

Russia, the Inequality Champion (Op-ed)

Nowhere else in the developed world are incomes so unevenly skewed in favour of the richest.

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Mikhail Metzel / AP

Russia has a shockingly high level of inequality. And that inequality has only deepened in recent years, as the devaluation of the ruble and Russia's growing isolation hit the middle class hardest.

Nowhere else in the developed world is wealth so unevenly distributed – and it has dangerous implications for Russia's political future.

According to a recent report by the Credit Suisse Research Institute, one percent of the population in Russia holds 75 percent of the country's wealth. That puts Russia in first place for inequality among the 38 countries that hold majority of the world's wealth.

Wealth is usually measured as a household's financial and non-financial assets, minus its debts. By this measure, Credit Suisse found that the wealth of the average Russian equals \$10,344, and that the wealth of the country as a whole totals \$1.1 trillion. In terms of aggregate wealth, Russia is on a par with Hong Kong, Mexico, Norway, Turkey, and Singapore. However, those countries have smaller populations, and so the average Turk or Mexican is actually twice as wealthy as the average Russian. The average Singaporean and the average Norwegian are 27 and 30 times wealthier, respectively.

Growth in a country's gross domestic product does not directly increase the average wealth of its citizens. As a result, Norwegians are 2.3 times wealthier than their annual per capita GDP and Singaporeans are 4.1 times wealthier. The citizens of Turkey and Mexico enjoy wealth on par with their countries' respective per capita GDPs. The wealth of the average Russian, however, is 2.4 times lower than his or her per capita annual GDP.

Such a ratio is typical of poor countries. In more developed countries, accumulated wealth for each adult, on average, exceeds per capita GDP by 2.5 times.

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The Boston Consulting Group has also found that Russia is not very effective at converting economic growth into increased prosperity for its citizens. Non-financial assets such as property comprise almost all of the average Russian's wealth, while financial assets are roughly equal to debts. By contrast, Europeans hold slightly more financial assets than non-financial.

The 2000s were an especially good time for Russians, with the average total wealth increasing approximately 8-fold between 2000 and 2007 – from \$3,000 to \$24,000. Unfortunately, that process stalled when leaders nationalized and militarized the economy, oil prices fell, and the value of the ruble plummeted. Average wealth fell by 60 percent as a result, returning to the level of 2004–2005.

In the past two years alone, the average Russian grew 14.4 percent poorer. Only Ukraine and Argentina saw greater declines. Russia's average level of wealth is almost five times higher than the world average, but approximately seven times lower than the wealth enjoyed by the richest 10 percent of the world's population.

Investment banks in Russia use a list compiled by Forbes to gauge the wealth of the richest Russians. According to that list, approximately 100 Russians have \$1 billion or more (behind only the U.S. and China), 900 have at least \$100 million, 79,000 have wealth in excess of \$1 million, and 742,000 have more than \$100,000. However, Forbes, in principle, does not estimate the wealth of government officials who have grown rich through illicit means, even though they are often wealthier than businesspeople. This only underscores that Russia has

an extremely high level of asset inequality.

Inequality increased worldwide in 2009–2016, and the planet's top one percent now own almost 51 percent of all wealth. This means the richest one percent have a greater share of the planet's wealth than the remaining 99 percent. Growth in the stock market accounts for some of this skyrocketing inequality – only the rich own stocks. The level of inequality growth in Russia is even higher.

Any country with such a high level of inequality risks social instability because a large percentage of the population will take the first available opportunity to demand the redistribution of wealth and new rules of the game. Such countries can hardly allow themselves the luxury of sound economic policies. Instead, politicians end up having to “pay off” the population with populism, confident that the wealth has been amassed illegally and that it is impossible to earn a great deal of money legally.

An extremely high level of inequality bodes poorly for democracy: if Russians had an opportunity to choose, they might once again attempt to build socialism by stripping the rich of their assets and divvying it up among the poor.

According to opinion polls, most Russians would like to do just that. This huge, unmet demand for social justice could surface at the end of President Vladimir Putin's rule and lead to a major redistribution of wealth.

For this reason, extreme inequality makes it difficult for a country to sustain democracy. Instead, it leads to increased authoritarianism or a new round of extreme socialism.

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