

Russia's Offshore Bandits: Hypocrisy Laid Bare by Panama Revelations

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It's been a big month for news about links between Kremlin insiders and the West.

First came the U.S. announcement that Mikhail Lesin, architect of Russia Today, now RT, and former head of Gazprom Media, had died in Washington from blunt force injuries to the head.

Then came the Sunday Times' revelation that Andrei Yakunin, son of anti-Western ideologue

and former-Russian Railways head Vladimir, had another London mansion, far larger than the one we already knew about. While Vladimir Yakunin was parading the belt of the Virgin Mary around Russia, and instructing Russians to avoid contact with the West, his own son was quietly taking British citizenship and his grandson was attending an elite British private school.

Finally, of course came the Panama Papers, with their revelations about the corporate structures controlled by Dmitry Peskov's wife, Nikolai Patrushev's nephew and, of course, the godfather of Vladimir Putin's daughter. While ordinary Russians were being instructed to tighten their belts in the ideological battle with the West, their rulers were employing Mossack Fonseca to infiltrate their money into enemy territory.

It is of course not a secret that Kremlin insiders run Russia for their own enrichment, but this barrage of revelations provides extraordinary levels of detail, and lays bare the nature of how Russia is governed in ways we have not seen before.

In his final book, "Power And Prosperity," the American anthropologist Mancur Olson described "roving bandits" and "stationary bandits." According to his theory, once upon a time, people simply stole from each other, and moved on. Then, some visionary realized there was more money to be made staying put and taxing people, thus creating the idea of government and, eventually, civilization. Stationary bandits become part of the communities they ruled. They enforced security, so as to maximize their earnings. That created the rule of law and, eventually, stopped them being bandits at all.

It is a neat and useful theory, but it falls down when confronted with the phenomenon of offshore finance. If bandits can steal as much as they like, use tax havens to hide the origin of that money, then spend it somewhere else entirely, they are something new and unprecedented: "offshore bandits," perhaps. Offshore bandits combine features from both of Olson's categories — their money is "roving," while they themselves are "stationary" — without the beneficial side effects of either. They can continue taking money indefinitely, without feeling any need to improve the society they are living in. For a bandit, it's the best of both worlds; for a society, it's the worst.

For a sign of what this means in practice, take a look at last year's Credit Suisse Global Wealth Report. According to the bank's survey, in the 15 years of Putin's tenure of Russia, the middle class (assessed as those owning \$18,000–180,000, and making up 4.1 percent of the population) gained \$137 billion in assets. That doesn't seem too bad, until you notice that those above the middle class — just 0.5 percent of the population — gained an astonishing \$687 billion over the same period.

"The top decile of wealth-holders owns 87 percent of all household wealth in Russia. This is significantly higher than any other major economic power," the report states.

Unprecedented inequality is the effect of offshore bandits in action. When people can enjoy all the benefits of power, without the responsibility that comes with it, it's hardly surprising they take the opportunity to get really, really rich.

Of course, this also requires unprecedented degrees of hypocrisy, to obscure the realities of what is going on. That then leads to people like Lesin, who ran an anti-Western propaganda

machine while investing in Beverly Hills; or people like Yakunin, who cautioned against contact with the West for everyone but his own children; or people like Patrushev, who chaired Russia's Security Council, while his nephew had a corporate vehicle in the British Virgin Islands.

It is customary at this point to state that there is nothing illegal in any of this, and of course there isn't (necessarily). But offshore bandits are a very long way from the dictatorship of the law that Russia was promised a decade and a half ago. And pointing this out is not Putinophobia.

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