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Analysis: Wealth Gap Hits Individuals and Candidates

By The Moscow Times

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The contrast between rich and poor may be more striking in Moscow than other cities, but is visible nationwide. **Vladimir Filonov**

Konstantin owns apartments in Moscow and London, drives a $150,000 Mercedes-Benz car and buys his groceries at the expensive Azbuka Vkusa store.

At the age of 44 he is part of Russia's new generation of rich bankers, but is too cautious to let his full name be published in a country where the wealth gap generates anger and resentment.

Pensioner Lyudmila Rybakova can only dream of such a lifestyle. She has never even been to Azbuka Vkusa and makes ends meet by selling strings of dried mushrooms to supplement her 8,000 ruble ($250) monthly pension.

"With my pension? What would I buy there? It's not for people like me. It's for the rich, it's just for the rich."

The gap between rich and poor in Russia is a growing problem for Prime Minister Vladimir Putin as he prepares to return to the presidency in an election next March.

During his 12-year rule, as president and then prime minister, Russians have broadly speaking become wealthier than they were in the chaotic years following the collapse of the Soviet Union. But the citizen of Putin's Russia can easily lose even a modest sense of well-being when confronted with the sometimes flamboyant ostentation of the rich.

In Soviet times privilege was often a well-guarded secret.

Many people cited the wealth gap in ditching Putin's ruling party in Dec. 4 elections that cut its majority in parliament.

The elections also touched off protests by demonstrators who say the vote was slanted to favor United Russia and demand new elections.

If a gap has widened between individuals, it is also evident between Russia's many poor regions and wealthy cities like Moscow and the booming oil heartland.

Real disposable income slightly declined in 2011, official data show, and the difference in income between the bottom 10 percent of the population and the top 10 percent grew by nearly one-fifth between 2000 and 2010.

As in other former Soviet republics, pensioners are among the worst off because they were too old to make the most of the opportunities offered by the free market that followed the collapse of the Soviet Union in 1991.

Moscow is home to 2.65 million retired people and some elderly people have taken part in the recent protests, although many more are young middle-class professionals.

The Organization for Economic Cooperation and Development said in a report this month that the so-called Gini coefficient, a measure of income disparities, was much worse in Russia than the OECD average.

The number of Russians who made the Forbes list of the world's billionaires jumped from none in 2000 to 101 last year, with Moscow becoming the billionaire capital of the world.

The average monthly salary in Russia, however, was only 21,000 rubles ($670) in 2010.

"What can I do with 21,000 rubles? Nothing, absolutely nothing — it's not money," said Konstantin, who made his wealth during the turbulent 1990s. "It's not enough to breathe!"

He said he could not imagine getting by on less than 150,000 to 200,000 rubles a month.

"It would be very difficult to do it," he said.

He described his standard of living as "not too bad" and said he did not remember the last time he spent under 200,000 rubles in a month. He has not taken part in the protests.

Russia qualifies as a middle-income country as a whole, but the average pay in three-quarters of more than 80 regions is below the national level.

An average monthly wage would buy about 200 loaves of bread in the Azbuka Vkusa store, and 2,000 loaves at one of the many outdoor food markets around Moscow.

Rybakova, who for decades worked at a local pencil factory, has never made 21,000 rubles in a month. Now 74, she charges 100 rubles for a string of her mushrooms and considers it a good day if she makes 500 rubles.

"Well, such is the fate of people like me," she said.

A high-ranking government official who declined to be identified said: "Putin is not losing his power, but he realizes he is losing the people."

Putin, a former KGB officer, is widely expected to win the March 2012 presidential election, even though the announcement last September that he planned to swap jobs with President Dmitry Medvedev without consulting voters upset many Russians.

He still appears to have more support in the countryside, where disparities are probably less manifest, than in big cities such as Moscow and St. Petersburg where bright lights and luxury boutiques contrast with grim suburban tower block developments.

"It is obvious that people are very unhappy with the display of wealth they see around them and with the lack of progress to ensure their lives are better.

"With [Putin's] ratings sliding, it will be very difficult for him to assure people that he can still raise their living standards."

Despite this, economists at Renaissance Capital investment bank in Moscow say that income inequality in Russia is adequate for gross-domestic-product-per-capita levels.

"Considering its wealth, the level of income inequality is far from excessive," said Ivan Tchakarov, a Renaissance Capital economist.

"In the BRIC universe (of emerging countries Brazil, Russia, India and China), Russia is only marginally more income-unequal than China and India, but far better placed than Brazil."

China, however, with a population nearly 10 times that of Russia, had only 14 more billionaires last year, according to Forbes.

"The Putin system sees to it that his friends and those close to natural resources get richer," wrote Boris Nemtsov, a liberal former cabinet minister before Putin's rise to power who is one of the 59-year-old leader's fiercest critics.

The poverty rate in Russia stood at 13.1 percent in 2010, according to the World Bank, affecting about 18.6 million people.

"Social assistance is poorly targeted. ... Privileges generally do not reach the poor well, and hence achieve little in terms of poverty reduction," the World Bank said in a report.

Vinogradov said the outlook remained bleak.

"For now, I don't see any government strategy whatsoever on how to raise [living

standards]," he said.

John Roemer, a Yale University political science professor, has said switching from Russia's flat 13 percent rate of income tax to a progressive tax system would raise living standards for the population as a whole.

"There should be much more taxation and redistribution in the public services and to public goods, which will increase the welfare of the people at the bottom," he told a conference discussing efforts to draw up a long-term development plan for Russia, on Putin's orders.

Konstantin, who declined to say how much money he has but is described by friends as "a lower-tier oligarch," said Russia needed to develop a proper and bigger middle class to develop.

The Center for Strategic Research defines the middle class as people whose income is large enough to buy housing using a mortgage. It puts the per capita monthly income needed to afford a mortgage at 25,000 rubles.

"The middle class helps with better distribution of wealth: It creates competition, it creates better services," Konstantin said.

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