

From Soviets to oligarchs: Inequality and Property in Russia, 1905-2015

Filip Novokmet

Thomas Piketty

Gabriel Zucman

First WID.world conference

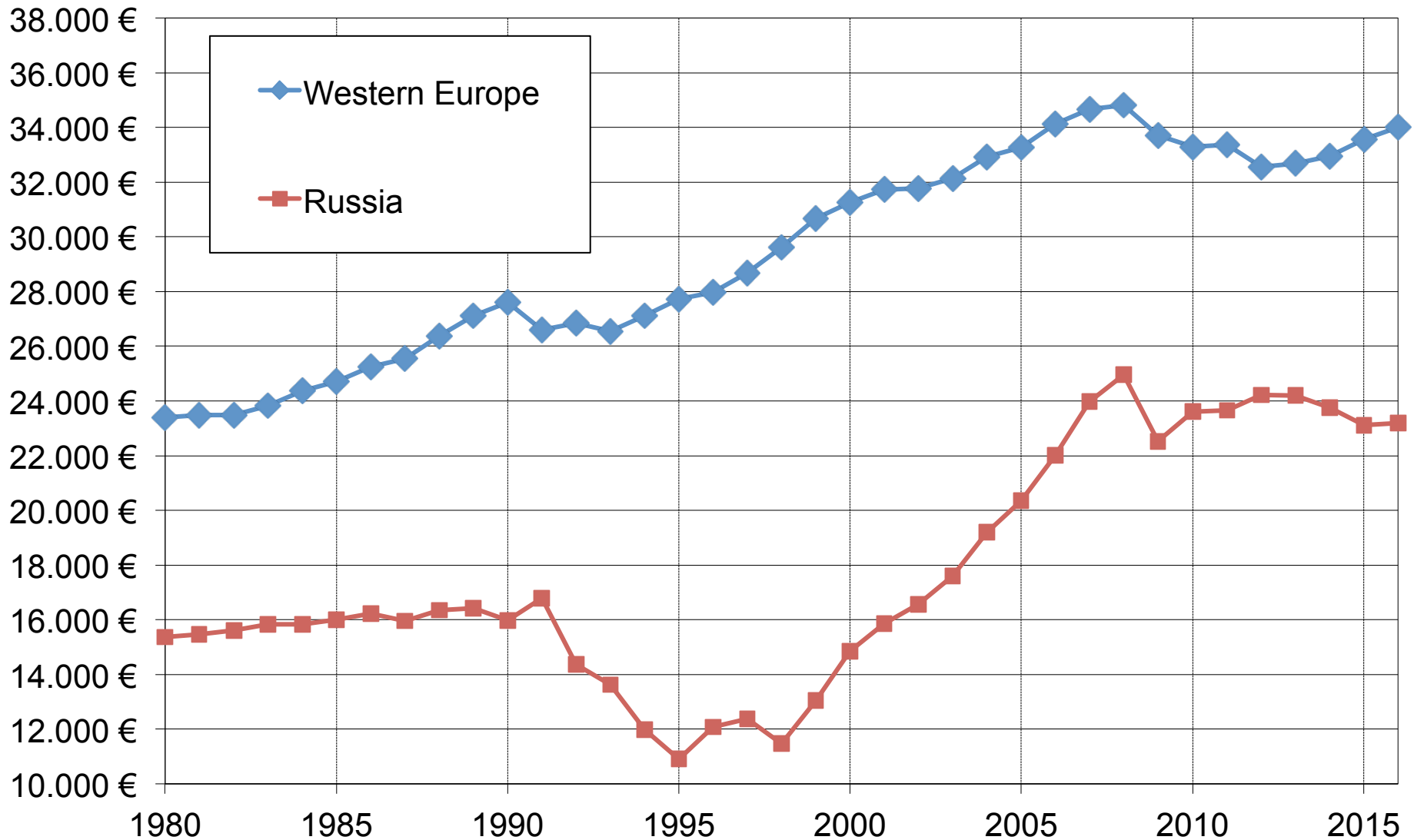
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Introduction

Russia has undergone a dramatic transformation since the fall of the Soviet Union in 1990-1991

- Per adult national income has risen by about 40% between 1989 and 2016
- Russian living standards were 60-65% of the Western European average in 1989-90 → about 70-75% in mid-2010s.
- But little is known about who has benefitted (or not) from this growth
 - Which income and wealth classes have gained from the post-Soviet transition, and in what proportions?
 - How do Russia's inequality levels compare to those in Western capitalist countries, in China, and in ex-communist Eastern European countries?

Per adult national income: Russia vs W. Europe 1980-2016 (€ 2016)



Per adult national income in € 2016 PPP. Western Europe = arithmetic average Germany-France-Britain.
Authors' computations using official national accounts and revised GDP deflator. See Appendix A.

New income and wealth series for Russia

- We combine national accounts, survey, wealth and fiscal data to produce new series on the accumulation and distribution of income and wealth in Russia
- New balance sheets 1990-2015:
 - Private vs public wealth
 - Estimates of hidden offshore wealth
- Income inequality series:
 - Household income survey data (HBS, RLMS)
 - Combined with official income tax data
 - Need for more detailed and usable income tax statistics
- Tentative wealth inequality series:
 - Forbes data

Main results

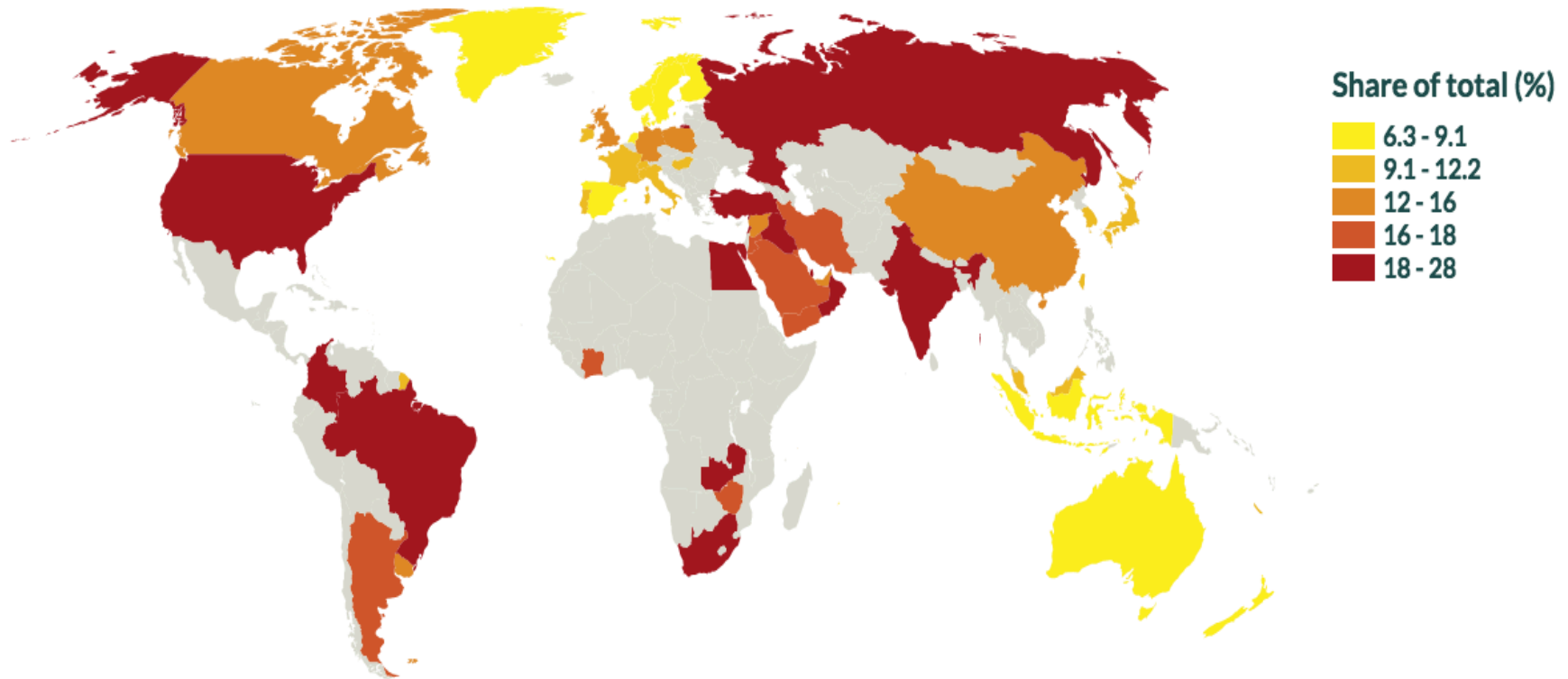
Extreme level of inequality in Russia and concentration of rent-based resources:

- Top income shares at least as high as in the US, with a top 1% income share around 20-25%.
- Surveys vastly underestimate inequality (miss top of distribution)
- About half of household financial wealth is held offshore
- Inequality has increased substantially more in Russia than in China and ex-communist Eastern European countries

World Wealth & Income Database (WID)

- This paper: part of broader, international research program: the World Wealth and Income Database (WID.world)
- Goal: produce Distributional National Accounts (DINA)
 - comparable international distributional statistics
 - how economic growth is distributed among various income groups
 - Income series for the United States (Piketty-Saez-Zucman QJE 2018), France, China, etc. (see Alvaredo et al. 2017)
 - Wealth series for the US (Saez-Zucman QJE 2016), France, etc.
- Aggregate wealth evolution: private, public, foreign wealth
 - rise of private wealth-income ratio (Piketty-Zucman QJE 2014)
 - from public to private wealth in Russia, China and Eastern Europe
 - rise of global offshore wealth (Zucman QJE 2013)
- Wealth distribution series

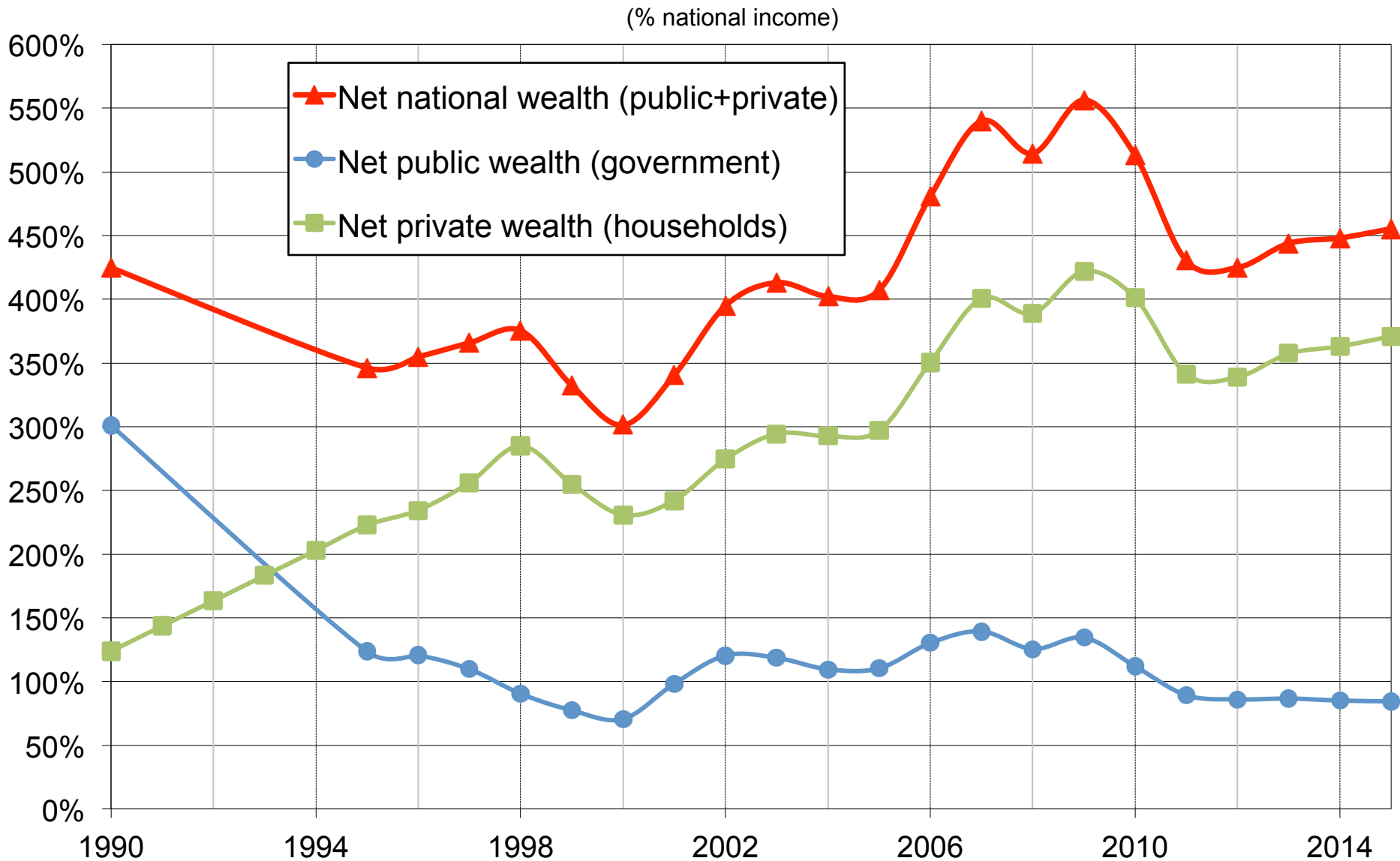
Top 1% national income share



From public to private wealth

- From communism to capitalism: from dominantly public to private wealth in the very short period (“big bang”)
- the rise of Russian private wealth (from 100% in 1990 to 350% by 2015) has been almost exclusively at the expense of public wealth (from 300% to 100% of national income)
- i.e., national wealth almost did not increase relative to national income (from 400% to 450%)

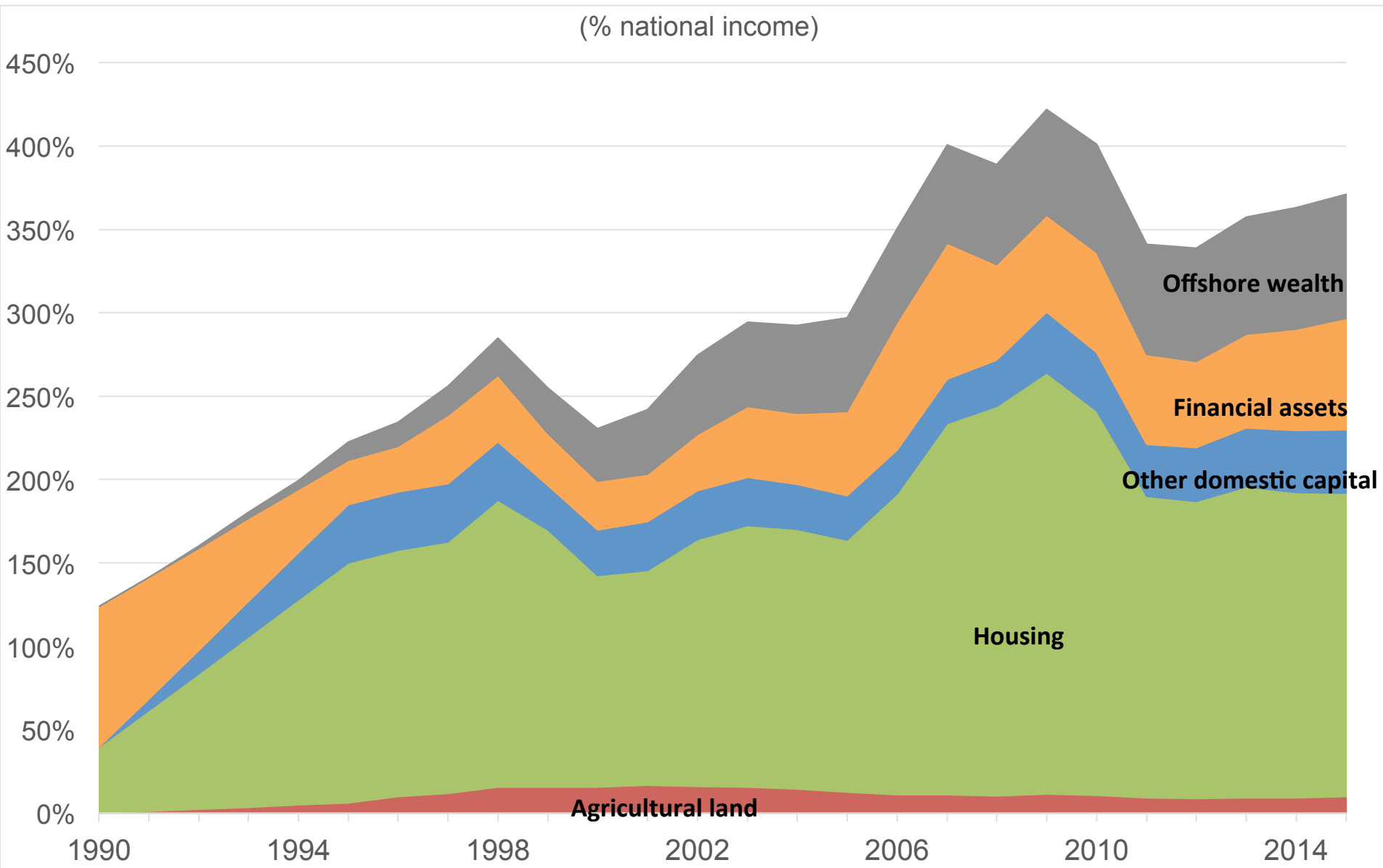
Public vs. private property in Russia, 1990-2015



The rise of private wealth

- Critical role of housing for the rise of the private wealth
 - volume effects: mainly privatization
 - and price effects: rise of real estate prices
- Very low recorded private financial wealth
 - actually no increase from the Soviet era – despite the mass ('voucher') privatization
 - hyperinflation wiped all saving (Bank of Russia's deficient monetary policy)
 - persistently low market valuation of equity
 - unrecored offshore wealth
- As a result, Russians are on average 'house rich & cash poor'

The rise of private wealth in Russia 1990-2015



Low market valuation of corporations

- Tobin's q less than one
 - Not unique to Russia
 - But reinforced by ill-defined and enforced property rights and low protection of shareholders rights (weak legal system, corruption, powerful stakeholders (government), etc.)
 - Low valuation of obsolete communist capital stock (many industries artificially kept alive as government social policy) / wider rent-sharing system
 - Offshore assets and legal outsourcing in the management and control of Russian corporations (complex nexus of offshore contract arrangements)

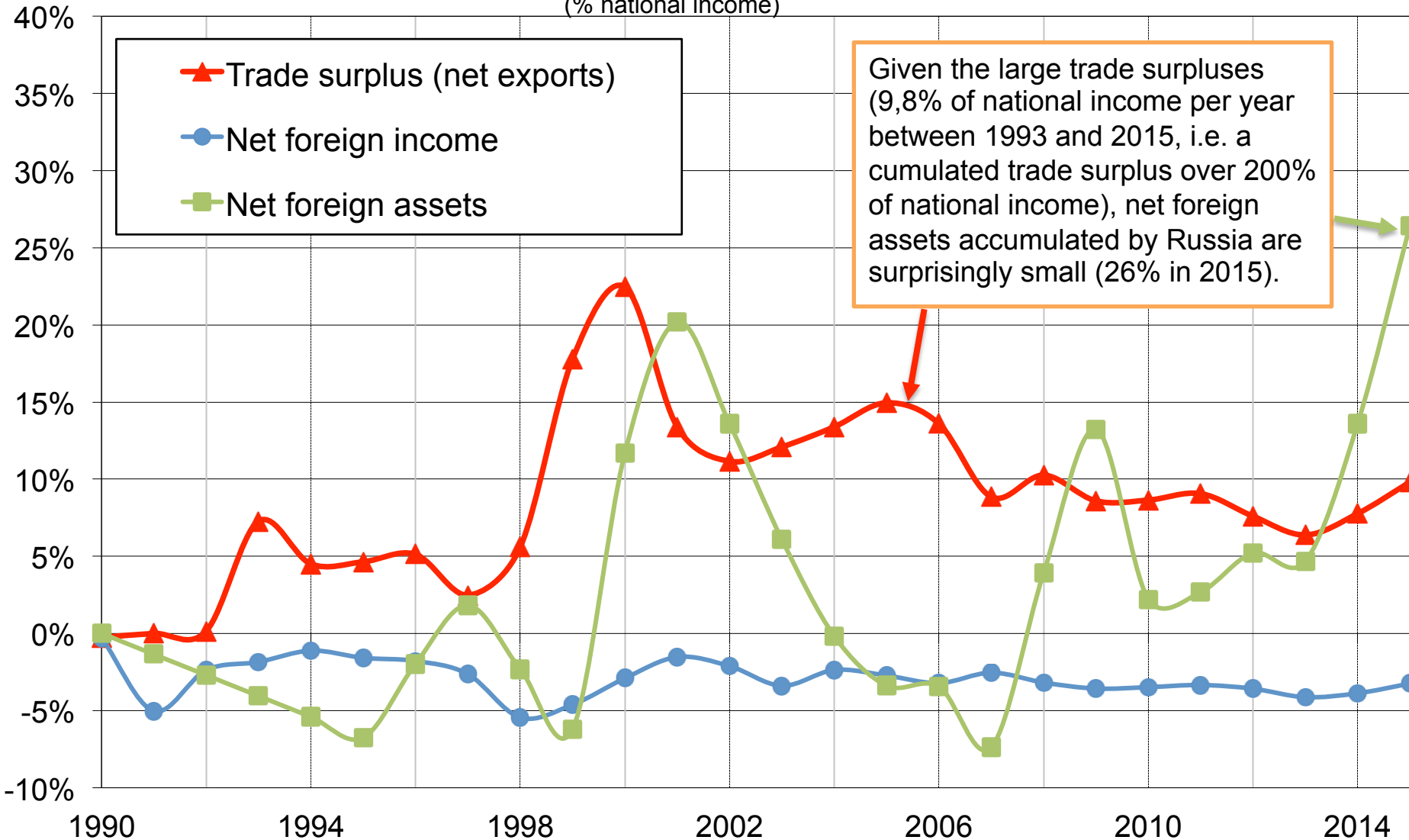
Offshore wealth

- Huge problem of offshore wealth
 - Hard to quantify by nature
 - But publicly available macroeconomic statistics enable to shed some light
 - Our approach: forensic investigation of large discrepancies between trade balance surpluses (oil and gas exports) and foreign assets

Where is the money?

Trade surplus and missing foreign assets in Russia 1990-2015

(% national income)

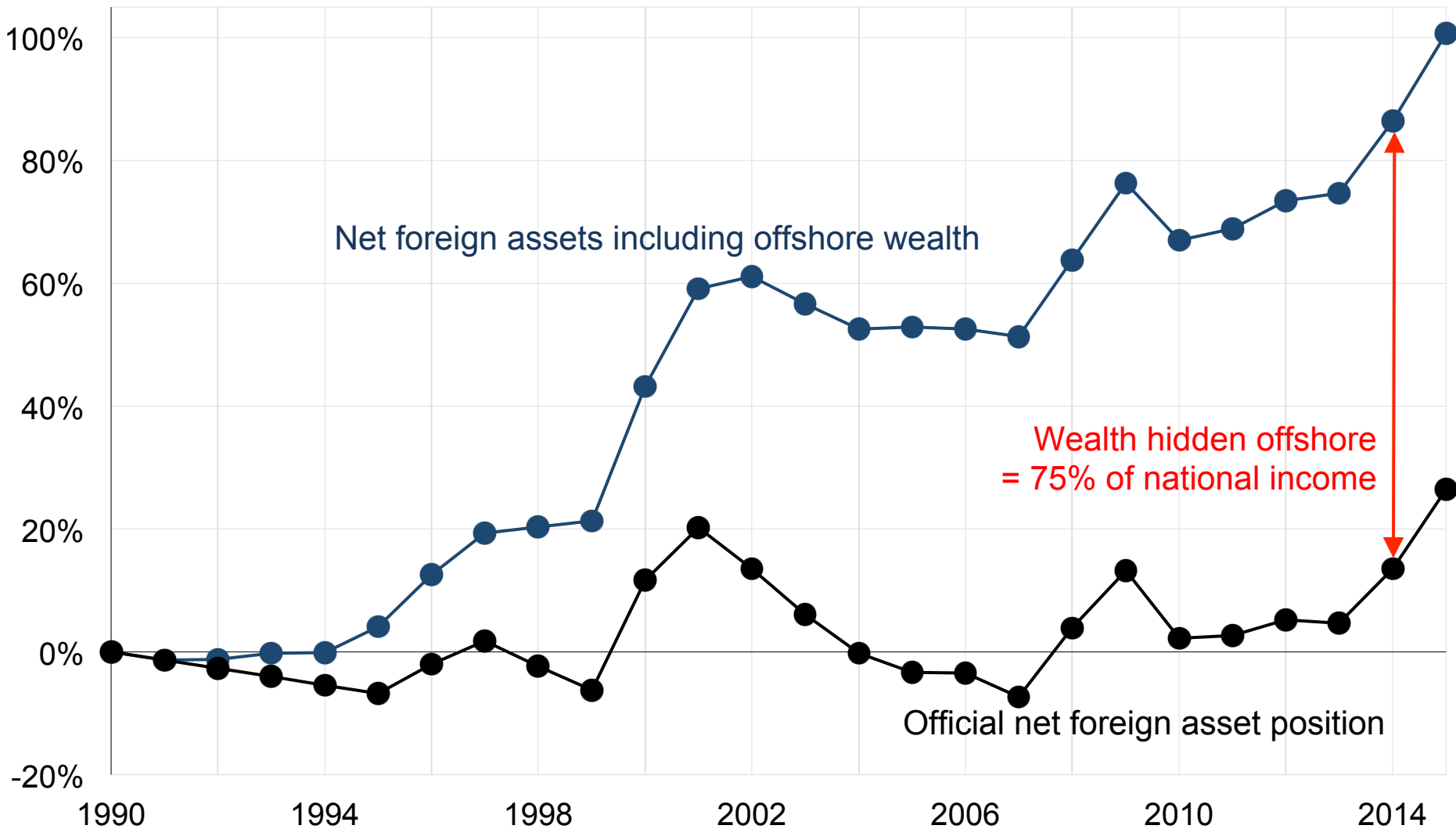


Offshore wealth

- Our offshore wealth estimate $\approx 75\%$ of national income
 - cumulate net sum of net errors and omissions and capital transfer outflows in BoP; assume rates of return
 - the rich Russians holds as much financial wealth abroad (UK, Switzerland, Cyprus, etc.) as the entire Russian population holds in Russia itself!
 - three times larger than official NFA
 - but conservative estimate (e.g. differential in returns and valuation effects taken as given; trade surplus could be underestimated)
- recent 'deoffshorization' attempts do not seem to be especially successful

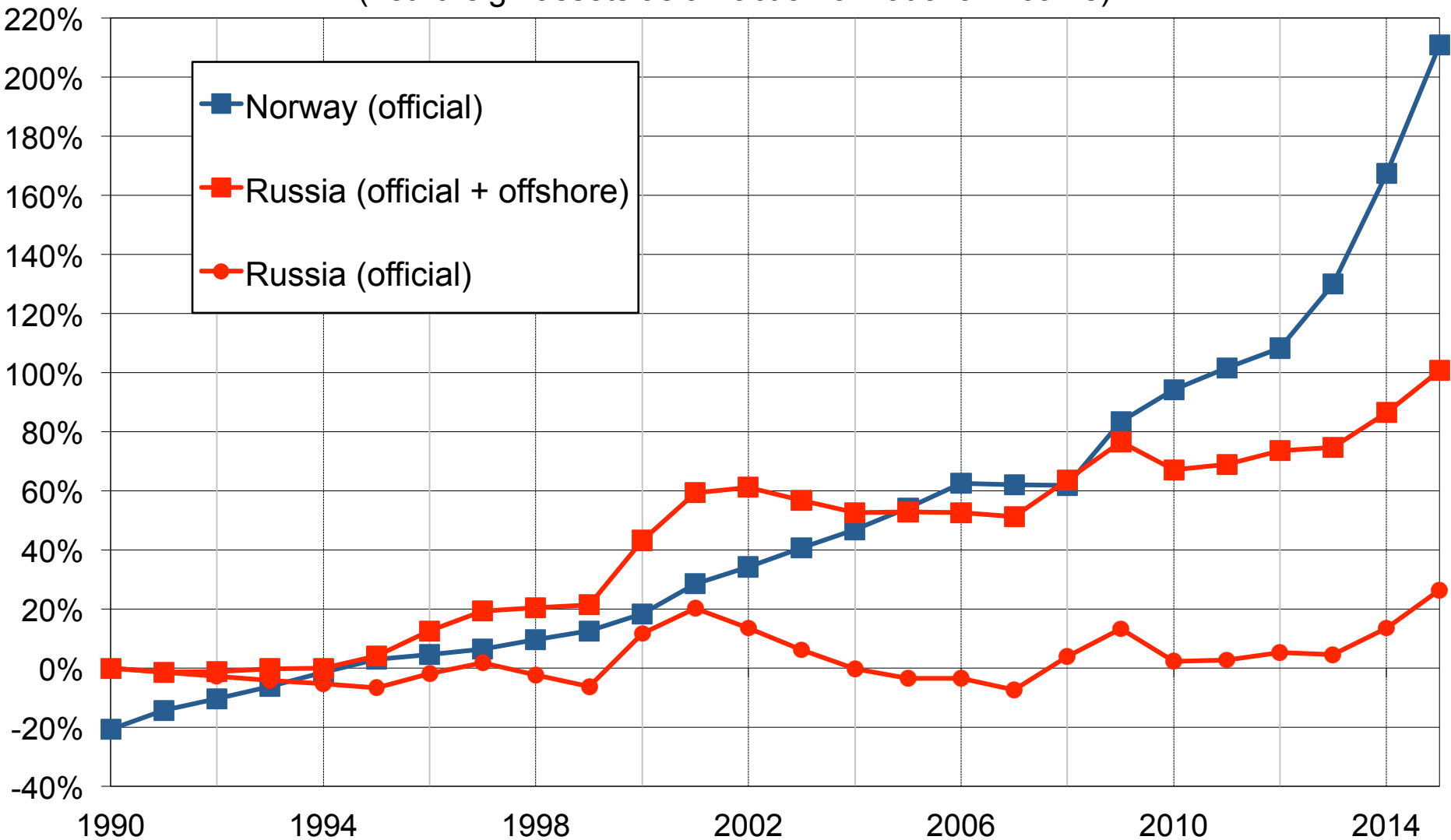
New estimate of offshore wealth

Russia's net foreign assets: with vs. without offshore wealth
(net foreign assets as a fraction of national income)



Russia's vs other oil-rich countries' net foreign assets

(net foreign assets as a fraction of national income)

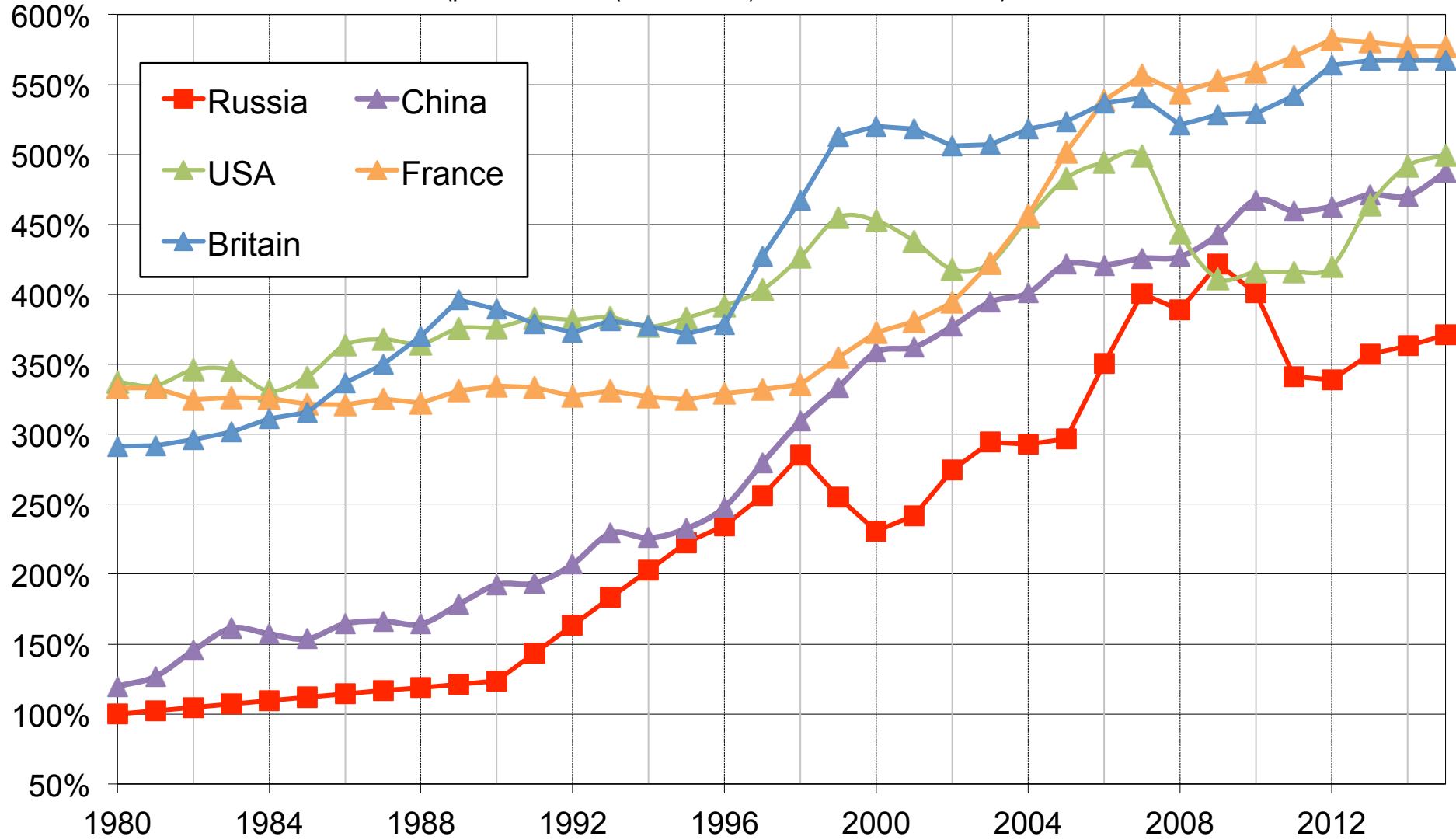


International comparisons of the aggregate wealth evolution

- General rise of private wealth relative to national income in developed countries since the 1970s-1980s, accompanied by the fall of public property
- the evolution of aggregate wealth in Russia, China and other ex-communist countries as an extreme case of these general trends
- China's private wealth / national income ratio higher than Russia's (including our estimate of the offshore wealth)
- China has higher saving: these are mainly used for domestic investment, while half of Russian saving used for foreign investment and dissipates
- Higher market valuation of corporations in China (Tobin's $q=1$) than in Russia

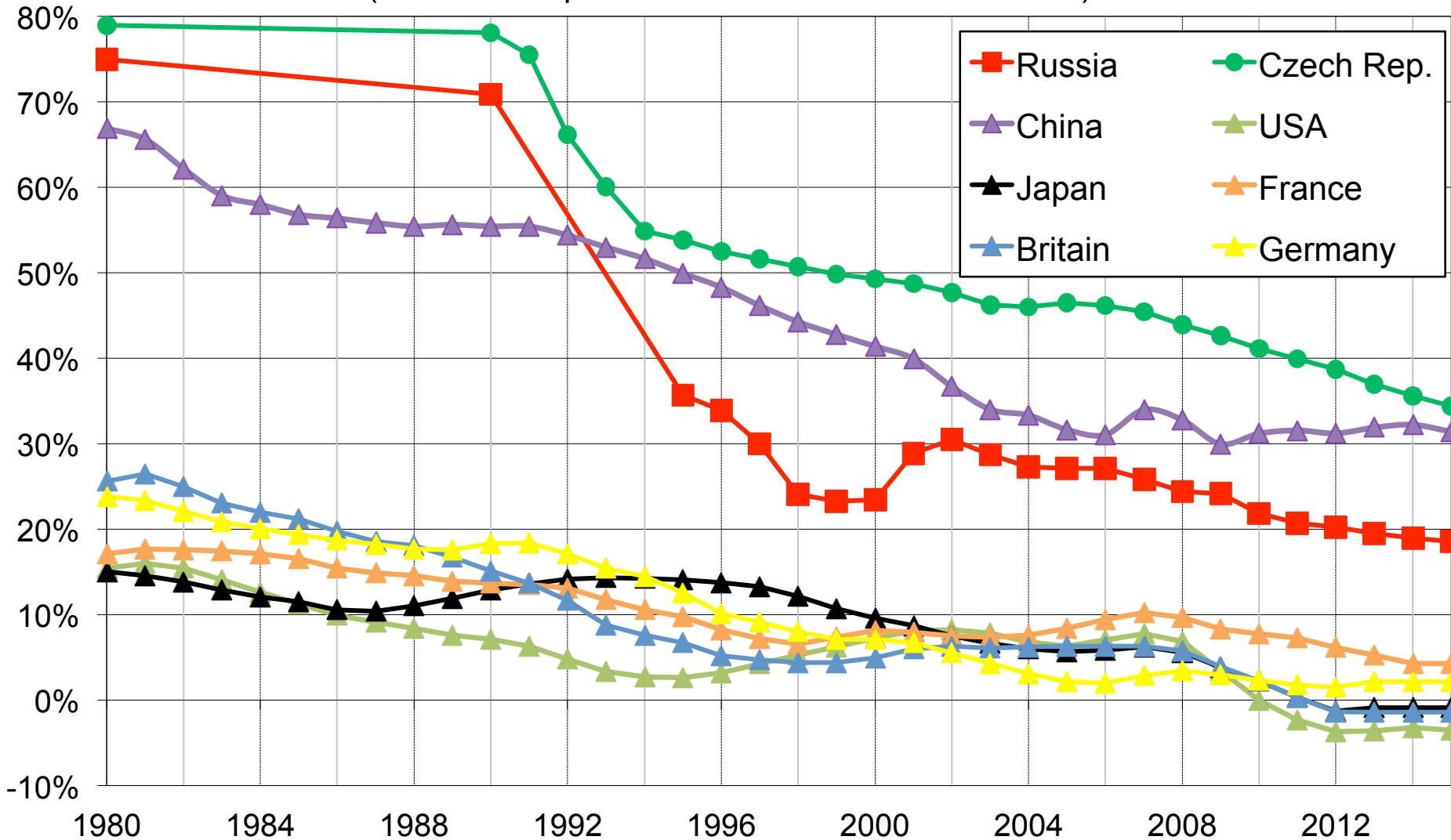
The rise of private wealth: Russia vs China & rich countries

(private wealth (households), in % national income)



The decline of public property: Russia vs other countries

(share of net public wealth in net national wealth)

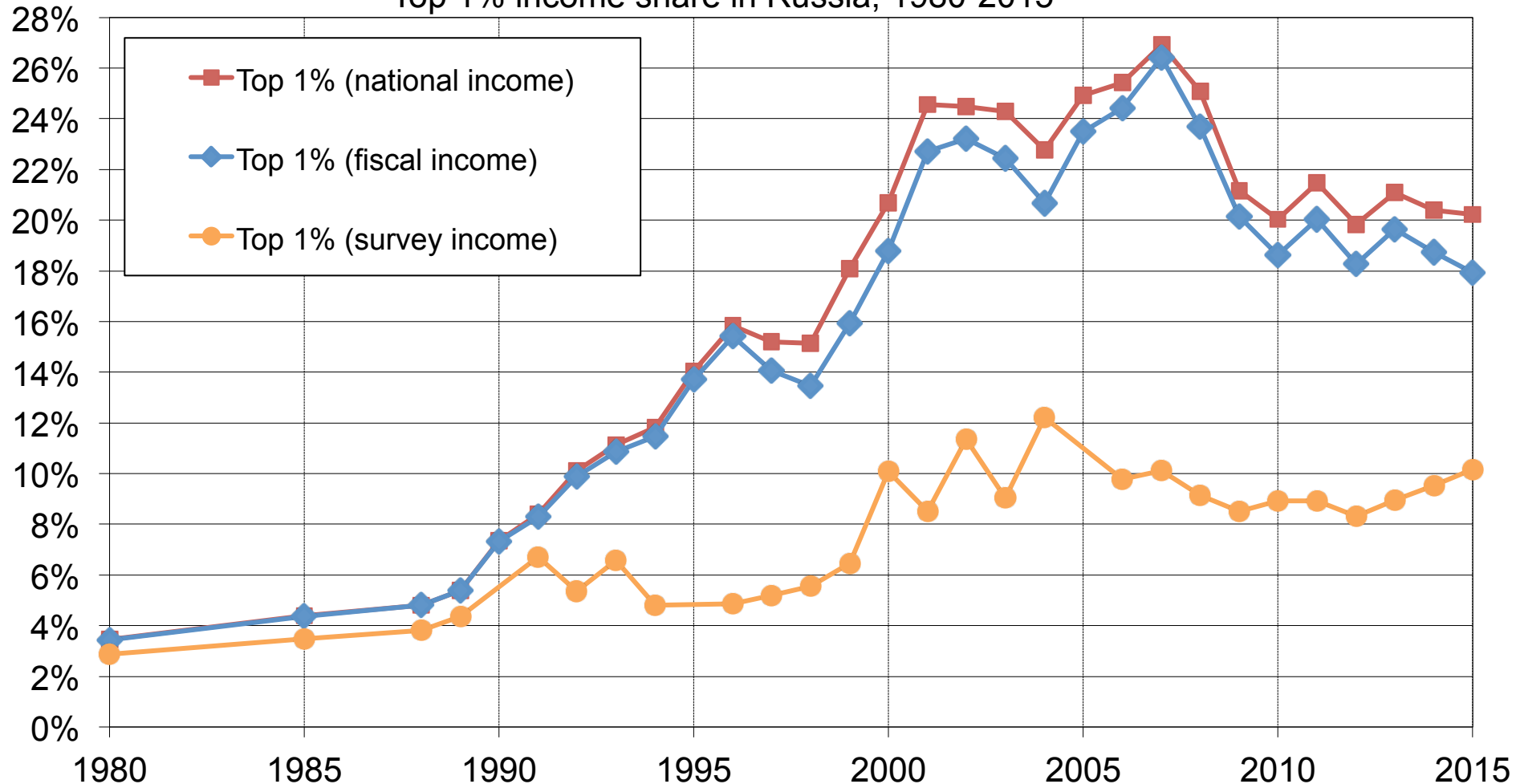


Rise in income and wealth inequality

- New inequality series show much higher levels of inequality than official data
 - surveys vastly underestimate inequality (by missing the top of the distribution)
 - correction with income tax data: e.g. top 1% income share jumps from 10% (survey-based) to 20% (combination of survey and tax data)
 - also found by researchers using 'leaked' tax data for Moscow (Guriev and Rachinsky 2006)

Underestimation of the top in surveys

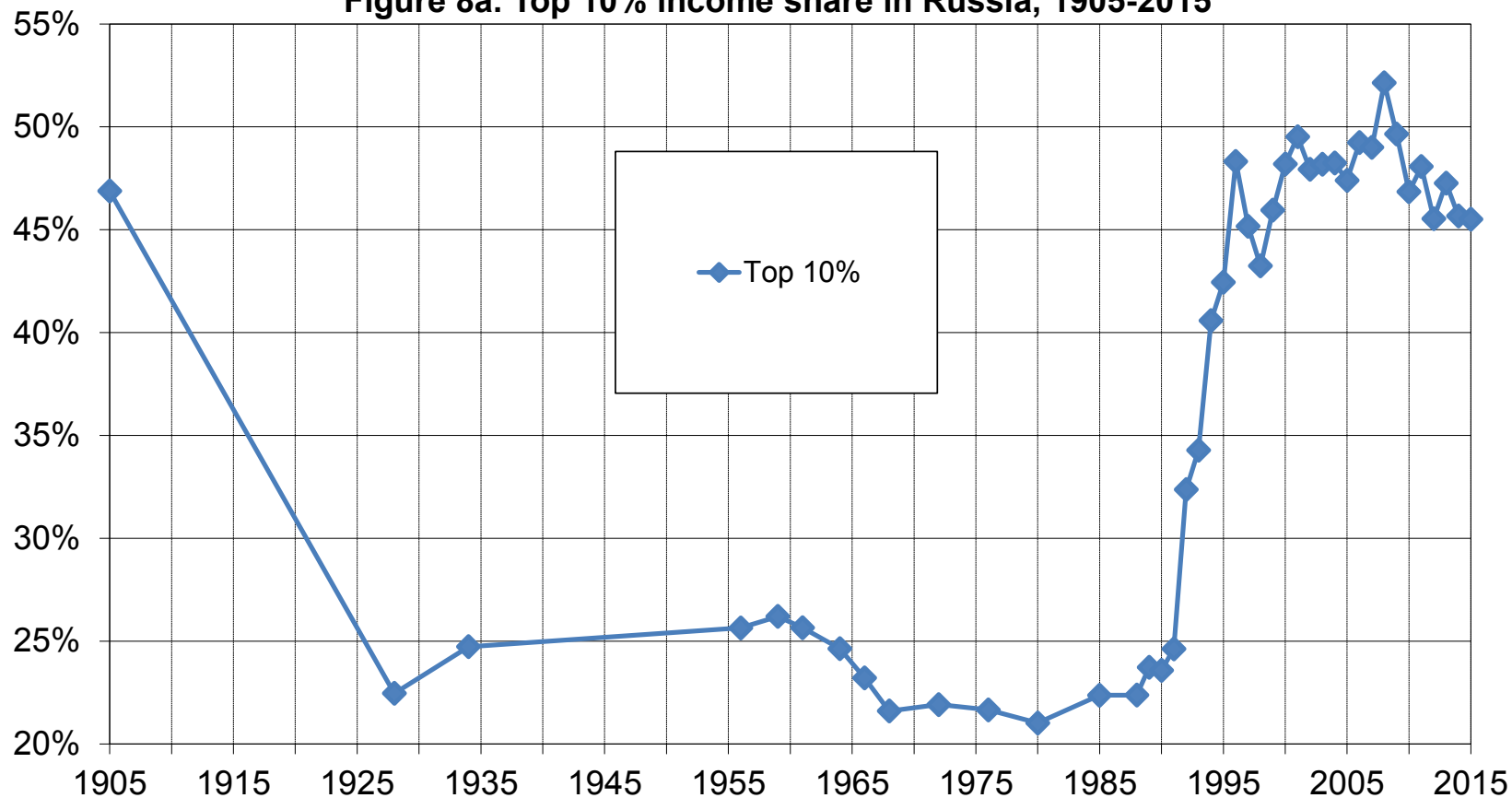
Top 1% income share in Russia, 1980-2015



Distribution of income (before taxes and transfers, except pensions and unempl. insurance) among equal-split adults (income of married couples divided by two). Pretax national income estimates combine survey, fiscal, wealth and national accounts data. Fiscal income estimates combine survey and income tax data (but do not use wealth data to allocate tax-exempt capital income). Survey income series solely use self-reported survey data (HBS).

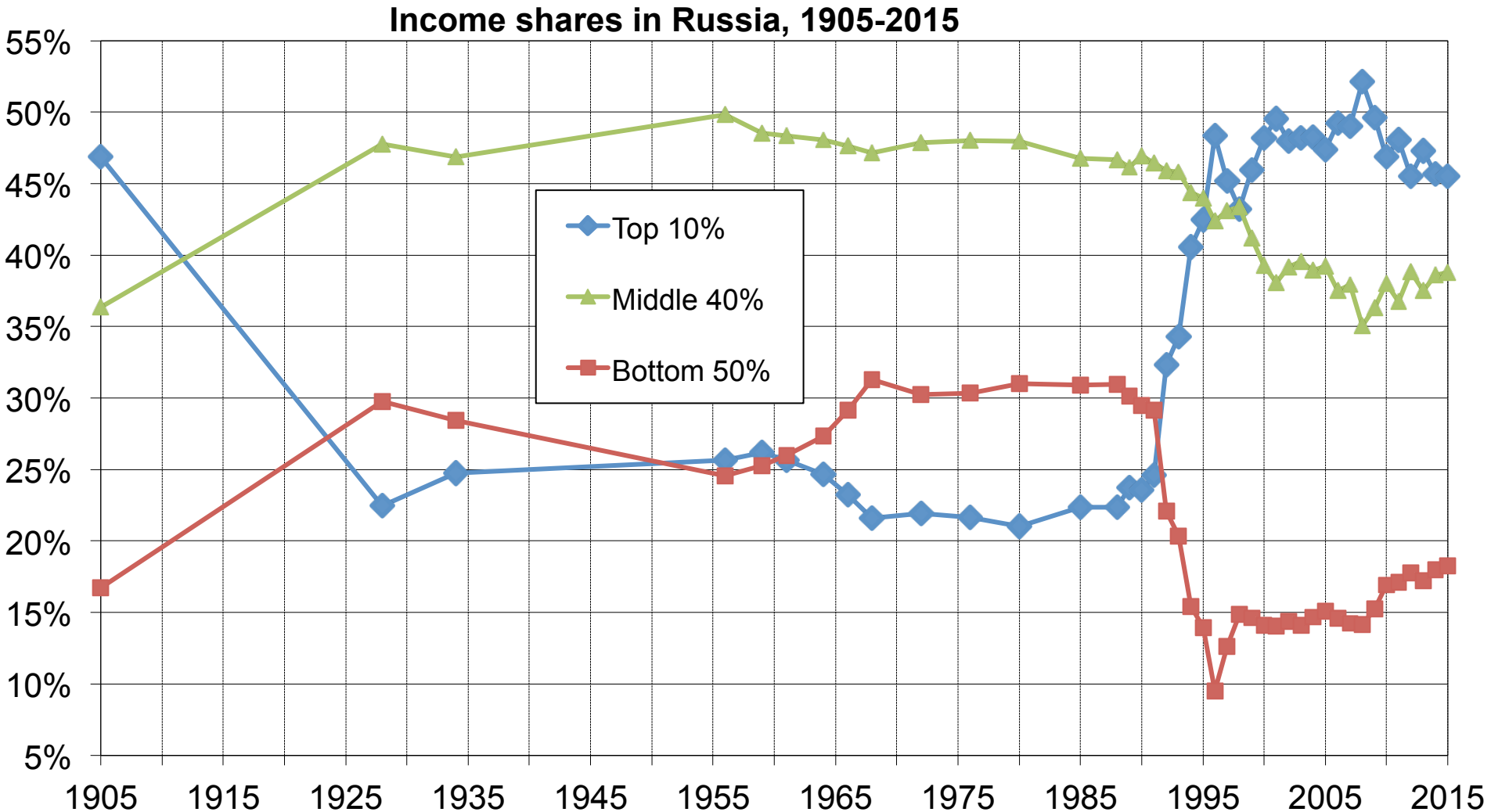
Return to Tsarist inequality levels?

Figure 8a. Top 10% income share in Russia, 1905-2015



Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.
Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data.
Equal-split-adults series (income of married couples divided by two).

The collapse of the bottom 50%



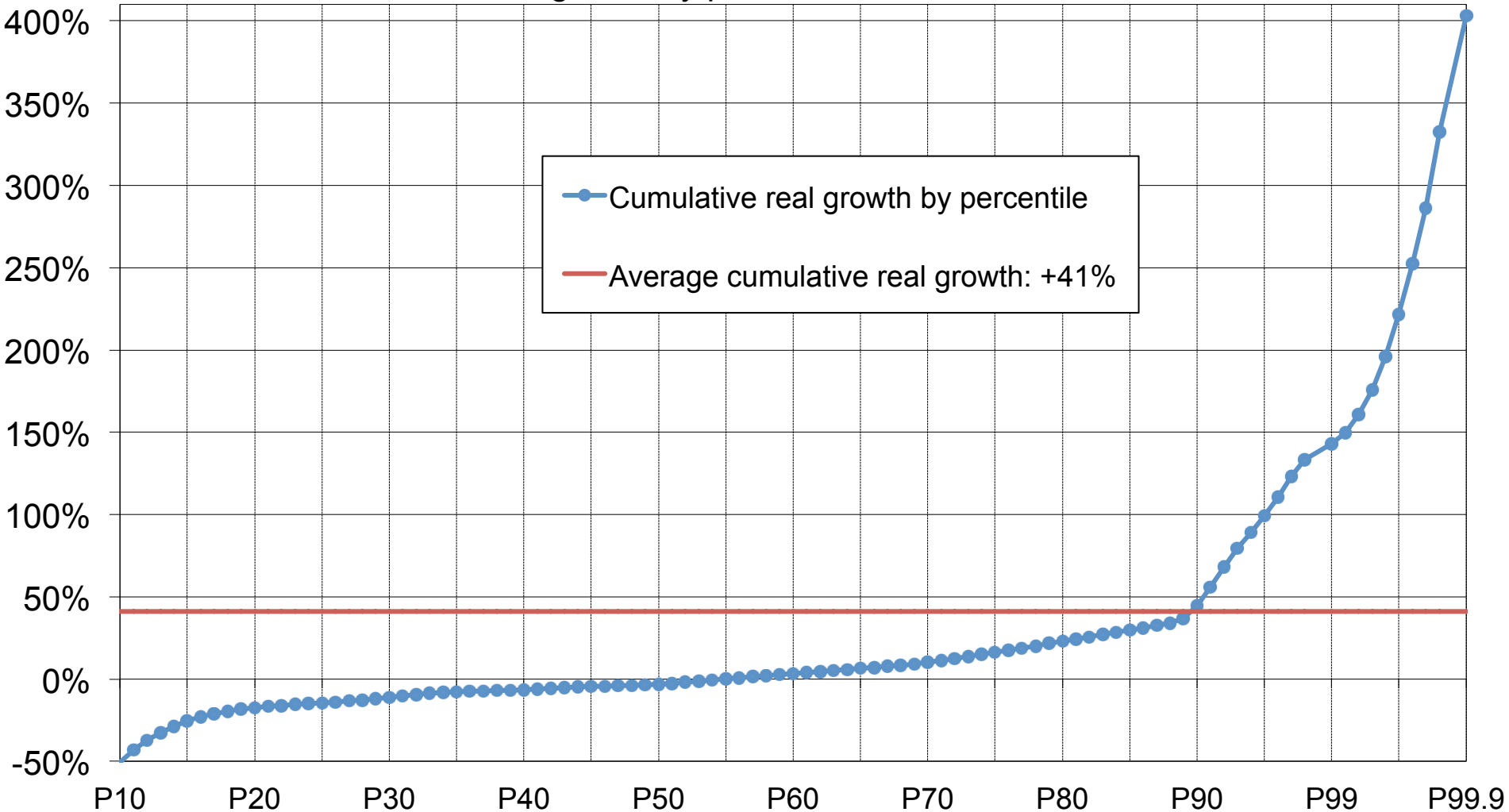
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Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data.
Equal-split-adults series (income of married couples divided by two).

The distribution of growth after Communism

- High rise of inequality after the fall of Communism
- Divergent growth experience, 1989-2015:
 - strong real growth of the top 10% (+170%)
 - negative real growth of the bottom 50% (-20%)
- Hurting bottom (strong fall of the bottom 50%): shock therapy ; hyperinflation, etc. (especially pensioners)
- Pro-rich rapid mass privatization: state managers; selling commodities; cheap credits during hyperinflation, etc.
- Emergence of 'oligarchs' in institutional and legal vacuum: 'loans-for-shares', draining and outflow of funds; rise of offshore wealth

Who benefited most from the transition?

Cumulative real growth by percentile, Russia 1989-2016



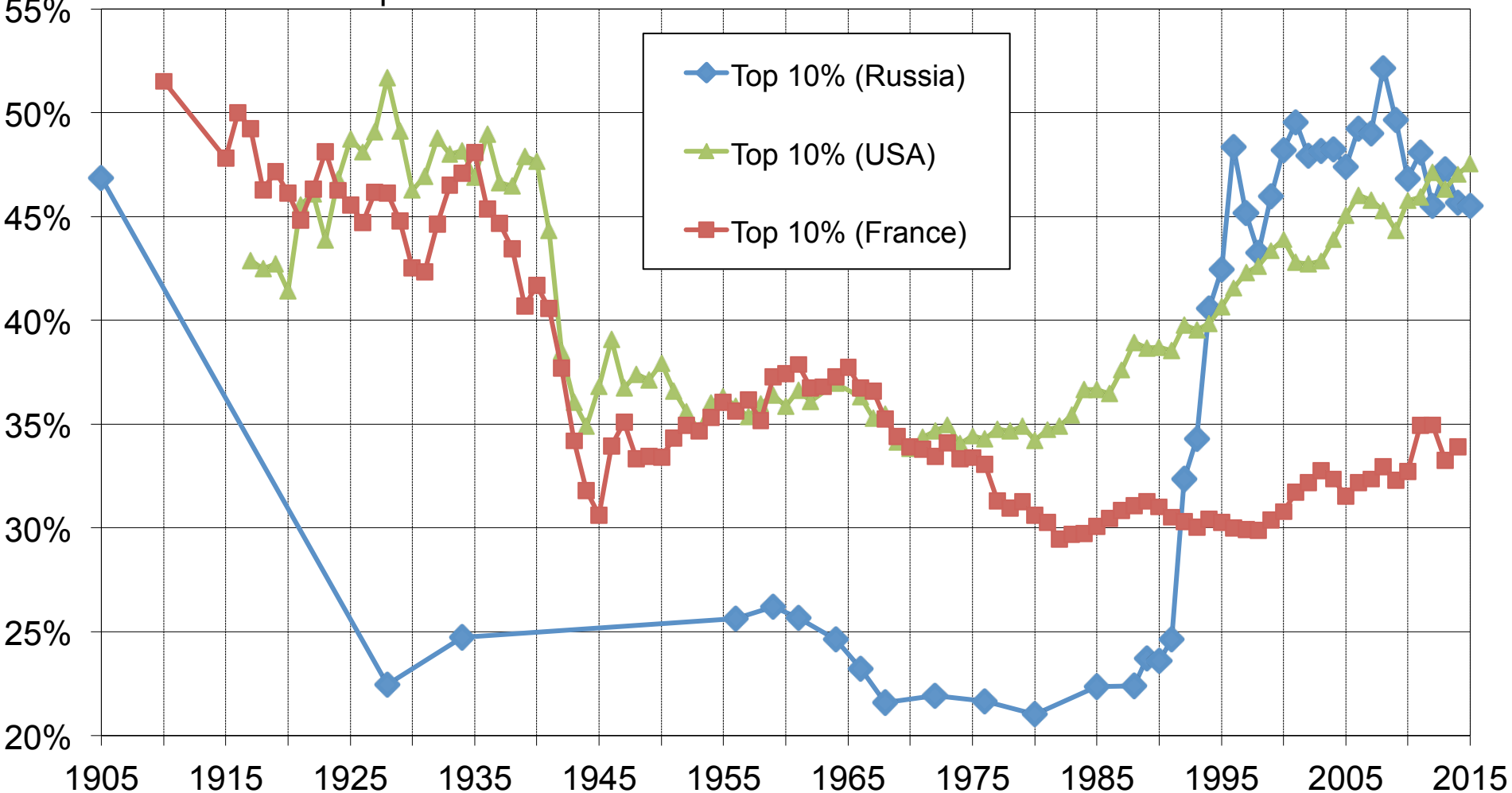
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among equal-split adults (income of married couples divided by two). Corrected estimates combine survey, fiscal, wealth and national accounts data.

Russia's income inequality in international perspective

- Convergence to US inequality levels
- Much higher rise of inequality than in other ex-communist countries in Eastern Europe (Poland, Czech Republic, Hungary) and China
 - Anchor of 'EU-accession' – institutional argument
 - Different natural resource endowments
 - Higher importance of foreign ownership in Central Eastern Europe – top capital holders are often foreigners
- Credit Suisse Global Wealth Report – Russia among the highest levels of wealth inequality

Convergence to US inequality levels

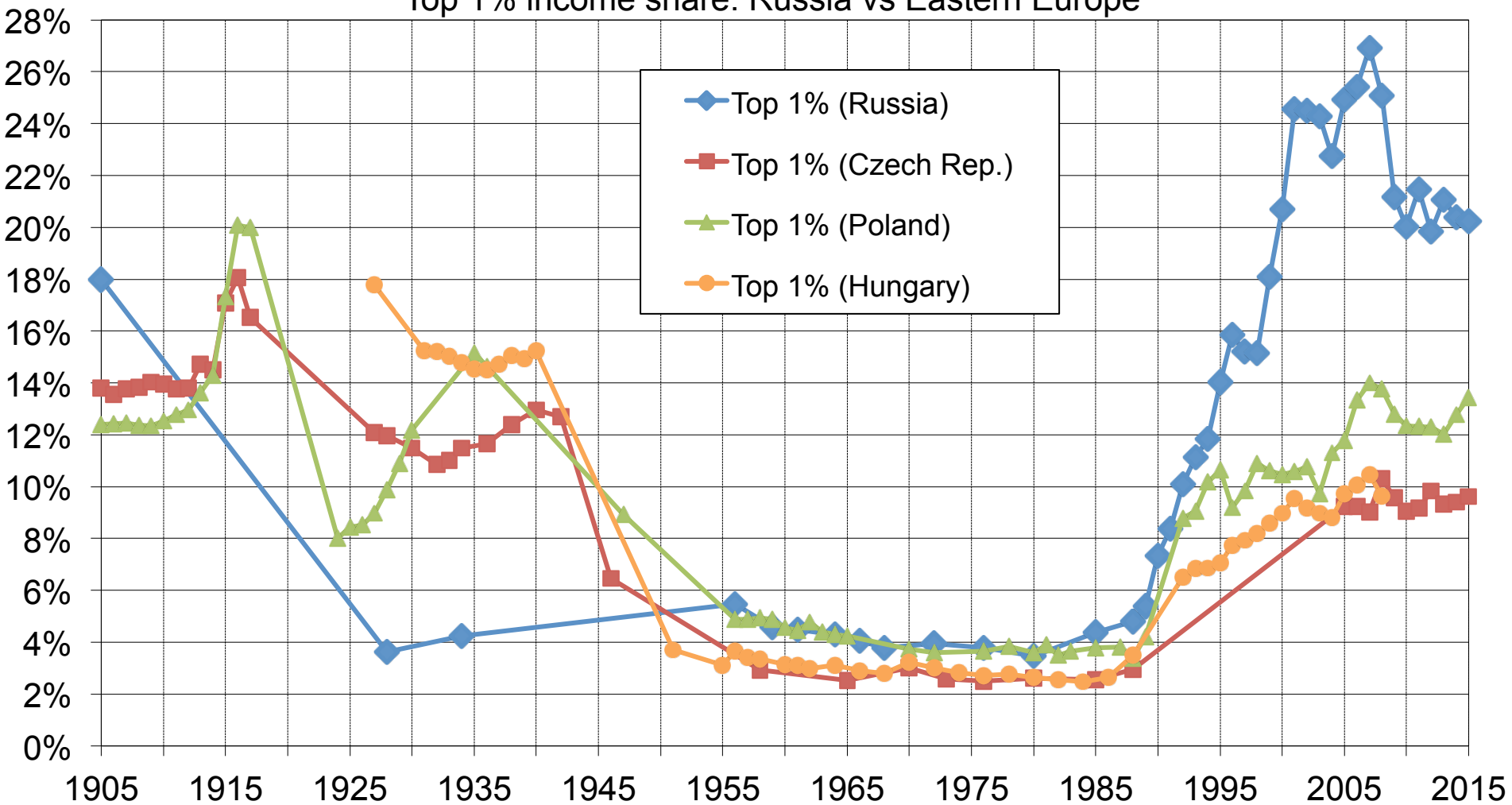
Top 10% income share: Russia vs USA and France



Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among equal-split adults (income of married couples divided by two). Sources for USA and France: WID.world.

Divergence with Eastern Europe

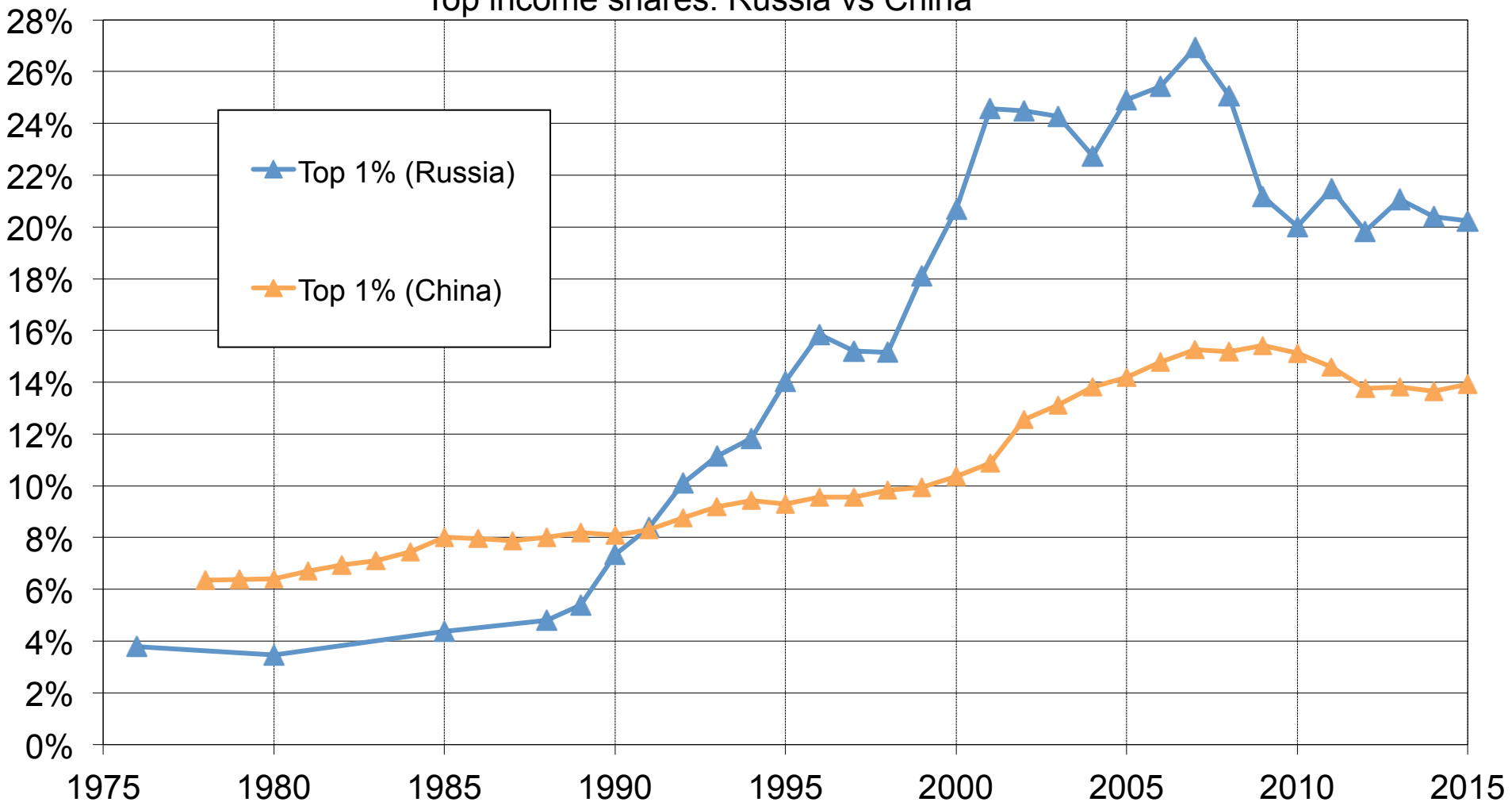
Top 1% income share: Russia vs Eastern Europe



Distribution of pretax national income (Russia) or fiscal income (other countries). Source for Eastern Europe: Novokmet (2017); Hungary: Mavridis and Mosberger (2017).

Divergence with China

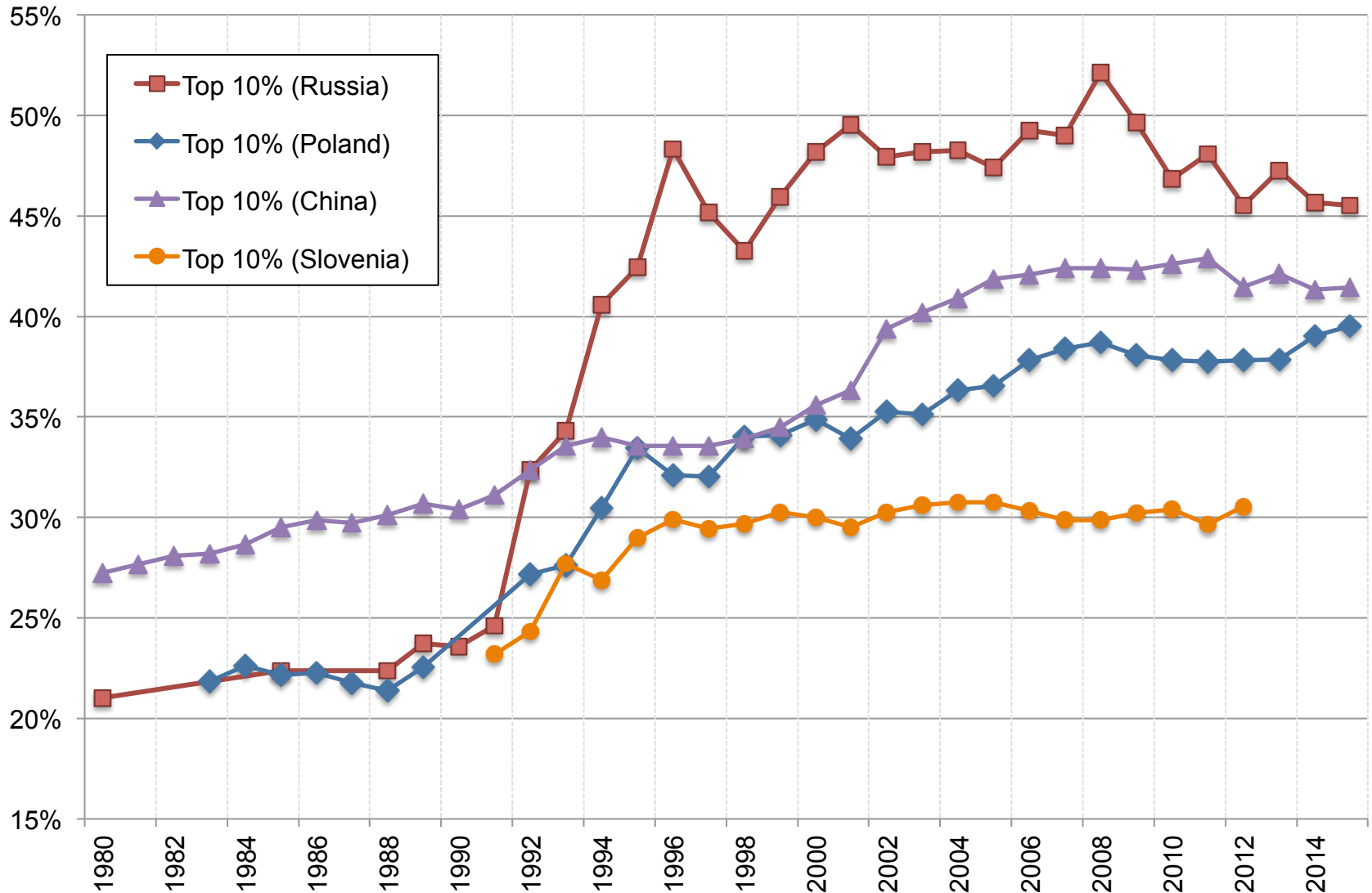
Top income shares: Russia vs China



Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among equal-split adults (income of married couples divided by two). Sources for China: WID.world.

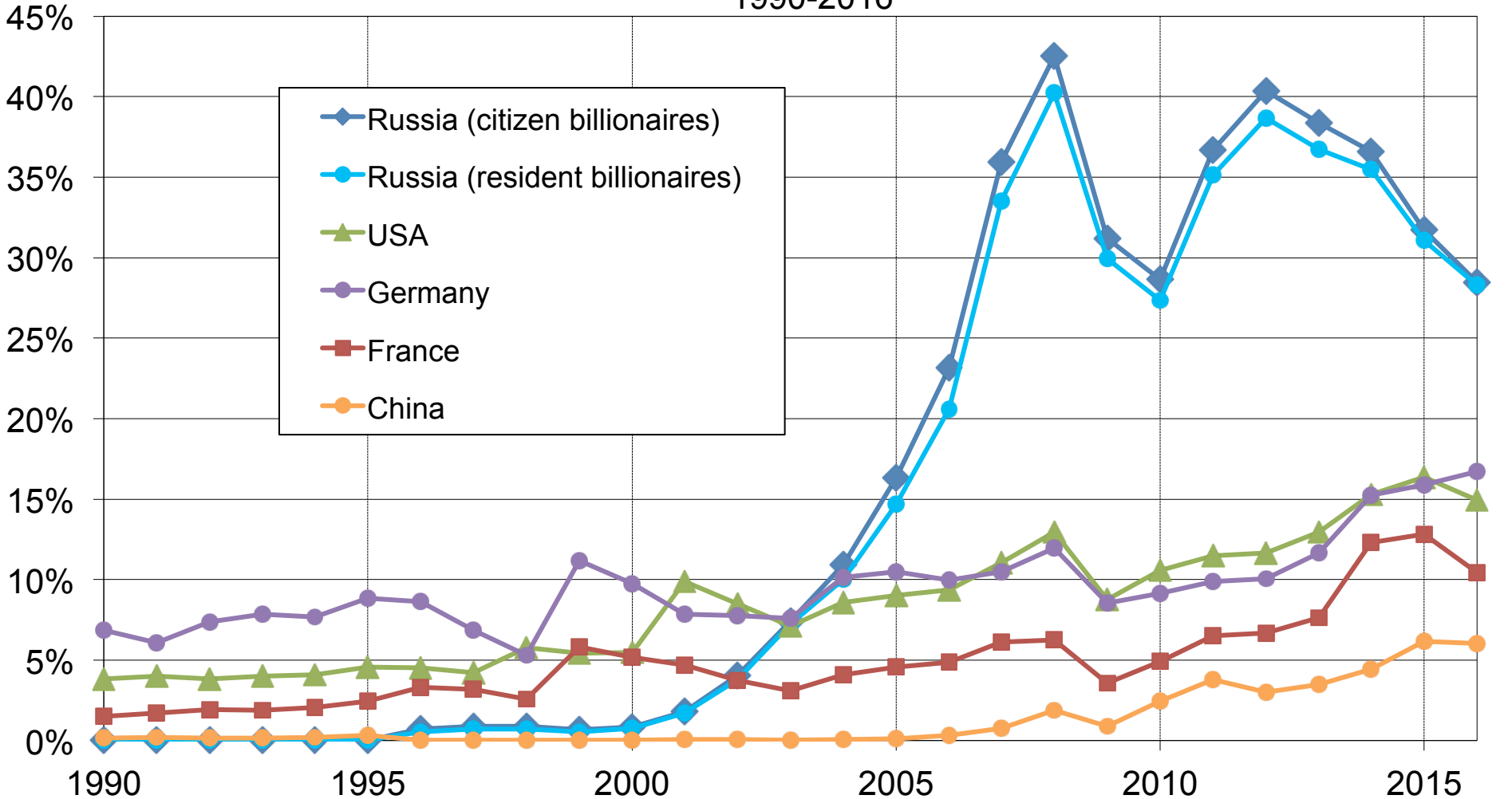
Divergent post-communist patterns

Top 10% in Poland vs Russia, China and Slovenia



Extreme top wealth concentration

Total Forbes billionaire wealth (% national income): Russia vs other countries, 1990-2016



Total billionaire wealth (as recorded by Forbes global list of dollar billionaires) divided by national income (measured at market exchange rates). For other countries, we only report citizen billionaires (numbers for resident billionaires are virtually identical).

Top 0.01% wealth share

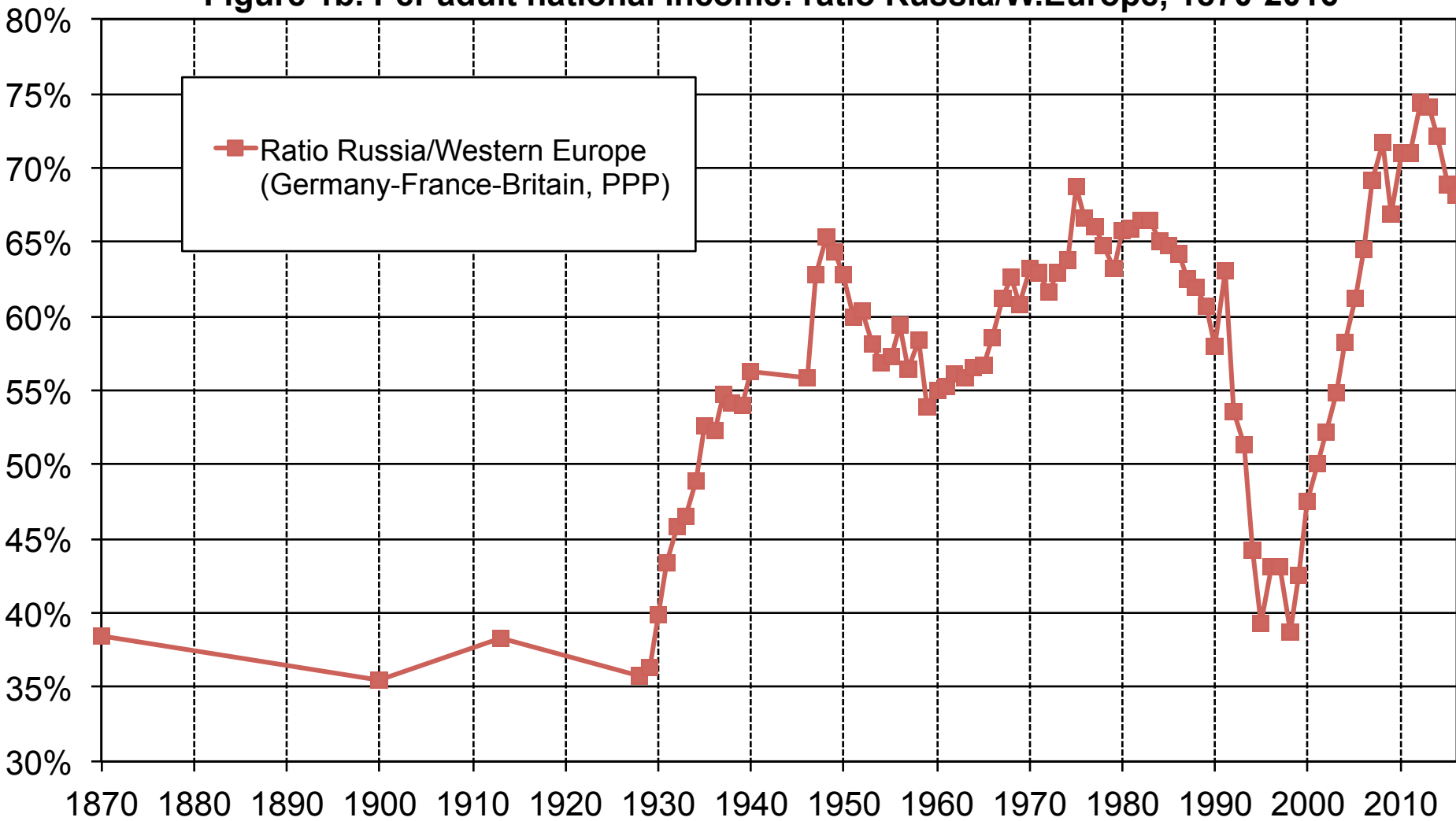


Conclusion

- Our estimates show a sharp rise of income and wealth inequality in Russia after the fall of communism
- Extreme inequality levels in international comparison
- Failure of communism has probably led to higher tolerance for inequality (as long as elites are seen as loyal to State and perceived national interest)
- Access to better data needed to improve the current estimates and to understand particular mechanisms
- Major issue of offshore wealth / plunder of country's national resources and foreign reserves
- Divergence with Eastern Europe indicate that institutions matter

Thank you for your attention!

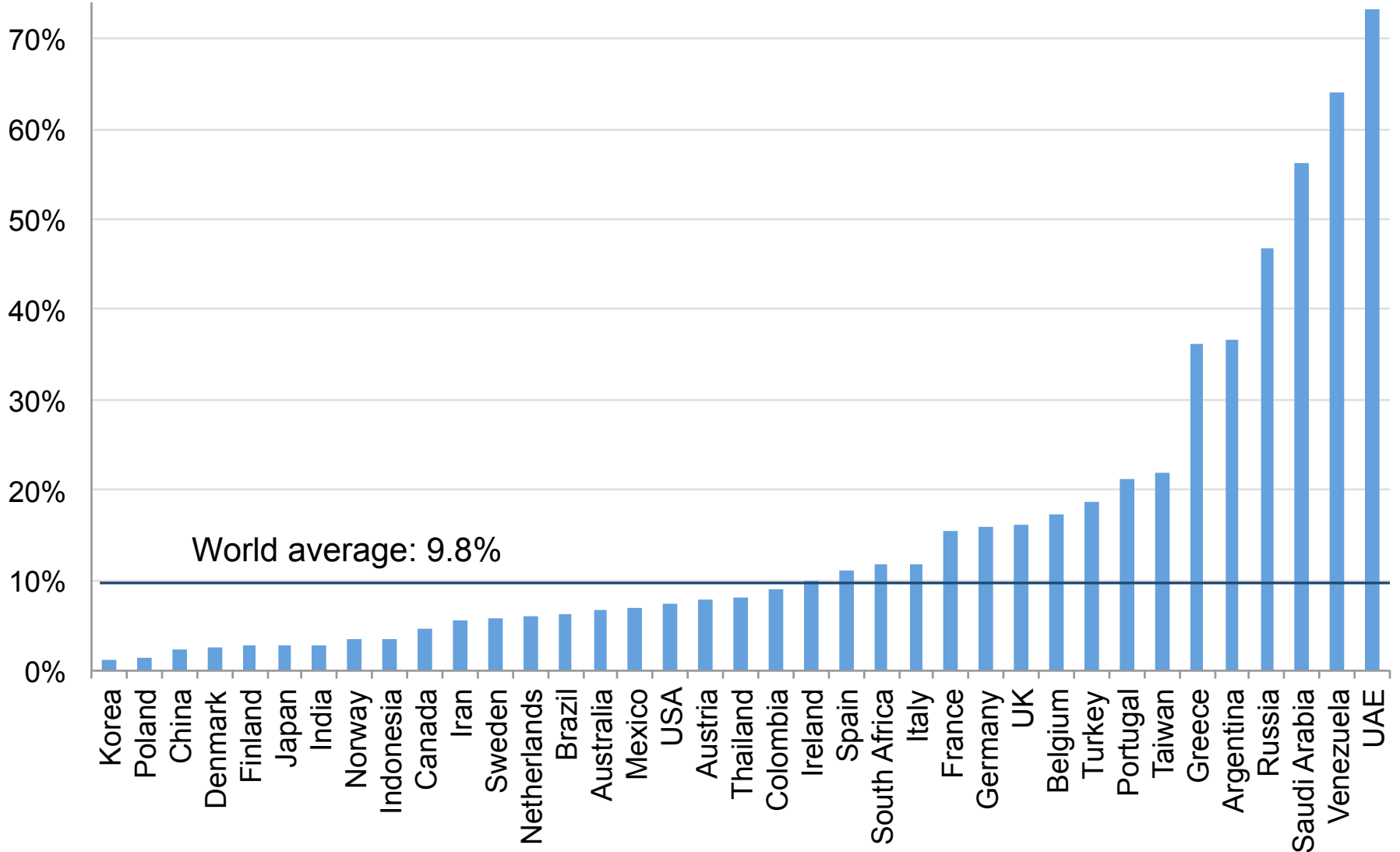
Figure 1b. Per adult national income: ratio Russia/W.Europe, 1870-2016



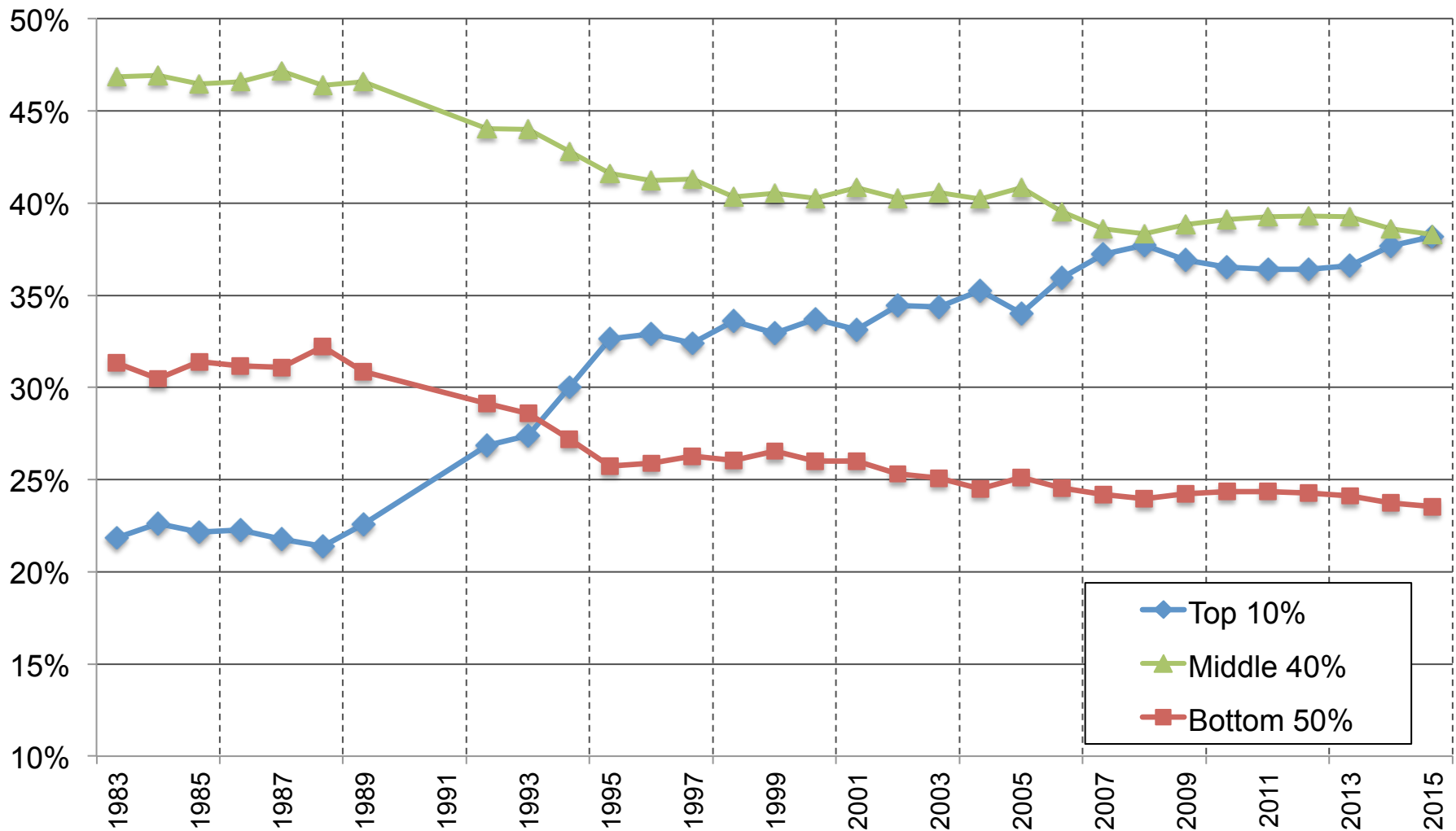
Per adult national income in € 2016 PPP. Western Europe = arithmetic average Germany-France-Britain.

Russia's offshore wealth in inter'l perspective

Offshore wealth / GDP
(All countries with GDP > \$200 billion in 2007)

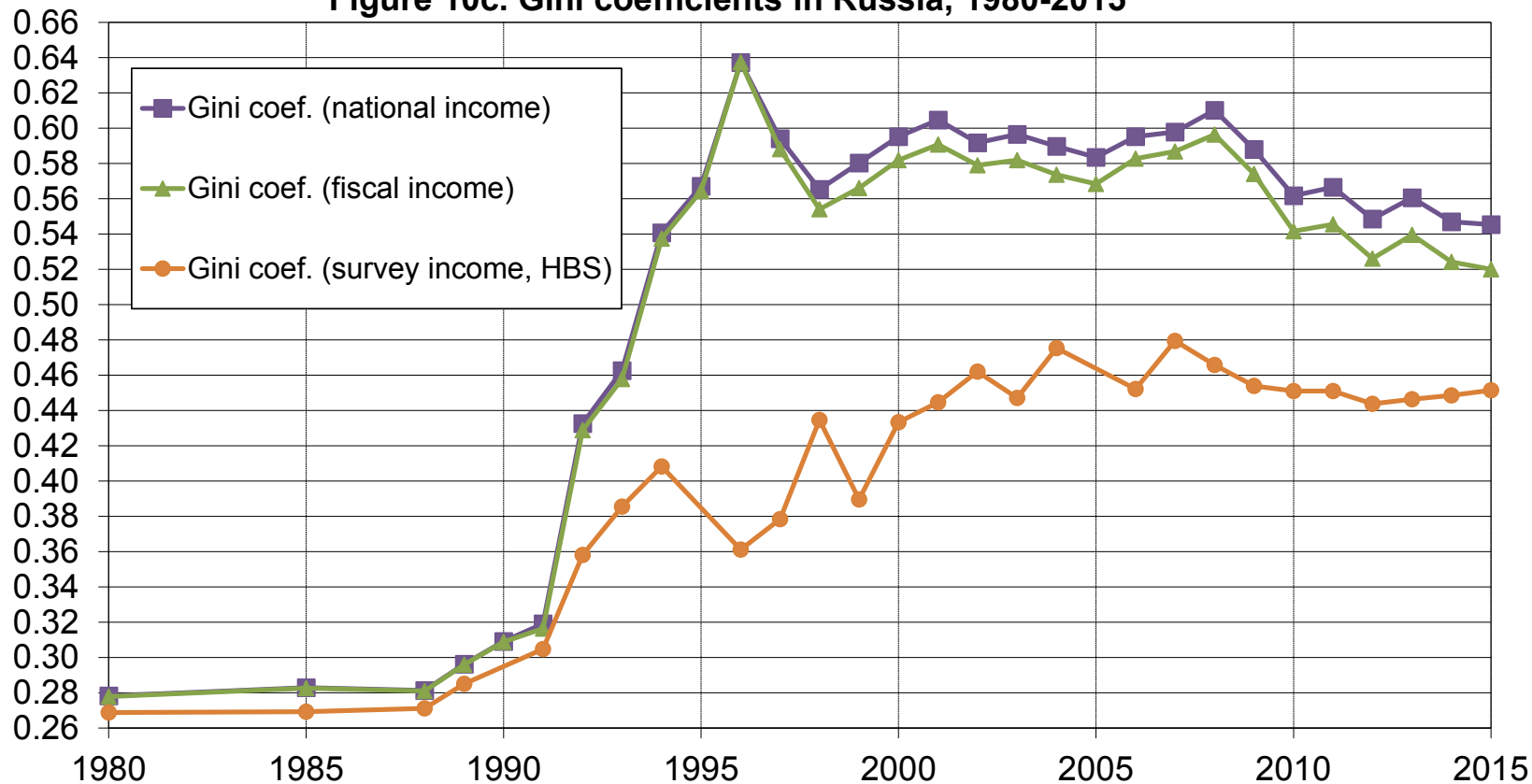


Poland: protecting the bottom 50%



Gini coefficient

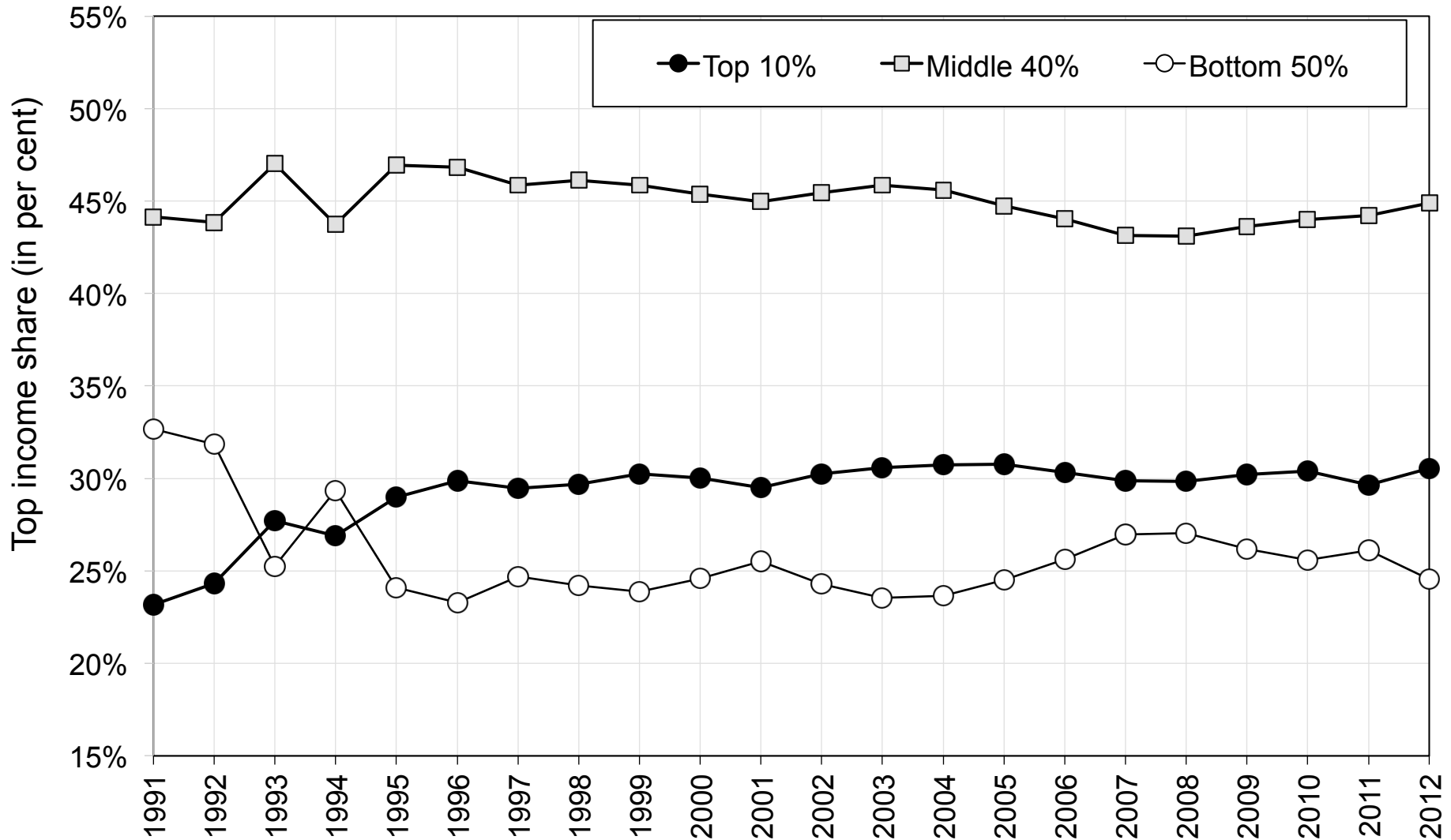
Figure 10c. Gini coefficients in Russia, 1980-2015



Distribution of income (before taxes and transfers, except pensions and unempl. insurance) among equals-split adults (income of married couples divided by two). Pretax national income estimates combine survey, fiscal, wealth and national accounts data. Fiscal income estimates combine survey and income tax data (but do not use wealth data to allocate tax-exempt capital income). Survey income series solely use self-reported survey data (HBS).

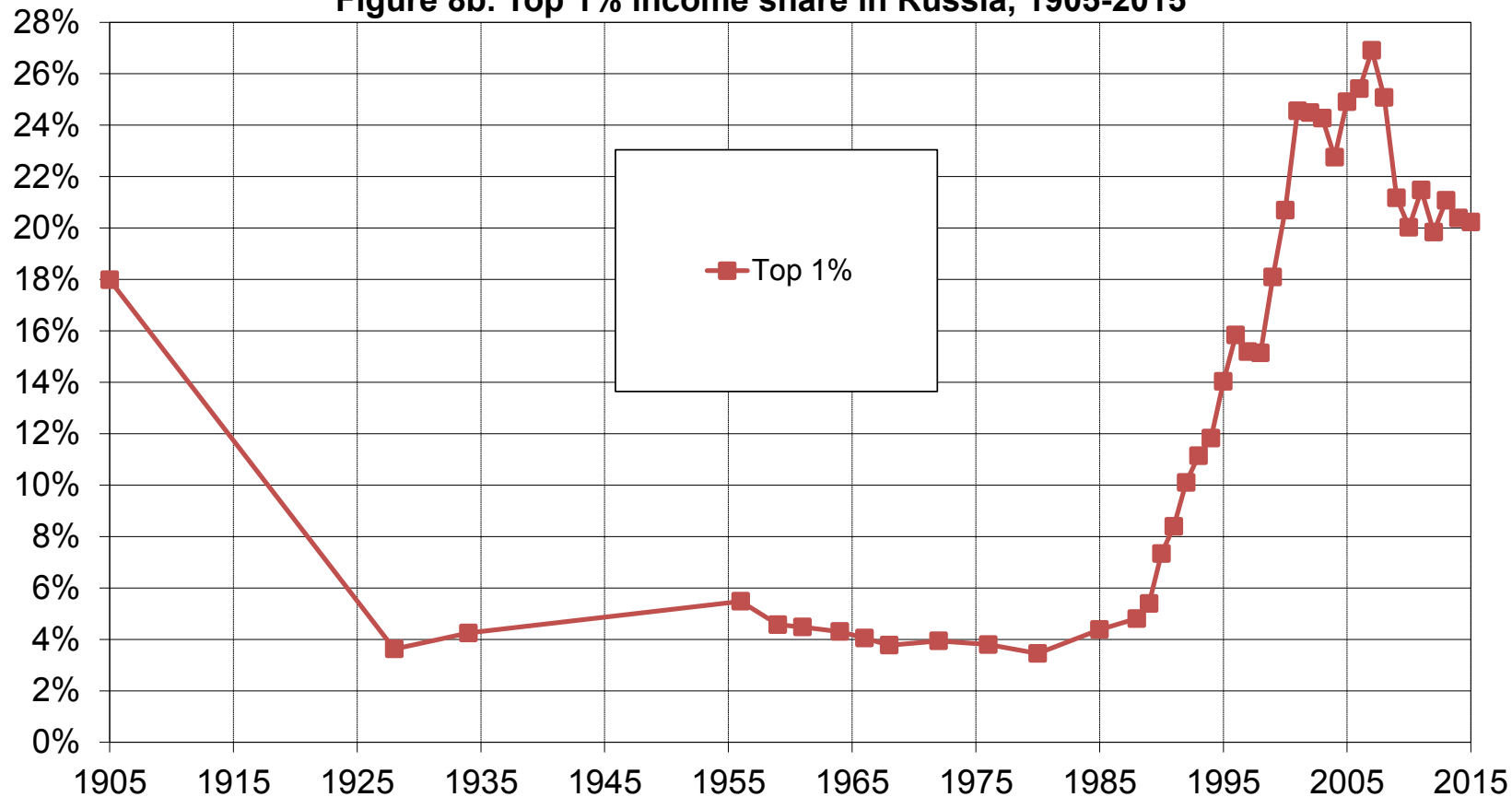
The 'gradualist'

Slovenia: a limited rise in inequality



Return to Tsarist inequality levels?

Figure 8b. Top 1% income share in Russia, 1905-2015



Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data. Equal-split-adults series (income of married couples divided by two).