

Russia's Billionaires[†]

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Surging 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 United Kingdom. Although this partly reflects inflation—\$1 billion in 1996 had the purchasing power of \$1.57 billion today—even adjusting for this, the growth of extreme wealth is remarkable. In constant 1996 dollars, the number of billionaires almost tripled, and their total wealth more than quadrupled.

In Russia, high net worth individuals have attracted special interest since the 1990s, when a number of so-called “oligarchs” emerged amid the transition from communism. In 1996, the *Financial Times* quoted one banker’s claim that he and six others controlled half the country’s economy (Freeland, Thornhill, and Gowers 1996). Such assertions were inflated (Treisman 2011). 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. 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).

The goal of this paper is to glean what can be learned from the limited data available. How

have the number and characteristics of Russia’s billionaires changed over the last 15 years? How did they get rich? 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 I use 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 (which could be a particular problem in Russia and some of its peers). Still, as Thomas Piketty has argued, these data have “the merit of existing,” and authors of a number of previous studies have found them informative (Piketty 2014, p. 437; Bagchi and Svejnar 2015; Klass et al. 2006). For Russia, *Forbes*’ numbers correspond reasonably well to another database on billionaires’ wealth compiled by the journal *Finans* (see <http://m2011.finansmag.ru/>). 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. Guriev and Rachinsky (2008) showed that neglecting the super-rich entails serious underestimation of postcommunist inequality. Guriev (2010) documented how various Russian magnates had diversified by 2008, acquiring unrelated assets and investing abroad. Braguinsky (2009), examining the careers of 269 major businessmen, noted a tendency for first wave outsiders to merge with well-off remnants of the communist-era elite. He also observed a rise and fall in expropriations that peaked around the year 2000. I explore here how Russia’s billionaires have changed since the period analyzed in these papers and how its richest businessmen compare to those of other countries.

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I. How Many Billionaires?

The number of Russian citizens on the *Forbes* list rose from zero in 1996 to 111 in 2014, before dropping to 88 in 2015. This surge in mega-wealth is often linked to Russia's turbulent economic transition and the speed of privatization (Stiglitz 2002; Hay 2013). Yet, as Figure 1 shows, Russia's trend quite closely matches that in the rest of the world. Averaging across all these years, the growth of billionaires in Russia was fast (4.6 per year) but not as fast as in the United States (21.1 per year) or China (11.2 per year). Of course, idiosyncratic Russian factors may play some part, but the billionaire boom was common to many countries, suggesting a more general cause.

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 United States, Russia saw almost no increase. By contrast, in 2006–2008 Russia's rate sped up relative to other countries (although it still lagged the US rate). Finally, in 2012–2015 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).¹

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 had little directly to do with Russia's postcommunist experience.²

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 precrisis peak for both Russia and the world. What country characteristics might be relevant? Two are germane almost by definition. For almost any wealth distribution, shifting the mean upward

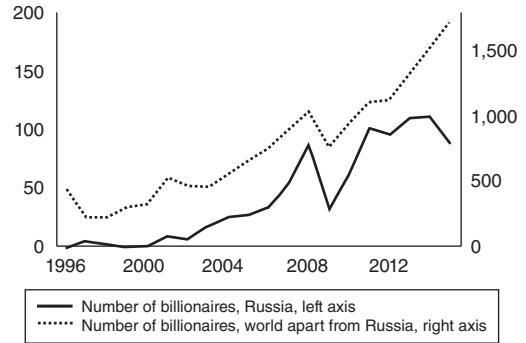


FIGURE 1. NUMBER OF BILLIONAIRES IN RUSSIA AND THE WORLD, 1996–2015

Source: *Forbes*

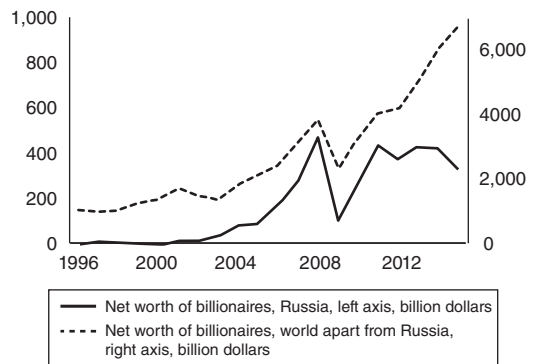


FIGURE 2. NET WORTH OF BILLIONAIRES IN RUSSIA AND THE WORLD, 1996–2015

Source: *Forbes*

will increase the share of people above a given threshold such as \$1 billion. So countries with higher average wealth or income are likely to have more billionaires. Similarly, for any wealth distribution with positive 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 “super-stars,” these returns should increase with the size of the market (Rosen 1981). Domestic market size is already captured by income per capita and population. To proxy for longer access to world markets, I use the duration of membership in the GATT and WTO. If rising share prices turn investors into billionaires, this will occur more often where stock markets are large and liquid,

¹I classify by citizenship, so the trends are not affected by changes of residence. Changes in citizenship are rarer—I found 37 cases between 1996 and 2015. Of these, four represented Russian billionaires who changed to German, Georgian, Ukrainian, and US citizenship. The trend would look almost identical excluding them.

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

so market capitalization may also matter. If the rich get richer through lending and compounding the interest, then countries with consistently higher real interest rates should have more billionaires (Piketty 2014). 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 aggregates 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.

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 privatization over the previous two decades prove unexpectedly negative.³

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 features—along with the United States, 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 in column 2), even taking account of these factors Russia still has 42 more billionaires than predicted. And since rule of law and 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 on the net wealth of countries’ billionaires (online Appendix Table A1).

Thus, although the rises and falls in Russia’s stock of billionaires follow the global trend, by 2008 the number was higher than could easily be explained. How did the country’s leading businessmen get so rich? According to the stereotype, Russia’s oligarchs are overwhelmingly concentrated in oil. That was somewhat true of the first wave. Most 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 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.

Russia is widely thought to have created its billionaires when it privatized in the 1990s (Stiglitz 2002). Again, this was true of the first wave, and it remains true of many of the largest fortunes today. However, of the 88 Russian billionaires in 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 1995–1996. Most earned their billions consolidating and restructuring companies acquired *after* privatization, building retail or real estate empires, or investing in other sectors. Russia’s catastrophic 1998 financial crisis enabled those who had amassed cash in trade or banking to buy enterprises whose depressed prices owed nothing to corrupt deals. In trade, construction, and real estate, there were few large enterprises to privatize. Two-thirds of today’s billionaires first entered the list after 2006. And of these relative newcomers, less than a quarter derived their wealth from 1990s privatization.

II. Volatility of Wealth

How volatile is billionaire status in Russia, a country famous for its insecure property rights? In 2003, 17 Russian citizens appeared

³Note, however, that more privatization is associated with greater total net wealth of billionaires (Table A1 in the online Appendix). Results are similar using the log of the number of billionaires, but the tax rate effect is weaker and Russia no longer tops the list of under-predictions.

TABLE 1—EXPLAINING THE NUMBER OF BILLIONAIRES IN 2008

	(1)	(2)	(3)	(4)
ln GDP per capita	1.08*** (0.14)	0.72*** (0.25)	0.74*** (0.23)	0.96*** (0.24)
ln population	1.17*** (0.098)	0.81*** (0.21)	0.93*** (0.20)	1.15*** (0.29)
Years in GATT/WTO	0.006 (0.007)	0.007 (0.006)	0.004 (0.006)	0.000 (0.004)
ln market capitalization		0.40** (0.17)	0.29* (0.17)	0.11 (0.24)
Real (lending) interest rate ^a		−0.010 (0.00)	−0.009 (0.010)	−0.007 (0.009)
Top marginal income tax rate ^b		−0.051*** (0.011)	−0.058*** (0.012)	−0.060*** (0.015)
Natural resource rents (percent GDP)			−0.005 (0.011)	0.013 (0.013)
Rule of law, 2008			0.20 (0.37)	0.34 (0.28)
Privatization proceeds, 1990–2008 (billion dollars)				−0.002* (0.001)
Observations	197	131	131	113
Pseudo- R^2	0.857	0.901	0.902	0.928
Countries with the largest under-predictions (number of billionaires in excess of model prediction):				
	USA (112)	Russia (42)	Russia (50)	Russia (33)
	Russia (60)	Germany (25)	Germany (22)	Germany (26)
	India (26)	USA (23)	India (16)	India (19)
	Hong Kong (24)	India (21)	USA (16)	Sweden (8)
	Turkey (23)	Hong Kong (11)	Hong Kong (11)	Lebanon (7)

Notes: Poisson regressions. Robust standard errors in parentheses. Dependent variable is number of billionaires.

^a Average for 1988–2007, available years.

^b Average for 1990–2008, available years, center of range if range of rates given.

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Sources: World Bank (2015); World Bank Privatization Database; Privatization Barometer; OECD (2000, 2009); Boardman and Vining (2012); *Forbes* various years; Gwartney, Lawson, and Norton (2008); various individual country sources on market capitalization and tax rates

on *Forbes'* roster.⁴ Eleven of these remained in 2015 (one had changed to US citizenship). Table 3 compares the attrition rates for Russian billionaires and those of other countries. While in most places—and worldwide—the odds of remaining a billionaire to 2015 rise monotonically as the year approaches, this is not true for Russia. Russians who became billionaires before 2008 had a higher survival rate

to 2015 than those who did so later. Russia's pre-2008 billionaires were more likely to last than those of the United States and many other countries. This is surprising since the pre-2008 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 is 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.

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

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
Memo: Number of billionaires	27	88

Source: *Forbes* database

What pushed Russian billionaires below the \$1 billion threshold? Did this reflect harassment and expropriation by the state? The logic changed dramatically between periods. Of the nine who lost their billions in 2000–2005, all nine were expropriated by the government by means of legal threats or prosecutions. Six were shareholders in Yukos and three were shareholders in Gazprom. The period since 2005 looks different. Among the 63 Russians who lost billionaire status in 2006–2015, I found evidence of significant state pressure in only two cases. The most plausible is that of Alexander Lebedev, whose National Reserve Bank was repeatedly raided by investigators—in his view, to punish his support of opposition media and allegations of corruption (Belton 2012). In the other case, a state bank took over that of the billionaire Andrei Borodin, arguably to protect depositors. Many others 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—yet such cases seem rarely to have reduced the victim to the ranks of former billionaires.⁵

⁵The fall in wealth of the notorious oligarch Boris Berезovsky below \$1 billion in 2009 cannot be seen as a case of political pressure since his fortune first exceeded \$1 billion in 2007, according to *Forbes*, long after he had been pressured to sell his Russian assets and emigrate.

The other 61 that fell off the list may have succumbed either to unscrupulous rivals or to tough market conditions. Many appear to be victims of the global financial crisis. No one dropped below \$1 billion in 2007 or 2008, but 14 did so in 2009. In 2015, following a huge plunge in the oil price and ruble, 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 and Andrei Klyamko), or were sanctioned by the West (Arkady Rotenberg and Yuri Kovalchuk), or made money by importing European food, which President Putin banned in response to the sanctions (Dmitry Kozhev and Dmitry Troitsky).

III. Conclusion

In the mid-2000s, the world witnessed an unprecedented surge in the number of billionaires. The best data we have suggest the number worldwide 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, more than any particular details of Russia's 1990s transition, explain why the country today has so many super-wealthy citizens. Russia's billionaire boom paralleled the global trend—and occurred in the mid-2000s rather than the 1990s. That said, it did leave Russia with more billionaires 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 seems somewhat dated. While the first wave was concentrated in hydrocarbons, metals, and banking, Russia's current billionaires are more diverse, with subsets in real estate, trade, chemicals, and telecom. The leading threat to billionaire status in Russia also changed over time. While in the early 2000s, it was political pressure—and only political pressure—that reduced tycoons to their last billion, since 2005 few of those who fell off the list can blame state harassment. The unusually large drops during the global financial crisis suggest market forces may have played a role. (Of course, that is not to say that competition in Russia has been open and fair.)

The data studied here have noted limitations. They do not permit an examination of the

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.

extent to which Russia's billionaires have created wealth or merely extracted rents. Although some—such as the software entrepreneur Evgeny Kaspersky—did the former, more probably did the latter. Nor do the data provide much insight into the tycoons' political influence. Still, they offer a narrow but useful glimpse into the emerging patterns of wealth in Russia since the recovery from its postcommunist depression.

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