

# Russia's Billionaires

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Very preliminary—please do not quote.

I thank Sergei Guriev for comments.

The recent surge in economic inequality in many parts of the world has focused attention on the super-wealthy. According to *Forbes* magazine, which tracks such things, the number of billionaires worldwide rose from 423 in 1996 to 1,826 in 2015. Their aggregate net worth increased from \$1 trillion to \$7.05 trillion, more than the combined GDP of Germany and the UK. Although this partly reflects inflation—\$1 bn in 1996 had the purchasing power of \$1.57 bn today—even adjusting for this, the growth of extreme wealth is remarkable. In constant 1996 dollars, the number of billionaires rose from 423 to 1,225, and their total wealth soared from \$1 trillion to \$4.48 trillion.

In Russia, high net worth individuals have attracted special interest since the 1990s, when a number of so-called “oligarchs” emerged amid the unruly transition from communism. In 1996, the *Financial Times* quoted one banker who claimed that he and six others controlled half the country’s economy (Freeland, Thornhill, and Gowers 1996). Such assertions were greatly inflated (Treisman 2011, pp.446-7). Still, the perception of an unusual concentration of wealth stuck.

Under President Putin, first elected in 2000, such magnates are thought to have lost much of their political influence, if not their property. Some leading businessmen of the 1990s were forced into exile or jailed. However, others prospered. Some observers have noted a gradual redistribution of assets from billionaires associated with President Yeltsin to others with security service backgrounds or personal connections to President Putin (Treisman 2008, Djankov 2015, p.3).

The goal of this paper is to glean what can be learned from the admittedly limited data available. How have the number and characteristics of Russia’s billionaires changed over the last 15 years? What are the sources of their wealth? Does Russia’s experience with billionaires resemble that of other countries, or is it distinctive to the postcommunist transition—or to Russia itself?

The main data used here come from the *Forbes* annual rankings of billionaires and their estimated net worth. These data have obvious weaknesses. They focus on large bloc holdings of shares and may miss diversified portfolios, not to mention wealth that is carefully concealed. *Forbes* explicitly excludes government officials from its accounting. Still, as Thomas Picketty has argued, these data have “the merit of existing,” and they have been found informative by authors of a number of previous studies (Picketty 2015, p.437; Bagchi and Svejnar 2015; Klass et al. 2006). For Russia, the *Forbes* data correspond reasonably accurately to another database on billionaires’ wealth compiled by the journal *Finans*.<sup>1</sup> What differences exist most likely reflect the sometimes volatile swings in asset values within a given year.

Several papers have studied Russia’s oligarchs, mostly focusing on the period before 2005. Guriev and Rachinsky (2005) identified 19 billionaires as of 2003 and examined their characteristics and economic role. Using these and other data, Guriev and Rachinsky (2008) showed that neglecting the super-wealthy leads to considerable underestimation of postcommunist wealth and income inequality. Guriev (2010) documented how various Russian magnates had diversified by 2008, acquiring assets unrelated to their initial holdings and investing abroad. Braguinsky (2009) examined the careers of 269 major businessmen, reporting a tendency for the first wave outsiders to merge with the financially successful remnants of the communist-era elite. He also noted a rise and fall in expropriations that peaked around the year 2000. I explore here how characteristics of Russia’s billionaires have changed since the period analyzed in these papers.

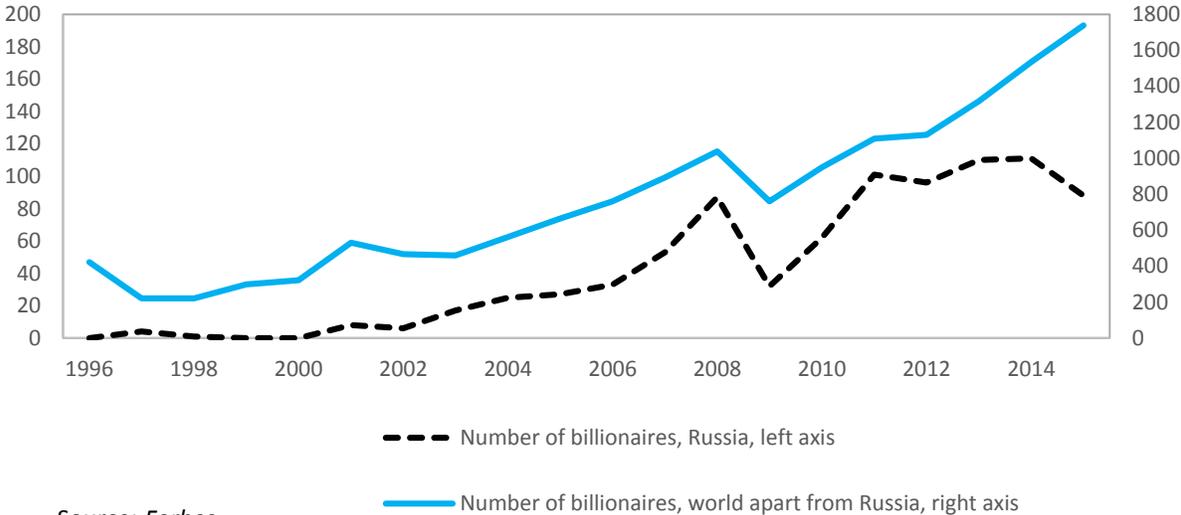
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<sup>1</sup> See <http://m2011.finansmag.ru/>.

# 1 How many billionaires?

The number of Russian billionaires in the *Forbes* list rose from zero in 1996 to 111 in 2014, before dropping back to 88 in 2015. The emergence of such concentrated wealth is often linked to Russia’s turbulent economic transition and the speed of privatization (Stiglitz 2003; Hay 2013, p.33). Yet, as Figure 1 shows, the trend in Russia quite closely follows that in the rest of the world. Averaging across all these years, the growth rate of billionaires in Russia was high—an increase of 4.6 per year—but not as high as that in the US—21.1 per year—or China—11.2 per year. Of course, idiosyncratic Russian factors might play some part, but the surge in mega-wealth was common to many countries, suggesting a more general cause.

Figure 1: Number of billionaires in Russia and the World, 1996-2015



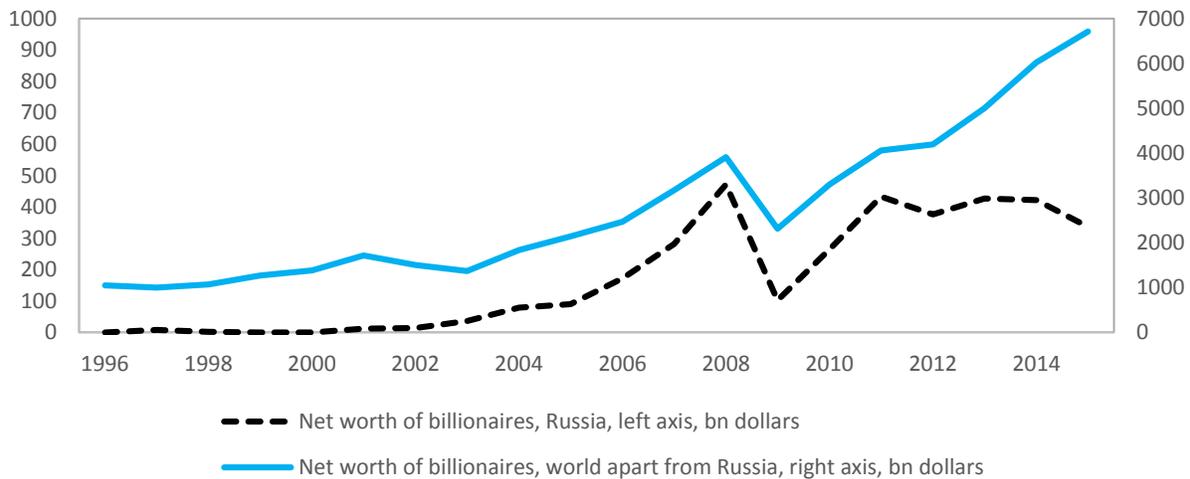
Source: *Forbes*.

Russia does diverge from the international trend in certain periods. During the dot-com bubble (1997-2001), when two thirds of the new billionaires minted worldwide were in the US, Russia saw almost no increase. By contrast, in 2006-08 Russia’s rate sped up relative to other countries (although it still lagged the US rate). Finally, in 2012-15 the rest of the world was

churning out billionaires at a rapid pace. But in Russia the number stagnated and then actually fell. The trends in the total wealth of billionaires in Russia and elsewhere tell a similar story (Figure 2).

In short, the creation of vast fortunes in Russia occurred not in the early 1990s period of market reform but long afterwards in the mid-2000s. And it followed a global trend that can have had little directly to do with Russia’s postcommunist experience.<sup>2</sup>

Figure 2: Net worth of billionaires in Russia and the World, 1996-2015



Source: *Forbes*.

Does Russia have more billionaires than one would expect based on its economic and other characteristics? To answer this, I examine the cross-section for the year 2008, the pre-crisis peak for both Russia and the world. What country characteristics might be relevant? Two are almost by definition. For just about any wealth distribution, shifting the mean upward will increase the share of people above a given threshold such as \$1 billion. So countries with higher average wealth or income are bound to have more billionaires. Similarly, for any wealth distribution with positive

<sup>2</sup> The parallel trends did not reflect inflation—conducting the analysis in constant dollars yields almost identical graphs.

mass above \$1 billion, the larger the population, the more individuals in that part of the distribution.

Other characteristics follow from ideas about the wealth-generating process. If fortunes are created by disproportionate returns to “superstars,” these returns should increase with the size of the market (Rosen 1981, pp.855-6). Domestic market size is already captured by income per capita and population (which, multiplied together, equal GDP). To proxy for longer access to world markets, I use the duration of membership in the GATT and WTO. If rising share values turn investors into billionaires, this will happen more often where stock markets are large and liquid. If the rich get richer through lending and compounding the interest, then countries with systematically higher real interest rates should contain more billionaires (Piketty 2015). Of course, accumulating wealth is harder in countries with high tax rates and where property rights are insecure (Neumayer 2004). To capture the latter, I use a measure of “rule of law” from the World Bank’s Governance Indicators. This is built from mostly subjective expert ratings and surveys, but since a *belief* that property is insecure will depress accumulation, subjective perceptions are relevant. Finally, some claim that the fortunes of oligarchs in Russia and elsewhere reflect the vast rents associated with natural resources or the opportunities created by privatization schemes. The World Bank has compiled comprehensive data on the latter, although unfortunately only for low and middle income countries.

Table 1 shows Poisson regressions of the number of billionaires in each country on these various factors (since the dependent variable is a count, Poisson rather than OLS regression is appropriate). The frequency of billionaires is most robustly associated with market size (high income, population, and stock market capitalization) and low top marginal income tax rates. Natural resource rents and rule of law are not statistically significant, while high real interest rates and more

**Table 1: Explaining the number of billionaires in 2008**

	<i>Dependent variable: Number of billionaires in 2008</i>			
	(1)	(2)	(3)	(4) <sup>a</sup>
Ln GDP per capita	1.08*** (0.14)	0.72*** (0.25)	0.74*** (0.23)	0.93*** (0.34)
Ln population	1.17*** (0.098)	0.81*** (0.21)	0.93*** (0.20)	0.88*** (0.32)
Years in GATT/WTO	0.006 (0.007)	0.007 (0.006)	0.004 (0.006)	0.006 (0.010)
Ln market capitalization		0.40** (0.17)	0.29* (0.17)	0.73*** (0.24)
Real (lending) interest rate <sup>1</sup>		-0.010 (0.00)	-0.009 (0.010)	-0.039*** (0.009)
Top marginal income tax rate <sup>2</sup>		-0.051*** (0.011)	-0.058*** (0.012)	-0.13*** (0.03)
Natural resource rents (% GDP)			-0.005 (0.011)	-0.011 (0.019)
Rule of law, 2008			0.20 (0.37)	0.52 (0.32)
Privatization proceeds, 1990-2008 (bn \$)				-0.005* (0.003)
<i>N</i>	197	131	131	85
<i>Pseudo-R</i> <sup>2</sup>	0.857	0.901	0.902	0.895
<i>Countries with largest underpredictions (number of billionaires in excess of model prediction)</i>				
	USA (112)	Russia (42)	Russia (50)	Lebanon (7)
	Russia (60)	Germany (25)	Germany (22)	Ukraine (4)
	India (26)	USA (23)	India (16)	Russia (3)
	Hong Kong (24)	India (21)	USA (16)	Egypt (2)
	Turkey (23)	Hong Kong (11)	Hong Kong (11)	Poland (2)

**Note:** Poisson regressions. Robust standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < .01$ . GDP per capita is in current dollars. <sup>1</sup> average for 1988-2007, available years; <sup>2</sup> average for 1990-2008, available years, center of range if a range of rates given. <sup>a</sup> data only available for low and middle income countries (World Bank classification).

**Sources:** World Bank (2015); World Bank Privatization Database; *Forbes* various years; Gwartney, Lawson and Norton (2008); various individual country sources on market capitalization and tax rates.

privatization over the previous two decades prove unexpectedly negative.<sup>3</sup>

Does Russia have an unusually large number of billionaires, controlling for these factors? The answer turns out to be: yes. Beneath each model in Table 1, I list the countries that have the largest excess of billionaires over the number predicted. Russia shows up—along with the US, Germany, India, and Hong Kong—in a club of countries that are particularly well endowed with billionaires. While most of the US excess is explained by the country’s large stock market and moderate top tax rates (the US gap falls from 112 to 23 billionaires in column 2), Russia still has 42 more billionaires than predicted even taking into account its tax rate and stock market size. And since rule of law and natural resource rents are not statistically significant while more privatization is associated with fewer—not more—billionaires (columns 3 and 4), Russia’s distinctiveness in these regards probably does not explain the excess. Results are generally similar—and Russia’s even more anomalous—if we focus instead on the net wealth of countries’ billionaires (Table A1).

Thus, although the rises and falls in Russia’s stock of billionaires follow the global pattern, by 2008 the number had surged to a level higher than one might have predicted. How did the country’s leading businessmen get so rich? The stereotype has it that Russia’s oligarchs are overwhelmingly concentrated in the oil sector. That was somewhat true of the first wave. The majority of the 27 billionaires as of 2005 had enriched themselves at least in part from oil, gas, coal, or oil refining (Table 2). Yet hydrocarbons were not the only path to wealth. Almost half had profited from Russia’s metals industries, and almost one third had accumulated their wealth at least partly in finance. By 2015, the economic profiles of Russia’s richest were far more diverse. Only 28

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<sup>3</sup> Note, however, that more privatization is associated with greater total net wealth of billionaires (Table A1). Results are similar to those in Table 1 if the dependent variable is the log of the number of billionaires, but the tax rate effect is weaker and Russia no longer tops the list of underpredictions.

percent owed their wealth to hydrocarbons and 20 percent to metals. The most common route to riches had become finance. And a range of other sectors—from real estate to trade and information technology—had also produced billionaires.

**Table 2. Percentage of Russian billionaires in the given year who made their wealth in the following sectors (some did so in several, so percentages do not add to 100)**

	2005	2015
Oil, oil refining, gas, coal	56	28
Metals	48	20
Banking, finance, insurance	30	32
Telecom, IT, software, internet	4	8
Construction	4	5
Real estate		19
Chemicals and fertilizer		13
Food and beverage production		7
Trade		6
Transport		3
Manufacturing		3
Casinos		1
<i>Memo: Number of billionaires</i>	27	88

**Source:** *Forbes* database.

## 2 Change over time

How volatile is wealth in Russia, a country famous for its insecure property rights? In 2003, *Forbes* listed 17 Russian citizens on its roster of billionaires.<sup>4</sup> Eleven of these remained on the list in 2015 (one had changed to US citizenship). Table 3 shows how the attrition rate for Russian billionaires compares to the rates for those of other nationalities. While in most countries—and in the world as a whole—the odds of remaining a billionaire to 2015 increase monotonically as that year

<sup>4</sup> All were associated with one or another of the 19 leading business groups identified for that year by Guriev and Rachinsky (2005).

approaches, this is not true for Russia. Russians who became billionaires before 2008 had a higher survival rate to 2015 than those who became billionaires later. Russia’s survival rate for pre-2008 billionaires exceeds that of the US and many other countries. This is surprising since the pre-2008 Russian group includes Yeltsin-era tycoons who were very publicly expropriated by the Putin administration. By contrast, the attrition rate for Russians who became billionaires since the global financial crisis has been much higher than those for other nationalities. Among Germans who became billionaires between 2011 and 2014, 97 percent were still billionaires in 2015. Among Russians, the corresponding figure was 43 percent.

**Table 3: Percentage of those becoming billionaires in the following periods who were still billionaires in 2015**

	All	USA	Germany	Japan	Brazil	Russia	Hong Kong
1996-2002	39	53	27	16	38	56	32
2003-2007	59	54	66	33	44	72	90
2008-2010	62	66	75	67	67	45	86
2011-2014	72	85	97	71	58	43	59

**Source:** calculated from *Forbes*, various years.

What pushed Russian billionaires below the \$1 billion threshold? Did this reflect harassment and expropriation by the state or the impact of market forces? The main reason for such declines changed dramatically between periods. Of the nine who lost their billions between 2000 and 2005, all nine were expropriated by the state, by means of legal threats or prosecutions. Six were shareholders in Yukos and three were shareholders in Gazprom. The period since 2005 looks quite different. Among the 63 Russians who lost billionaire status between 2006 and 2015, I could find evidence of significant state pressure in only two cases. The most plausible is that of Alexander Lebedev, whose National Reserve Bank endured repeated raids by investigators—in his view, as punishment for his support for opposition media and public allegations of official corruption

(Belton 2012). In the other case, a state bank took over that of the billionaire Andrei Borodin, arguably in a rescue to protect the depositors. Many other billionaires may have lost money because of state harassment—for instance, Vladimir Yevtushenkov’s wealth fell from \$9 billion in 2014 to \$2.8 billion in 2015 after he was pressured into selling his stake in Bashneft to the state oil company Rosneft—but such cases seem rarely to have reduced the victim to the ranks of former billionaires.<sup>5</sup>

The other 61 that fell off the list appear mostly to be victims of the global financial crisis and other market phenomena. No one dropped below \$1 billion in 2007 or 2008, but then 14 did so in 2009. In 2015, following a huge plunge in the oil price and exchange rate, a record 28 Russians lost billionaire status. A few suffered because of Russia’s military intervention in Ukraine, whether because they owned Ukrainian assets (Viktor Nusenkis, Andrei Klyamko), or were sanctioned by the West (Arkady Rotenberg, Yuri Kovalchuk), or made money by importing European food, which President Putin banned in response to the sanctions (Dmitry Korzhev, Dmitry Troitsky).

Russia is widely thought to have created its billionaires when it privatized in the 1990s (Stiglitz 2003). This was true of the first wave, and remains true of many of the largest fortunes today. However, of the 88 Russian billionaires as of 2015, only 34 derived their wealth from major Russian privatization deals of the 1990s, and only eight had anything to do with the notorious “loans-for-shares” deals of 1995-6. The vast majority earned their billions consolidating and restructuring companies acquired *after* privatization, building retail or real estate empires, or

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<sup>5</sup> The decline in the wealth of the notorious oligarch Boris Berezovsky below \$1 billion in 2009 cannot be classified as a case of political pressure since his fortune only rose above the \$1 billion mark for the first time in 2007, according to *Forbes*, long after he had been pressured to sell his Russian assets and leave the country.

investing in other sectors. Two thirds of today's billionaires first entered the list after 2006. And of these relative newcomers, only 14—less than one quarter—owed their wealth to Russia's 1990s privatization deals.

### 3 Conclusion

In the mid-2000s, the world witnessed an unprecedented, global surge in the number of billionaires. The number tripled between 2000 and 2010, and almost doubled again by 2015. Although the reasons for this are not entirely clear, it suggests that global forces, rather than any particular details of Russia's 1990s transition from communism, probably explain why the country today has such a large contingent of the extremely wealthy. Russia's crop of billionaires grew in parallel to the numbers worldwide, and in the mid-2000s rather than the 1990s. That said, this increase did leave Russia with more extremely wealthy individuals than the country's market size, tax rate, and other factors would predict.

The image of Russia's oligarchs as almost entirely beneficiaries of the oil and gas sector appears a little dated. While the first wave of billionaires was concentrated in hydrocarbons, metals, and banking, the profiles of Russia's current billionaires are more diverse, with considerable subsets in real estate, trade, chemicals, and telecom. The leading threat to billionaire status in Russia also appears to have changed. While in the early 2000s, it was political pressure—and only political pressure—that drove tycoons down to their last billion, in the period since 2005, such relative impoverishment has occurred almost entirely as a result of market forces—themselves, of course, influenced by the Kremlin's economic and international policies.

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**Table A1: The total net worth of billionaires in 2008**

	<i>Dependent variable: Ln total net worth of billionaires in 2008</i>			
	(1)	(2)	(3)	(4) <sup>a</sup>
Ln GDP per capita	0.56*** (0.05)	0.23** (0.10)	0.19 (0.12)	0.099 (0.13)
Ln population	0.42*** (0.05)	0.27*** (0.09)	0.30*** (0.10)	0.15 (0.096)
Years in GATT/WTO	0.009** (0.004)	0.003 (0.005)	0.003 (0.004)	0.014*** (0.0049)
Ln market capitalization		0.46*** (0.077)	0.44*** (0.081)	0.41*** (0.093)
Real (lending) interest rate <sup>1</sup>		0.006 (0.007)	0.006 (0.006)	-0.0049 (0.0064)
Top marginal income tax rate <sup>2</sup>		-0.006 (0.007)	-0.008 (0.007)	-0.020** (0.0096)
Natural resource rents (% GDP)			-0.002 (0.005)	0.0077 (0.0064)
Rule of law, 2008			0.12 (0.18)	-0.028 (0.20)
Privatization proceeds, 1990-2008 (bn \$)				0.011* (0.0060)
<i>N</i>	197	131	131	85
<i>R</i> <sup>2</sup>	0.578	0.748	0.750	0.715
<i>Countries with largest positive residuals (residuals in parentheses)</i>				
	Russia (3.3)	Russia (2.5)	Russia (2.6)	Russia (2.2)
	India (3.2)	India (1.9)	Lebanon (1.8)	India (2.2)
	USA (3.2)	Lebanon (1.8)	India (1.8)	Lebanon (2.1)
	Hong Kong (2.9)	Cyprus (1.7)	Cyprus (1.7)	Ukraine (1.5)
	Tuvalu (2.2)	Sweden (1.7)	Ukraine (1.7)	Ukraine (1.5)

**Note:** OLS regressions. Robust standard errors in parentheses. \*  $p < 0.05$ , \*\*  $p < 0.01$ . GDP per capita in current dollars. <sup>1</sup> average for 1988-2007, available years; <sup>2</sup> average for 1990-2008, available years, center of range if a range of rates given.

**Sources:** World Bank (2015); *Forbes* various years; Gwartney, Lawson and Norton (2008); various individual country sources on market capitalization and tax rates.