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Why Russia Has Trouble Attracting Investors

By Alexei Bayer

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Recently, Moscow Times columnist Yulia Latynina showed how differently the wealthy in the U.S. and Russia use their fortunes. She listed a dozen U.S. robber barons, captains of industry and financiers who founded major universities, libraries and museums. Meanwhile, in Russia, where the number of billionaires is now second only to that of the U.S., the wealthiest mainly buy soccer clubs.

Actually, Latynina's list of U.S. philanthropists doesn't begin to scratch the surface. Ever since pastor John Harvard almost 400 years ago donated money to found America's oldest university, America's educational, cultural and medical establishments have depended on private money. Every college campus, museum and hospital has buildings and rooms named after donors, each representing millions in philanthropic contributions.

Of course, all these activities are completely voluntary, encouraged only by relatively minor tax incentives from the government. It can safely be said that without this deep sense of civic

responsibility on the part of its wealthy citizens, America would never have achieved such greatness.

Whether or not the emergence of the new super-rich class in America over the past 20 years has been good for the country, it has been a veritable bonanza for philanthropy. After the re-election of President Barack Obama in November, many conservatives and some rich people spoke darkly of emigrating, perhaps in the same way actor Gerard Depardieu did to escape from high taxes in France by requesting a Russian passport. But their philanthropy, which has continued unabated during the Obama years, speaks louder than their words. They remain deeply committed to America's future.

Meanwhile, Russian oligarchs are more likely to speak pompously about Mother Russia, but their actions — where they keep their capital, purchase assets and send their children — indicate that they don't see much future in their native country. Even the majority of soccer clubs listed by Latynina are foreign.

Then, there is another aspect. In the United States, wealth tends to be accumulated by people who create or build something. Before World War II, it was railroads, steel mills, engineering concerns and companies based on new ideas. More recently it's been startups in high tech and service industries. American entrepreneurs are energetic, highly organized and innovative, not the spoiled do-nothings of Communist-era caricatures. Naturally, when they give away their fortunes, they want their money to build something tangible, lasting and of real value.

Russia, on the other hand, is an economy built mainly on its natural wealth and geared toward consumption. Few new ideas have come out of Russia, and no global companies have emerged outside the resource sector since the Soviet collapse. Russia's is a user economy rather than a producer one.

Thus, Russian oligarchs buy expensive toys, including soccer clubs. But even the most successful of them, billionaire Roman Abramovich's Chelsea, say some fans, is a collection of top-dollar stars coming and going at a breakneck pace and not a serious club built to win year after year.

This basic reality was on display at the recent gathering of global political and business leaders in Davos, Switzerland. The high-level Russian delegations came back satisfied with the willingness shown by Western companies to invest in Russia. But those companies only want to benefit from consumer demand in Russia, spurred by its current oil wealth. Their investment is minimal and rarely for the long term. It's understandable: Why should they risk their capital in a country that produces little of what the rest of the world wants and whose own wealthy elites would rather live elsewhere?

Alexei Bayer, a native Muscovite, is a New York-based economist.

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