times greater than in 2004. However, the most impressive growth in the number of the rich was found in the US, where 44 new billionaires appeared during the past year. At the same time, the United States is the largest world debtor, with a tremendous negative trade and financial balance, and supports the stability of its economy to a significant degree because of the daily influx of $2 billion from abroad and the growing real estate bubble.

How did Russian oligarchs earn money in the past year? Mainly through plundering natural resources, and as a result of a rising financial market. Almost all of the Russian billionaires control the export of raw materials—oil, gas, and base metals. High world prices for raw materials provided them with record income. This is also why share indexes rose. In other words, the increased wealth of Russia's richest is not a reflection of real economic growth and rising living standards, but rather is evidence of the conservation of the general situation of the country as a raw-material appendage of the world capitalist market against a background of the penurious condition of the absolute majority of the population.

The story of last year's sale of the company Sibneft, which was bought by Gazprom for $13 billion, serves as an instructive example of how Russian oligarchs make money under Putin. Let us remind the reader that the 1995 privatisation of Sibneft under a "loans-for-shares" auction scheme cost the company's owners at the time—B. Berezovsky and R. Abramovich—$100 million. On the eve of its sale to Gazprom, Sibneft was one of the most "opaque" companies, implementing tax-evasion schemes similar to those implemented by Yukos.

For example, the effective tax rate on Sibneft's profits in 2003 was only 7 percent (in the first half of the year—only 4.8 percent), while the base rate was 24 percent.

Over several years, the Audit Chamber of the Russian Federation had been constantly warning of large-scale violations by Sibneft. Thus, in 2001, Sibneft underpaid 10 billion rubles. In 2003, the Audit Chamber's auditors announced that Sibneft had shunted 14 billion rubles through off-shore companies in Roman Abramovich's fiefdom, Chukotka. At the same time, the Chukotka Corporation's debt to the state was 9.3 billion rubles (which exceeds the income-producing part of the region's budget by 2.5 times).

Several months before the Gazprom-Sibneft deal began to be worked out, the Federal Tax Service (FNS) still had a number of unpaid tax claims against the company totaling about $1 billion. On the eve of the deal, all financial claims against the company were retracted, and, according to information circulated in the media, Sibneft limited itself by the FNS line to a payment of $300 million instead of the required $1 billion.

The purchase of Sibneft was carried out according to the "gray scheme." A registry of stockholders of the company Millhouse Capital, whose accounts absorbed the complete sum, was never published. That way, the names of particular receivers of Gazprom money remain unknown to the general public.

It is known that until the time of sale, the volume of oil extracted by the company was falling as a result of catastrophic deterioration of physical assets and the fact that the reservoirs were drying up and geologic exploration being curbed. Oil market analysts predict it is unlikely that it will be possible to overcome this tendency, at least in the near future, since investment by Russian oil companies in the renovation of infrastructure and geologic exploration continues to be completely inadequate.

It is also necessary to mention that in 2001, Abramovich bought half of the company's stocks from B. Berezovsky—i.e., all of Berezovsky's shares in the company—for $1.3 billion. Abramovich considered this to be a "fair price."

Summing up these data, one can fairly suppose that the price paid for the purchase of Sibneft was essentially and purposefully overstated. In particular, experts at the National Strategy Institute under the guidance of the national-liberal political scientist Stanislav Belkovsky came to this conclusion, which was reflected in a report titled "Cashing Power: The Final Strategy of the Russian Ruling Elite," published in late December of last year.

The reality is that Russian oligarchs continue to completely determine decisions made by parliament and the government, and, even if they are willing to relinquish control over the most profitable sectors of the Russian economy, they will still receive enormous payoffs. All remaining problems are left to the budget—i.e., are to be paid out of the pockets of ordinary taxpayers.

Parallel with this bacchanalia of enrichment, the condition of the majority of the country's inhabitants is worsening, which is evinced by mass protests against the monetisation of social benefits last year (monetisation drastically slashed the overall of state spending on the most vulnerable social layers of the population), as well as the protests against home utility reforms this year.

The purpose of home utility reform is to transfer the public service systems into private hands while raising the price steeply. Public service payments rose by 30-40 percent just in the beginning of this year, while inflation for January and February, according to official data, was 4.1 percent. This is half of the level that the government planned for the whole year.

Conditions in education, public health, provision of housing, and services for the elderly have substantially worsened. The newspaper *Izvestiya* published an article on March 10, according to which the Russian pension system is threatened with collapse. At the same time that the system of private pension deposits essentially failed because of the unreliability of Russian private financial institutions, the State Pension Fund's deficit reached 112 billion rubles last year. A reduction of the single social tax rate is being called one of the basic causes—one in a series of market reform "institutionalisation" measures carried out by the government of V. Putin.

According to the Audit Chamber's estimates, the Pension Fund's budget deficit in 2008 could reach $17.3 billion, and by 2012, according to some experts, $23 billion. This would spell the collapse of a pension system incapable of adequately reacting to the unfavorable macroeconomic situation and a fall in the state's income from oil.

In spite of the efforts of Kremlin ideologists and all those who insist that the policies of the Putin government constitute the partial restoration of social fairness and form some kind of opposition to the condition under Boris Yelstin in the 1990s, their real content is the preservation and still greater assurance of a tiny minority's unlimited right to self-enrichment at the expense of the majority of society. So-called nationalisation is also just another form taken by this process of growing social inequality.