

From Communism to Capitalism:
Inequality and Property in Russia in International
Perspective

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Third annual Russian Economic Challenge conference
Moscow, 20 September 2018

Introduction

- Dramatic economic transformation in Russia and Eastern Europe (from 1990/1) and in China (from 1978)
 - from public to private wealth: ie. ‘big-bang’ transition in Russia versus gradual transition in China
 - How has changing balance between public and private wealth affected inequality patterns? Role of policies and institutions?
 - Which income and wealth classes have gained from the transition to the market economy, and in what proportions?
 - International comparison
 - how do Russia’s inequality levels compare to those in China and ex-communist countries, in Western capitalist countries, and developing countries?

New income & wealth series for Russia

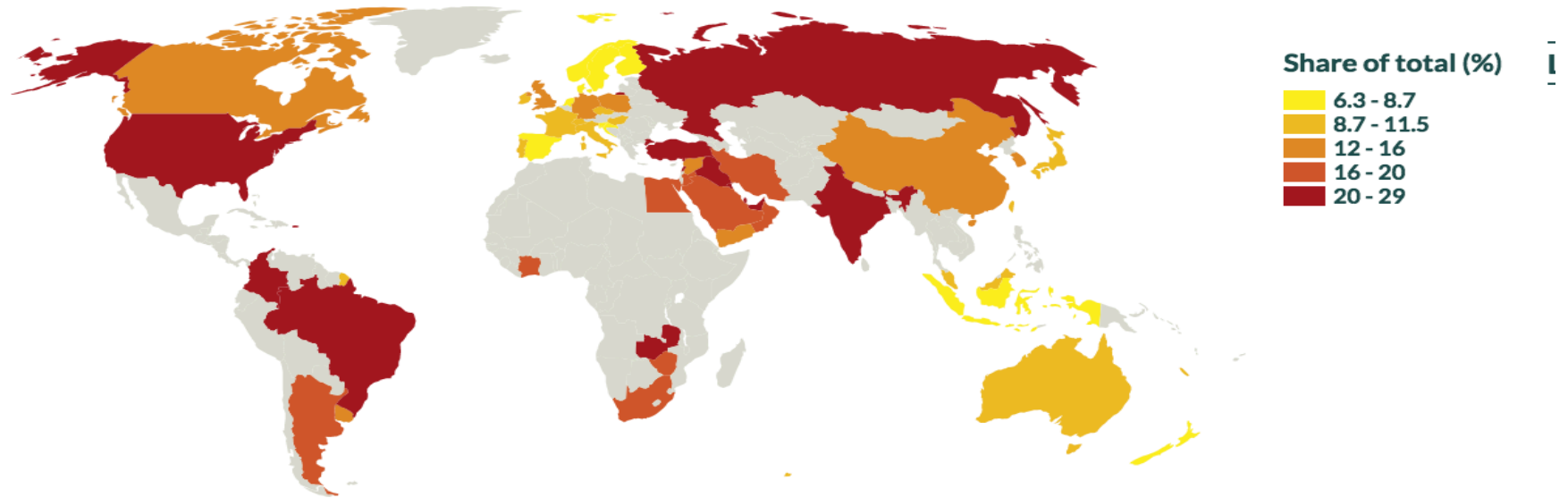
- We combine national accounts, survey, wealth and fiscal data to produce new series on the accumulation and distribution of income and wealth in Russia
 - **Balance sheets:**
 - Private vs public wealth
 - Estimates of hidden offshore wealth
 - **Income inequality series:**
 - Household income survey data (HBS, RLMS) combined with official income tax data
 - Need for more detailed and usable income tax statistics
 - **Tentative wealth inequality series:**
 - survey combined with rich lists (Forbes, Finanz data)

Main findings

- The transition to market economy resulted in the **substantial increase in inequality** in Russia
 - different transition & privatization policies (magnitude and speed) => different aggregate wealth and inequality patterns
 - surveys vastly underestimate inequality (miss the top of the distribution)
 - => e.g. top 1% income share jumps from 10% (survey-based) to 20% (combination of survey and tax data)
 - top inequality has increased substantially more in Russia than in China and ex-communist Countries in Eastern Europe
 - => **top income shares as high as in the US**: top 1% income share around 20-25%.
 - about half of household financial wealth in Russia is held offshore

Top 1% national income share

Region View

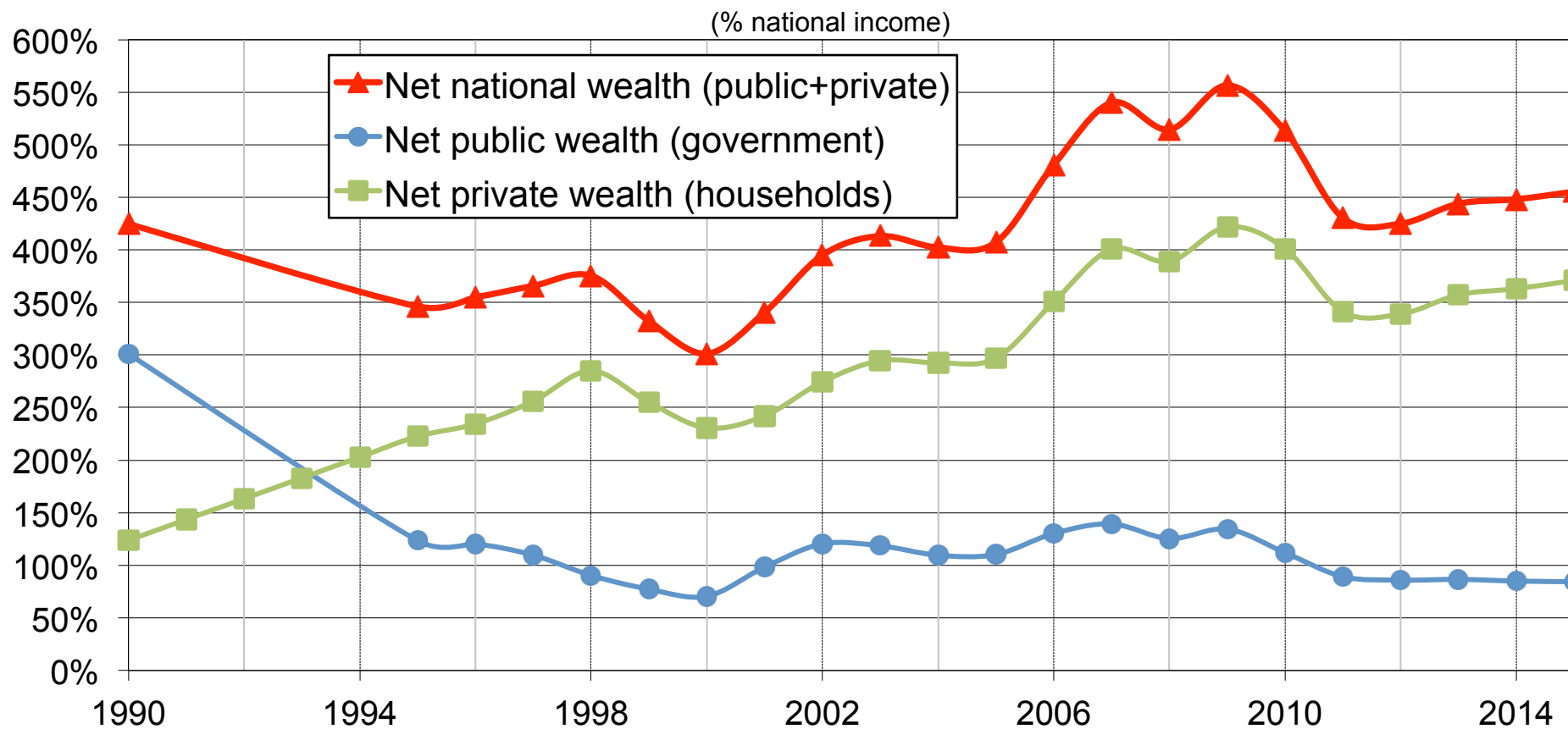


1. Public versus private capital

From public to private wealth

- From Communism to Capitalism: from dominantly public to private wealth in the very short period (“big bang”)
- the rise of Russian private wealth (from 100% in 1990 to 350% by 2015) has been almost exclusively at the expense of public wealth (from 300% to 100% of national income)
- i.e., national wealth almost did not increase relative to national income (from 400% to 450%)

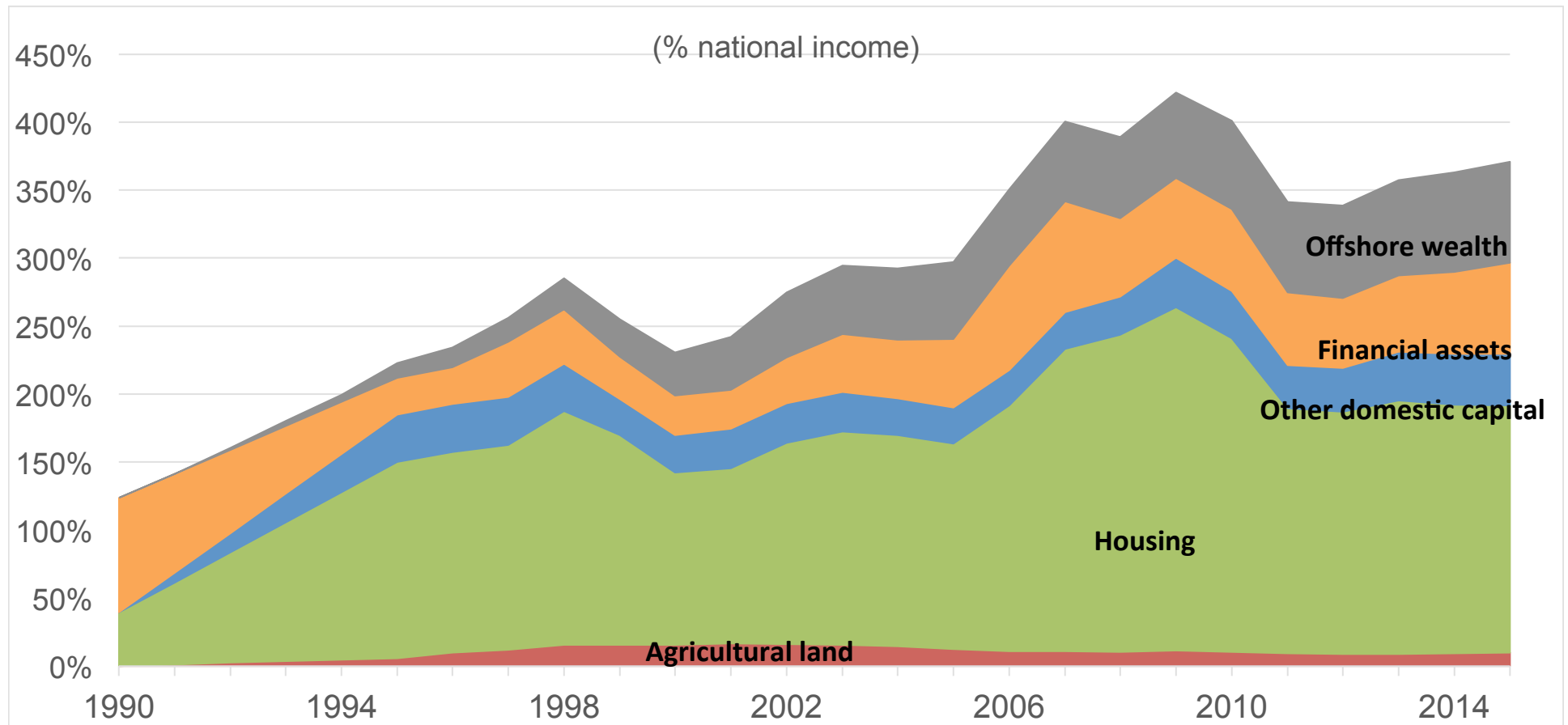
Public vs. private property in Russia, 1990-2015



The rise of private wealth

- Critical role of housing for the rise of the private wealth
 - volume effects: mainly privatization
 - price effects: rise of real estate prices

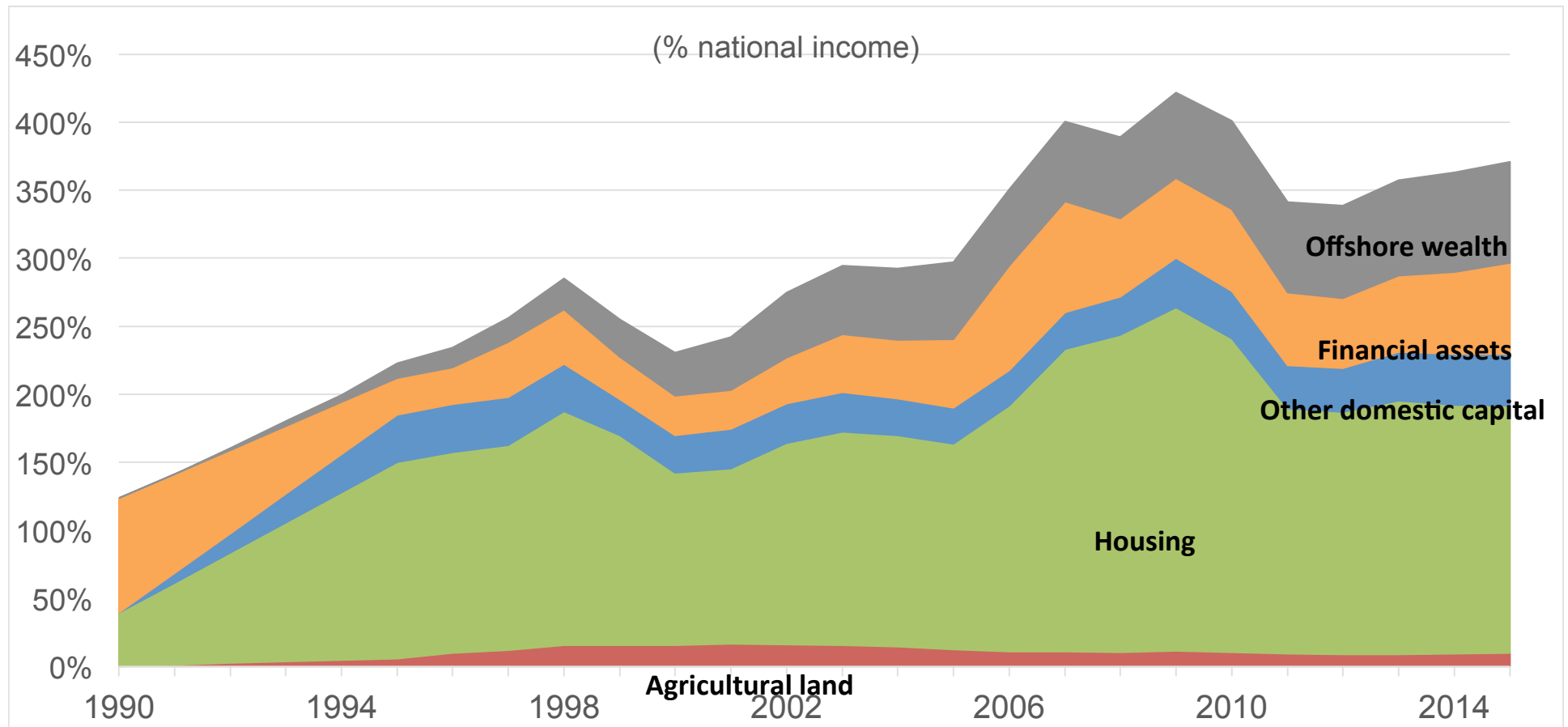
The rise of private wealth in Russia 1990-2015



The rise of private wealth

- Critical role of housing for the rise of the private wealth
- Very low recorded private financial wealth
 - actually no increase from the Soviet era – despite the mass ('voucher') privatization(!?)
- Russians are on average 'house rich & cash poor'

The rise of private wealth in Russia 1990-2015



Low recorded private financial wealth

- Hyperinflation wiped all Soviet saving; low private savings
- Persistently low market valuation of equity (low Tobin's q)
 - not well defined and enforced property rights and low protection of shareholders rights
 - stakeholders/rent-sharing; low valuation of obsolete capital stock
 - offshore assets and legal outsourcing
- Unrecorded offshore wealth
 - large discrepancies between trade balance surpluses (oil and gas exports) and foreign assets
 - ≈ 75% of national income (three times larger than official NFA)

Where is the money?



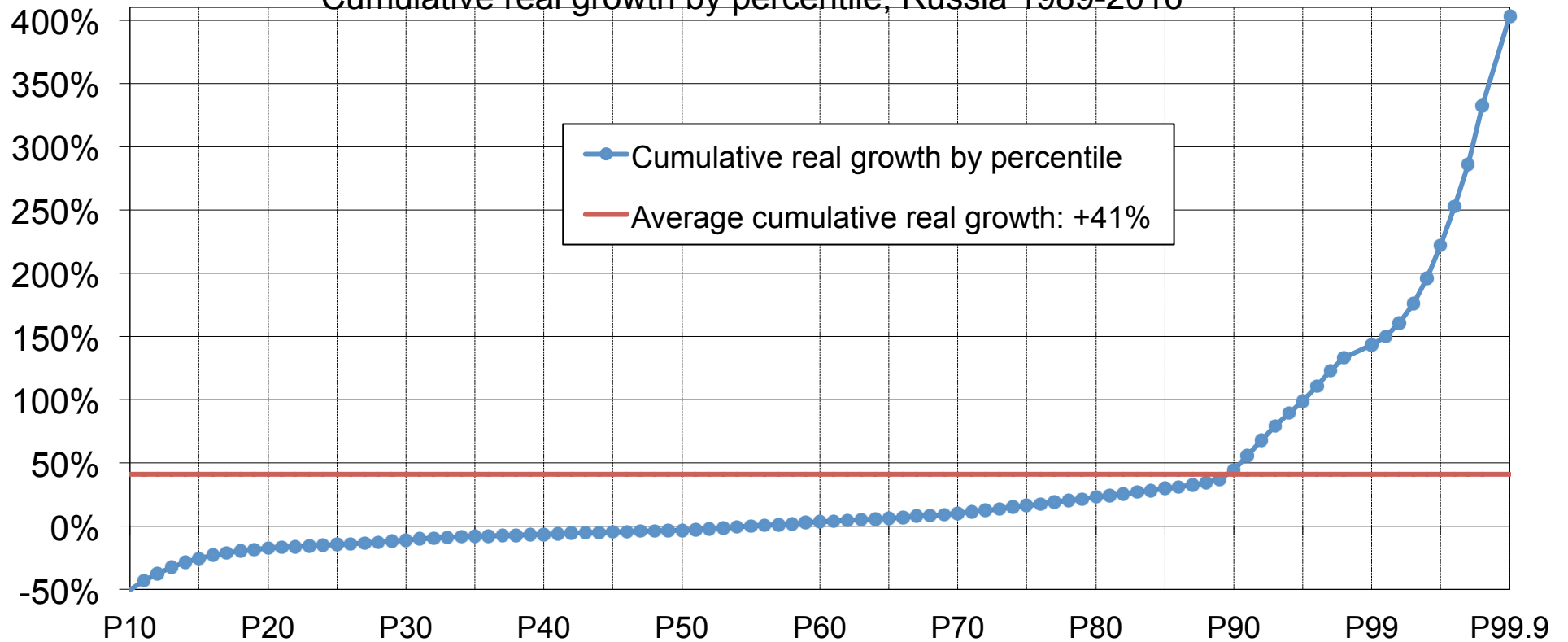
2. The rise in income and wealth inequality in Russia

Rise in income and wealth inequality

- Divergent growth experience, 1989-2015:
 - strong real growth of the top 10% (+170%)
 - negative real growth of the bottom 50% (-20%)

Who benefited most from Transition?

Cumulative real growth by percentile, Russia 1989-2016



Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among equal-split adults (income of married couples divided by two). Corrected estimates combine survey, fiscal, wealth and national accounts data.

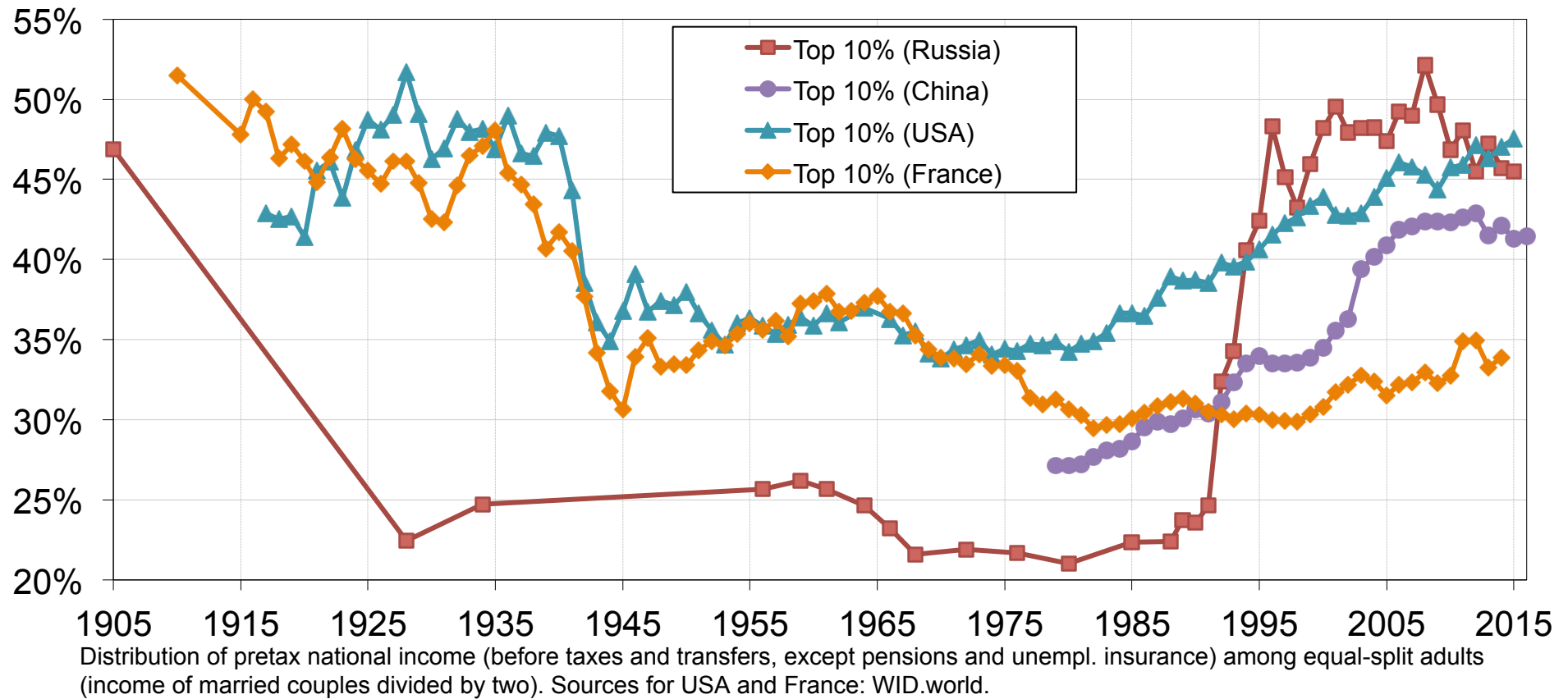
Rise in income and wealth inequality

- Divergent post-communist growth experience
 - Hurting bottom: shock therapy; hyperinflation, etc. (especially pensioners); declining social transfers
 - Pro-rich rapid mass privatization
 - Institutional and legal vacuum: draining and outflow of funds; rise of offshore wealth; ‘loans-for-shares’, etc.
- ‘Russian capitalism’ places few constraints on top incomes – political and ideological reversal of enormous proportions (‘convergence’ to the US)

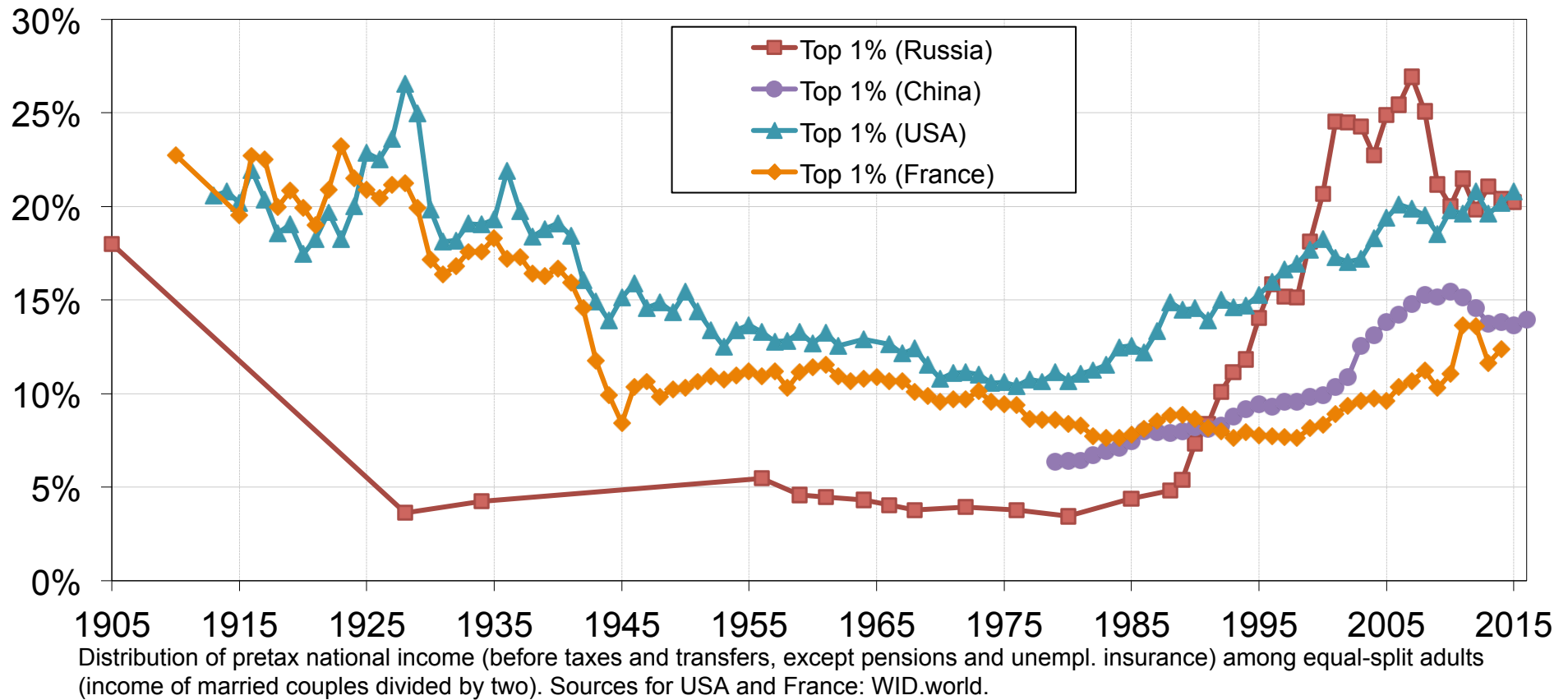
Russia's income inequality in international perspective

- Convergence to US inequality levels
 - Russia's inequality like an extreme version of the long-run U-shaped pattern observed in the West during the 20th century
 - Today notably higher than in France (representative of the West European pattern)
 - much higher top concentration in Russia than in China

Convergence to the US levels: Top 10% income share



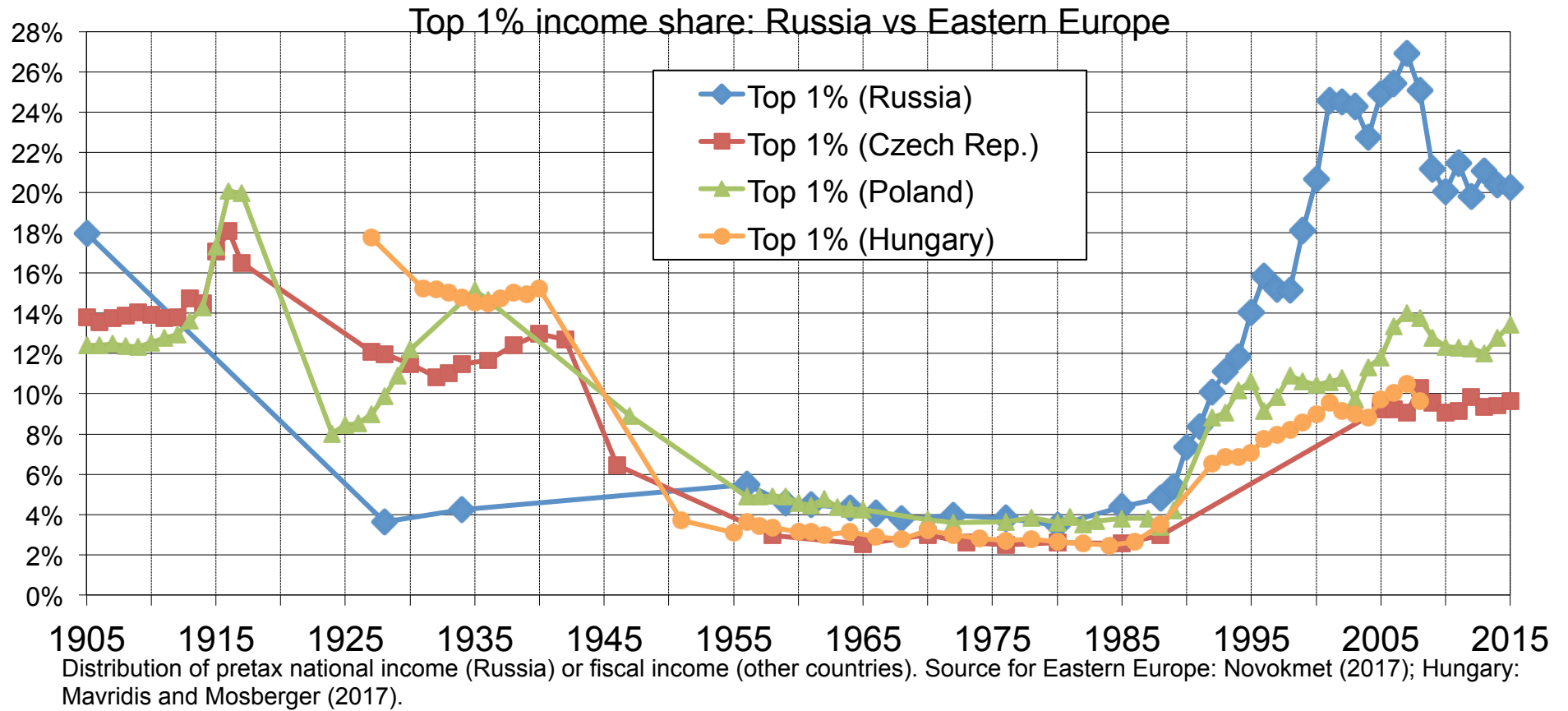
Convergence to the US levels: Top 1% income share



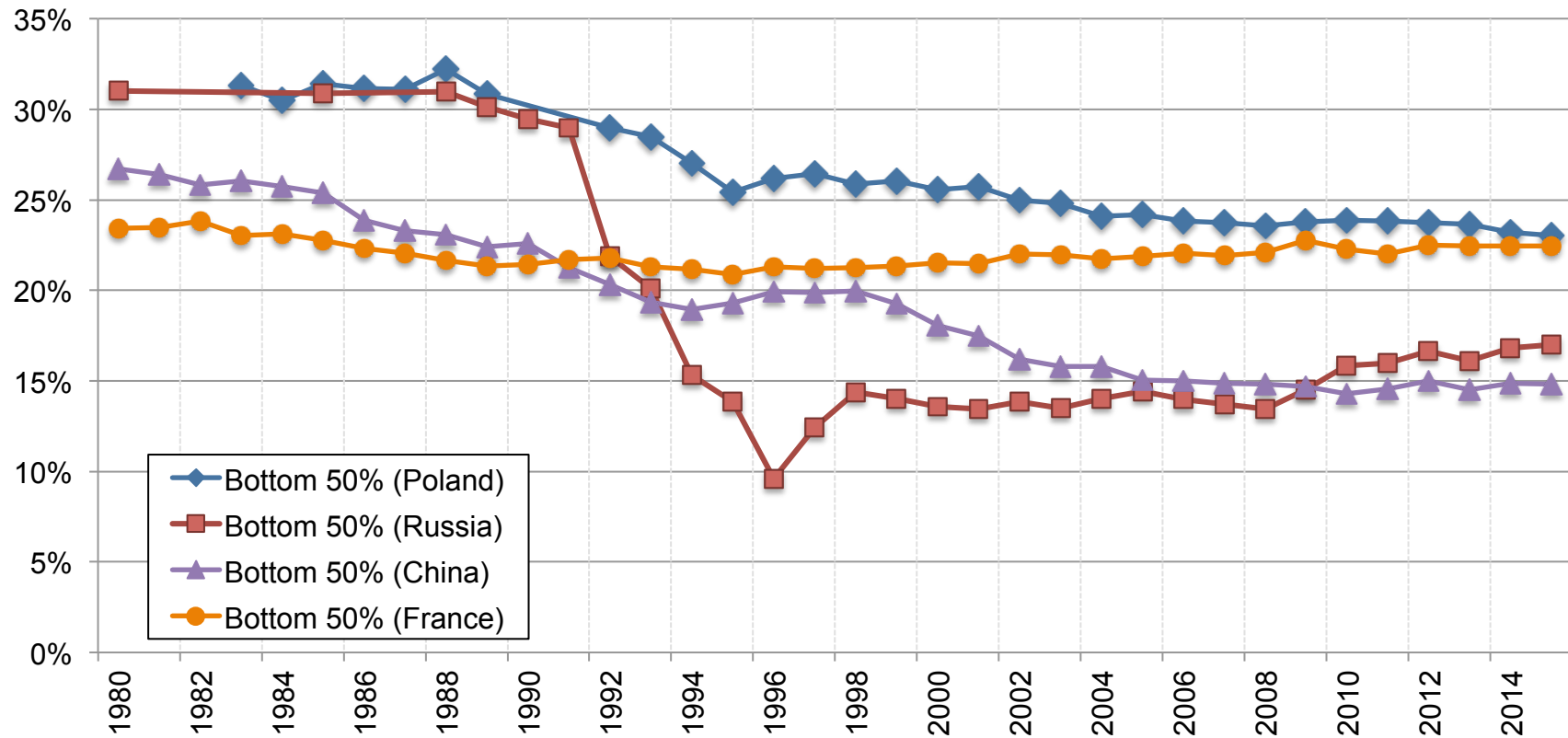
Inequality in international perspective

- Convergence to US inequality levels
- Much higher rise of inequality than in other ex-communist countries in Eastern Europe (Poland, Czech Republic, Hungary)
 - Anchor of 'EU-accession' – institutional argument
 - Different natural resource endowments
 - Higher importance of foreign ownership in Central Eastern Europe
 - top capital holders are often foreigners
 - More extensive and better targeted social transfers – protecting the bottom of the distribution

Divergence with Eastern Europe



Bottom 50% in Poland vs Russia, China and France



Inequality in international perspective

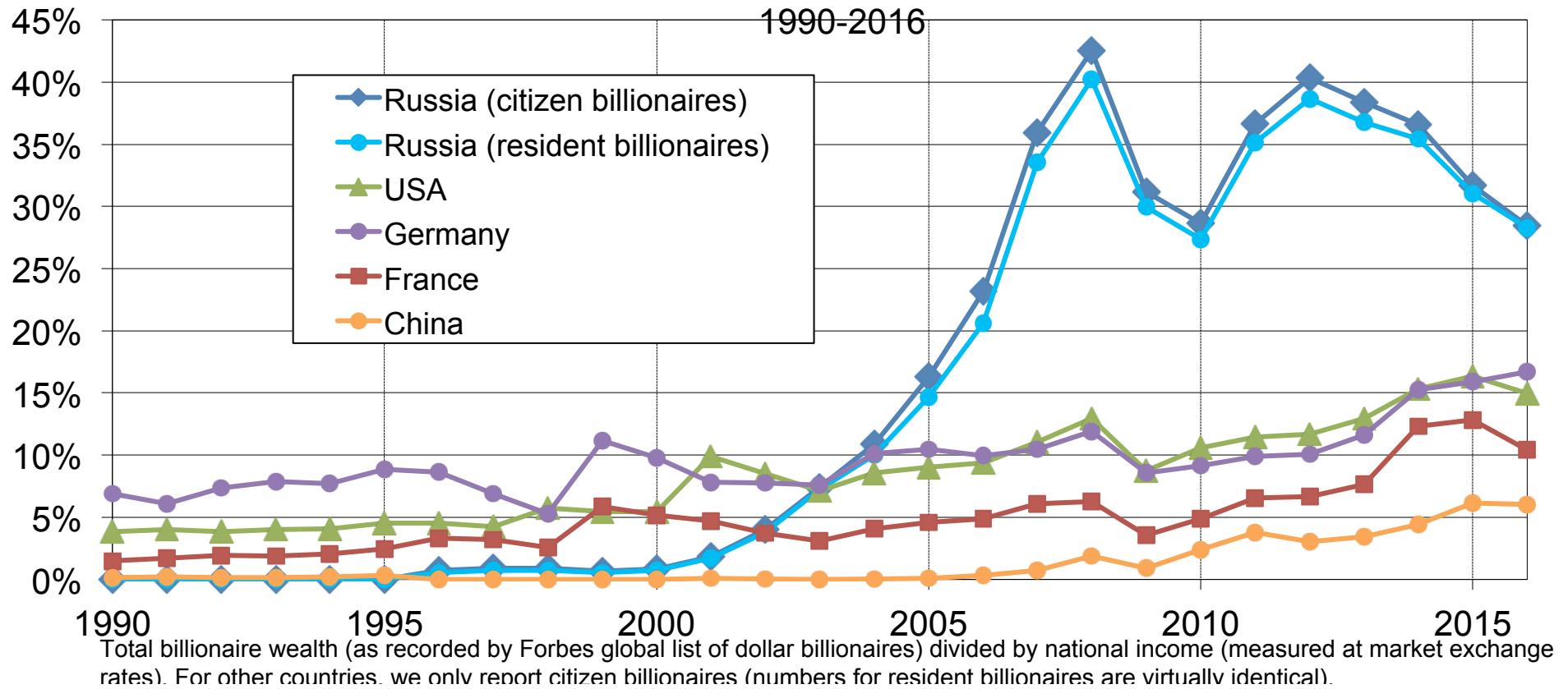
- Convergence to US inequality levels
- Divergent inequality patterns in former communist countries point that rise in inequality is not inevitable
 - policies and institutions matter
 - similarly, the Chinese model plausibly more subject to political and ideological constraints (e.g. ‘New development paradigm’)

Inequality in international perspective

- Convergence to US inequality levels
- Divergent post-communist patterns
- Russia among the highest levels of wealth inequality in the world :
Credit Suisse Global Wealth Report / Forbes

Very high wealth concentration

Total Forbes billionaire wealth (% national income): Russia vs other countries, 1990-2016



Conclusion

- New estimates show a sharp rise of income and wealth inequality in Russia after the fall of Communism
- Very high inequality levels in international comparison: is sustained and inclusive growth possible?
- Collapse of communist egalitarian ideology has probably led to higher tolerance of high inequalities
- Divergence with Eastern Europe show that policies and institutions matter
- But, access to better data needed to improve the current estimates and to understand particular mechanisms

Thank you for your
attention!

Appendix Slides

The distribution of growth after Communism

Average annual growth rate of real per adult pre-tax national income. 1978-2015

