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“Crony Capitalism” – a Source of Social Inequality in Modern Russia*



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Social inequality is a phenomenon that exists in any society. Creating deep contradictions between the actual situation and the needs of the individual and social groups, social inequality becomes one of the main mechanisms of social development, and in it lies its positive role. However, when the means of social mobility that allow each specific individual to implement effectively and safely their needs in improving social and economic status stop working, then inequality can become a destructive factor threatening social stability in the country. Almost all major world revolutions (including the Russian Revolution of 1917, the 100th anniversary of which has been celebrated recently) were in some way associated with this process.

The main function of the state as an institution that sets the “rules of the game” in social development through its legislative activities consists in maintaining such a balance in which social inequality provides an evolutionary progressive development of all segments of society. In this sense, a special role is played by the welfare state, the concept of which was formulated in the late 19th – early 20th century¹.

The mission of the welfare state on the level of management, according to L. von Stein, one of the founders of the concept, is expressed in two main objectives: first, to promote the free inter-class movement; second, to help those who suffer deprivation. The welfare state should provide every human being with “not spiritual

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¹ German scientist L. von Stein (1815–1890) is considered to be the author of the concept of the welfare state. The ideas of the welfare state were considered by Yu Offner, F. Naumann, A. Wagner, G. Hegel, W. von Humboldt, N.I. Danilevsky, V.I. Lenin, K. Marx, F. Engels, etc.

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or economic wealth as such, but with live and free inter-class movement, which makes this wealth attainable for every person”². It seeks to minimize and balance the contradictions that are based on the heterogeneity of the class structure of society. If the state “is unable to perform its social function that consists not in subordinating one interest to another, but in the harmonic resolution of their contradictions, then its place is taken by the elemental authority of physical powers, and civil war destroys, together with the overall well-being, the state itself, which could not understand and maintain this wealth”³.

Overcoming social inequality and smoothing its subsequent contradictions should be one of the main missions of the public administration system in Russia as a social state in the full sense of the word, as reflected in Article 7 of the Constitution⁴.

The problem of social inequality is particularly relevant for our country because it is the basis of public understanding of social justice – the category that occupies an important place in the structure of the outlook values of the Russian mentality and acts as the main driving force of mass popular unrest (including the Revolution of 1917). “According to experts, the Russian thought most often used justice to measure the world people lived in, and knowledge was linked to action in the world”⁵.

² Stein L. von. *Uchenie ob upravlenii i pravo upravleniya sravneniem literatury i zakonodatel'stv Frantsii, Anglii i Germanii* [The teaching of management and the right to management with the comparison of the literature and legislation of France, England, and Germany]. Saint Petersburg: A.S. Gieroglifov, 1874. P. 524.

³ *Ibidem*. P. 525.

⁴ Item 1 of Article 7 of the Constitution of the Russian Federation states that “The Russian Federation is a social State whose policy is aimed at creating conditions for a worthy life and a free development of man”.

⁵ Epikhina Yu.B., Zotov A.A., Sapov V.V., Popova I.P., Chernysh M.F. *Sotsial'naya spravedlivost' v russkoi obshchestvennoi mysli: monografiya* [Social justice in the Russian social thought: monograph]. Moscow: Institut sotsiologii RAN, 2016. P. 7.

The Soviet government was successful in applying effective methods of dealing with social inequality. For example, for the period from 1905 to 1990, the share of incomes of the richest 10% decreased by 10 p.p. (approximately from 45 to 25%), and the share of incomes of 50% of those with a low level of well-being increased twofold (by 15 p.p.; from 15 to 30%; *Tab. 1; see Insert 1, Fig. 1*).

Table 1. Change in the share of expenditures in Russia*

Income group	1905	1990	2015
Top 10%	45	25	45
Middle 40%	35	45	40
Bottom 50%	15	30	18

Note. The table shows the distribution of income (before taxes and transfers, except pensions and unemployment insurance) among adults. Adjusted estimates combine survey, fiscal, wealth and national accounts data. Approximate estimates solely use self-reported survey data. Income of married couples is divided by two.
* Compiled by the authors with the use of the source: Novokmet F., Piketty T., Zucman G. *From Soviets to Oligarchs: Inequality and Property in Russia, 1905–2016*. National Bureau of economic research. Cambridge: MA, August 2017. P. 4.

After the collapse of the USSR the “new” old elite rushed into the maelstrom of the market economy, and the tools available to tackle inequality were lost. As a result, between 1990 and 2015, the proportion of incomes of the richest 10% of Russians increased by 20 p.p. (approximately from 25 to 45%), and the share of incomes of 50% of the poorest social strata fell by 13 p.p. (from 31 to 18%; *Tab. 2; see Insert 1, Fig. 2*).

Table 2. Dynamics of wealth concentration in Russia*

Income group	1995	2015
Top 10%	53	70
Middle 40%	40	25
Bottom 50%	10	5

Note. Distribution of personal wealth among adults. Estimates obtained by combining Forbes billionaire data for Russia, generalized Pareto interpolation techniques and normalized WID (world wealth distributions).
* Compiled by the authors with the use of the source: Novokmet F., Piketty T., Zucman G. *From Soviets to Oligarchs: Inequality and Property in Russia, 1905–2016*. National Bureau of economic research. Cambridge: MA, August 2017. P. 4.

According to the dynamics of the data presented in Table 2, over the past 20 years (1995 to 2015), the concentration of wealth in the hands of 10% of the wealthiest Russians increased by 17 p.p. (from 53 to 70%). The figure in the rest of the population declined: in 40% of Russians with a medium level of incomes – by 15 p.p. (from 40 to 25%), in 50% of the poorest – by 5 p.p. (from 10 to 5%), i.e. twofold. **The gap in income concentration among the richest 10% and the poorest 50% in Russia in the last 20 years increased from 10 to 14 times** (see *Insert 1, Fig. 3 and 4*).

Thus, the Russian government and Russian society, having embarked on the way toward a market economy, had to face new and previously unknown challenges, to which the ruling elite had to find adequate answers in the interest of national security. However, in the history of our country, everything turned out different. The collapse of the Soviet Union was initiated and organized by people who planned to get personal benefit from it. The very fact of signing the Belovezhye Accords contrary to the national will⁶ suggests that the ruling elites of the time were not interested in the implementation of national interests, but were guided by their private motives, in which (as it is now known) an important role was played by Western countries that sought to remove a powerful competitor from the geopolitical race.

For this reason, instead of taking all the necessary effort to adapt the people to new economic conditions and ideological principles of existence as painlessly as possible, the ruling elites of the 1990s created a system of “oligarchic capitalism”. It has other names that are well-known (which in itself speaks about the scope of the phenomenon), but their essence is the same: “crony capitalism”, “capitalism for the few”, etc. All these terms describe a system

⁶ The agreement on the dissolution of the USSR was signed on December 8, 1991 in the Belovezhye Forest, despite the fact that on March 17, 1991, 76% of citizens of the Soviet Union (with a voter turnout of 80%) voted against the dissolution of the Soviet Union.

S.Yu. Glazyev: “We cannot do without the target credit emission of the growth of investments required for extended reproduction of the economy at least to the level of 27% of GDP set out by the Presidential Decree. And without it, we cannot achieve economic growth, the possible rate of which, proceeding from objective reserve-based restrictions, could be up to 8% of GDP growth per year”⁷.

of government in which a significant place is occupied by representatives of big capital, who give priority to their own personal enrichment to the detriment of national interests and national security of the country.

The roots of the most critical Russian issues throughout the whole post-Soviet period (absence of high economic growth rates, which is pointed out by many experts; corruption; problems in education and healthcare; lack of citizens’ confidence in the ability to influence management decisions and, as a consequence, the remaining gap in the interaction between society and government, and many, many other issues), in fact, stretch back to the system of “crony capitalism” that is not aimed to address key issues of national development.

The problem of inequality is not an exception from this list, and the fact that it was and remains highly relevant for modern Russia, indicates that the rule of “crony capitalism” in the system of government remains dominant.

In 2017, the U.S. National Bureau of Economic Research published a report “From Soviets to Oligarchs: Inequality and Property in Russia, 1905–2016”⁸, which contains a lot of factual evidence that **the situation concerning social inequality in Russia in 2015 is similar to that in 1905** (see *Insert 1, Fig. 1 and 2*).

⁷ Glazyev S.Yu. Why is the Russian economy not growing (June 29, 2017). *Official website of S.Yu. Glazyev*. Available at: <https://www.glazev.ru/articles/6-jekonomika/54326-pochemu-ne-rastet-rossi-skaja-jekonomika>.

⁸ Novokmet F., Piketty T., Zucman G. *From Soviets to Oligarchs: Inequality and Property in Russia, 1905–2016*. National Bureau of economic research. Cambridge: MA, August 2017. P. 4.

According to experts, “the offshore capital of wealthy Russians is about three times greater than the official net gold and foreign currency reserves and it is comparable in value with the financial assets of Russia”⁹. Essentially, it means that over the past 30 years, so much capital (or national wealth) was exported from the country that it would be possible to build another Russia, and as applied to our actual situation, it would be possible to solve many pressing economic issues, which would be a starting point in addressing social problems.

It is impossible to doubt the trends in social inequality in Russia noted in the report of the National Bureau of Economic Research, because we can see the “oligarchic capitalism” in action if we consider official public statements provided by strategically important and large enterprises of private capital and national corporations in accordance with Federal Law 208 “On joint stock companies” dated December 26, 1995.

Thus, in 2006–2016, tax burden on profit tax in the ten largest Russian companies decreased twofold (from 8 to 4% of the revenue; see *Insert 2, Tab. 1*). The share of dividends received from major national corporations by the federal budget was and remains extremely low (on average over the last 10 years, it is less than 2%; see *Insert 2, Tab. 2*). Net profit of the majority of the largest enterprises of nonferrous and ferrous metallurgy in 2012–2016 compared to 2007–2011 decreased; however, the dividends of the corporations increased in 2–4 times (see *Insert 3, Tab. 1 and 2*).

The amount of average monthly remuneration paid to the management bodies of corporations exceeds the wages of their employees in dozens and hundreds of times; and for the period from 2011 to 2016, this indicator in all corporations increased significantly. For example, at OAO MMK – from 11 to 49 times, at PAO Severstal – from 262 to 606 times, at PAO NLMK – from 73 to 129 times, etc. (*Tab. 3; see Insert 4, Tab. 1*).

⁹ *Ibidem*. P. 4.

Table 3. Changes in the ration of average monthly wages of employees of organizations to the average remuneration paid to company management in 2011–2016 (times; ranked according to the data as of 2016)

Indicators	2011	2016	2016 +/- to 2011
PAO Severstal	262	606	+344
PAO NK Rosneft	276**	411	+135
PAO GMK Nornickel	107	150	+43
PAO NLMK	73	129	+56
PAO Gazprom	72	127	+55
PAO RUSAL Bratsk	75***	83	+8
OAO MMK	11	49	+38

* Monthly average remuneration per senior executive. Includes all types of remuneration, excluding dividends, including wages, bonuses, commissions, and reimbursement of expenses.
 ** Data as of 2014
 *** Data as of 2012.

For the period from 2012 to 2016, tax revenues of regional budgets, as well as average per capita incomes, did not change, and even decreased. The maximum growth in per capita money incomes of the population is observed in the Vologda Oblast (by 9%), the maximum increase in tax revenues – in the Lipetsk Oblast (by 4%). For comparison: during the same period, the fortune of the owners of PAO Severstal increased by 89%, MMK – by 181%, PAO NLMK – by 59% (*Tab. 4; see Insert 5, Tab. 1*).

Table 4. Changes in per capita money income of the population, in the fortune of the owner* and in tax revenues of the budget in 2016, compared to 2012, in %

Region / owner	Average per capita money income	Owner's fortune	Tax revenues of the budget
Vologda Oblast PAO Severstal	109.4	189.6	94.2
Chelyabinsk Oblast OAO MMK	87.9	281.2	101.0
Lipetsk Oblast PAO NLMK	105.2	158.5	103.9
Krasnoyarsk Krai PAO GMK Nornickel	94.4	122.8	102.6
Irkutsk Oblast PAO RUSAL Bratsk	91.5	84.5	88.0

* According to the Forbes Magazine methodology, the fortune of an entrepreneur includes the value of their assets: company shares, land, real estate, personal property, etc.
 Source: Forbes Magazine. Available at: <http://www.forbes.ru/rating/bogateishie>

Insert 1

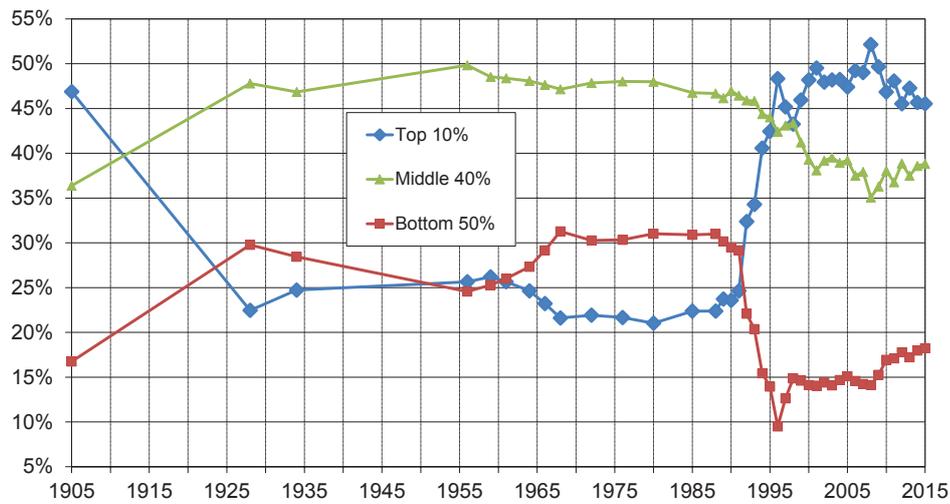


Figure 1. Income shares in Russia, 1905–2015*

* Distribution of pretax national income (before taxes and transfers, except pensions and unemployment insurance) among adults. Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data. Equal-split-adults series (income of married couples divided by two).

Population of the Russian Federation over 20 years of age as of January 1, 2017, thousand people	Total population (100%)	10%	40%	50%
	114 566	11456.6	45826.4	57283.0
Source: Calculated by the author with the use of the data of the Federal State Statistics Service (www.gks.ru).				

After the collapse of the USSR (in the period from 1990 to 2015) there was a sharp increase in the stratification of population by income. In 2015 (as in 1905), the top 10% income share was 45%; the middle 40% income group had 40% of national wealth, and 15% of national wealth was distributed among the bottom 50% income groups. This means that nearly half of incomes is accumulated in the hands of about 11.5 million people, while the share of the income of half of the respondents (57.3 million people) is 15%.

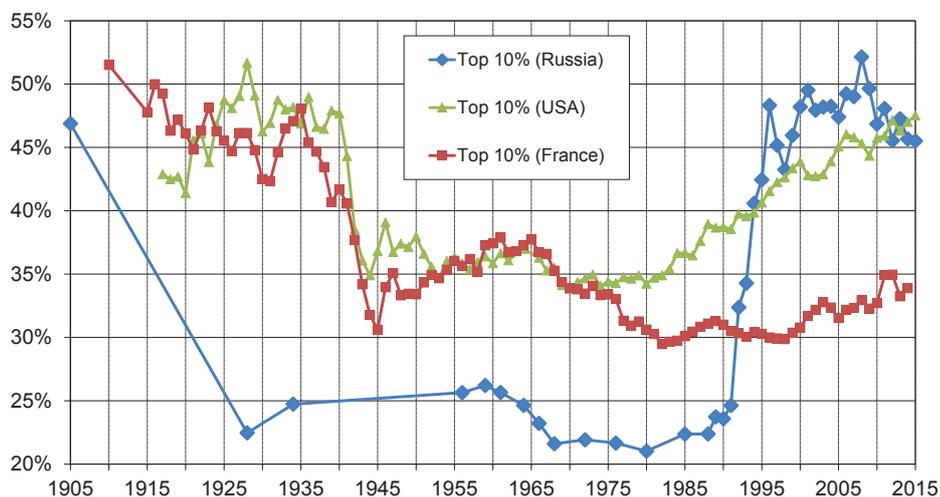


Figure 2. Top 10% income share: Russia vs USA and France*

* Distribution of pretax national income (before taxes and transfers, except pensions and unemployment insurance) among equal-split adults (income of married couples divided by two). Sources for USA and France: Wealth&Income Database (WID.world).

The share of the income of the richest 10% of Russians in 1905–1990 decreased from 45 to 25%, but between 1990 and 2015 it sharply increased (from 25 to 45%) and returned to the level of 1905. For comparison: during the period from 1910 to 2015, the share of income of the richest 10% in France declined from 52 to 33% in the USA – increased slightly (from 43 to 47%).

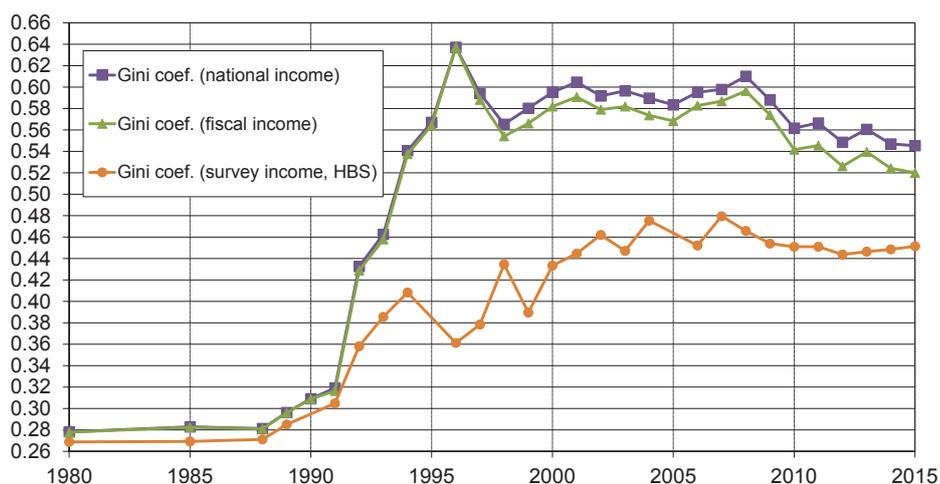


Figure 3. Gini coefficient in Russia, 1980–2015*

* Distribution of income (before taxes and transfers, except pensions and unemployment insurance) among equal-split adults (income of married couples divided by two). Pretax national income estimates combine survey, fiscal, wealth and national accounts data. Fiscal income estimates combine survey and income tax data (but do not use wealth data to allocate tax-exempt capital income). Survey income series solely use self-reported survey data (HBS).

The Gini coefficient, which indicates how the actual distribution of the total amount of incomes deviates from their even distribution, increased by 0.03 over the period from 1980 to 1990 (from 0.28 to 0.31; the value of the Gini coefficient can vary from 0 to 1, the higher the index value, the more unevenly the incomes are distributed). In 1990–2015, the Gini coefficient increased by 0.23 (from 0.31 to 0.54).

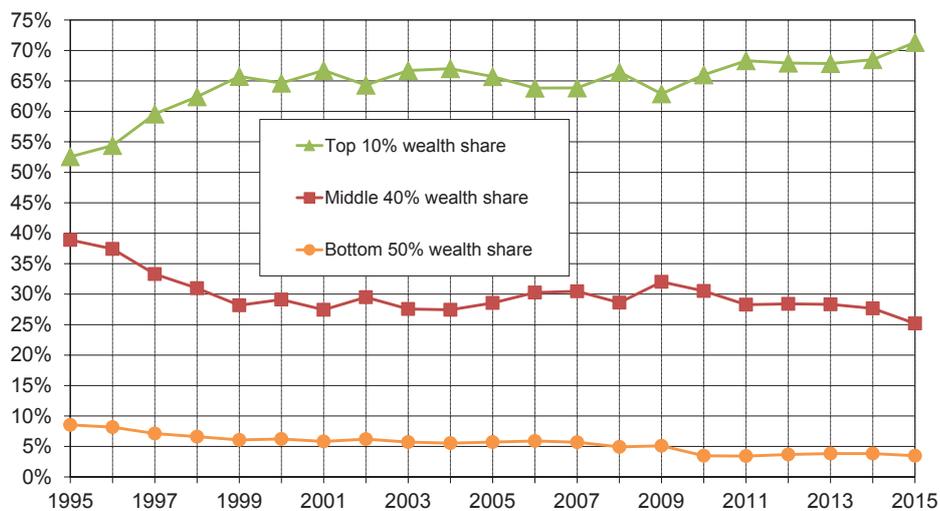


Figure 4. Wealth concentration in Russia, 1995–2015*

*Distribution of personal wealth among adults. Estimates obtained by combining Forbes billionaire data for Russia, generalized Pareto interpolation techniques and normalized WID (world wealth distributions).

Population of the Russian Federation over 20 years of age as of January 1, 2017, thousand people	Total population (100%)	10%	40%	50%
	114 566	11456.6	45826.4	57283

Source: Calculated by the author with the use of the data of the Federal State Statistics Service (www.gks.ru).

An increase in inequality is evidenced by the dynamics of concentration of national wealth in different income groups. As of 2015, about 70% of Russia’s national wealth was concentrated in the hands of the wealthiest 10%, that is, approximately 11.5 million people (in 1995 they owned 50% of national wealth).

Forty percent of the population with average income (45.8 million people) own 25% of national wealth (in 1995, they owned 40% of national wealth).

The share of the 50% of those with a low income level (57.3 million people) accounts for less than 5% of national wealth (the figure was 10% in 1995).

Insert 2

Table 1. Corporate income tax burden* for major Russian companies

Company	2006		2016	
	Billion rub.	To the proceeds, %	Billion rub.	To the proceeds, %
Tatneft	13.7	3.4	34.8	6.0
NLMK	19.2	11.7	15.5	3.0
Sberbank	26.2	7.1	135.6	4.8
MMK	12.7	7.3	15.2	4.1
Transneft	26.0	12.8	68.5	8.1
Gazprom	211.2	8.5	288.0	4.7
Rosneft	125.4	10.0	116.0	2.3
Gazpromneft	32.4	5.9	49.8	3.2
Severstal	17.3	5.1	6.8	1.7
Lukoil	75.4	4.1	64.9	1.2
Average by ten major companies	56.0	7.6	79.5	3.9

* To ensure comparability, the tax burden has been calculated only for income tax.
Sources: companies' financial statements; VolRC RAS calculations.

Over the last 10 years (2006 to 2016) income tax burden on average for ten major companies in Russia declined from 7.6 to 3.9% of their proceeds.

Table 2. Dynamics of the dividends received from state corporations by the federal budget in 2008–2016

Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total for 2008–2016
Dividends, billion rub.	53.2	10.1	45.2	79.4	212.6	134.8	220.2	259.8	919.0	1934.3
To budget revenues, %	0.6	0.1	0.5	0.7	1.7	1.0	1.5	1.9	6.8	1.9

However, the proportion of dividends received from state corporations by the budget on average over the period from 2008 to 2016 amounted to only 1.9%. A noticeable growth of the indicator is observed only in 2016 (3.5-fold: from 1.9 to 6.8% compared to 2015).

Insert 3

Table 1. Net profit and dividends to major shareholders of iron and steel corporations in 2002–2016, billion rub.

Indicators		Average for 2002–2006	Average for 2007–2011	Average for 2012–2016
PAO Severstal (average proportion of shares is 81.5%)	Net profit	26.8	8.1	26.9
	Dividends	6.5	11.9	30.9
	% of net profit	24.3	146.9	114.9
PAO NLMK (average proportion of shares is 82.7%)	Net profit	34.6	40.6	22.9
	Dividends	8.5	9.0	20.2
	% of net profit	24.6	22.2	88.2
OAO MMK (average proportion of shares is 86.3%)	Net profit	24.8	22.4	9.6
	Dividends	11.7	3.9	7.2
	% of net profit	47.2	17.6	75.0

On average in 2012–2016, compared with 2002–2006, net profit of PAO Severstal has not changed (26.8–26.9 billion rub.); net profit of PAO NLMK and OAO MMK declined (for PAO NLMK – from 34.6 to 22.9 billion rub., for OAO MMK – from 24.8 to 7.2 billion rub.).

However, during the same period, the dividends to major shareholders of these iron and steel corporations have increased substantially: for PAO Severstal – from 24 to 115%; for PAO NLMK – from 25 to 88%; for OAO MMK – from 47 to 75%.

Table 2. Net profit and dividends to major shareholders of iron and steel corporations in 2007–2016, billion rub.

Indicators		Average for 2007–2011	Average for 2012–2016
PAO GMK Nor Nickel (average proportion of shares is 68.9%)	Net profit	80.9	90.0
	Dividends	23.2	80.6
	% of net profit	28.7	89.6
PAO RUSAL Bratsk (average proportion of shares is 100%)	Net profit	3.4	2.1
	Dividends	0.8	1.6
	% of net profit	24.1	76.2

In general, similar situation is observed in major iron and steel corporations. On average in 2012–2016, compared to 2007–2011, net profit of PAO GMK Nor Nickel increased by nine billion rub. (from 80.9 to 90 billion); net profit of PAO RUSAL Bratsk decreased by 1.3 billion rub. (from 3.4 to 2.1 billion).

During the same period, the dividends paid to major shareholders of PAO GMK Nor Nickel increased from 29 to 90% of profit; those paid to major shareholders of PAO RUSAL Bratsk increased from 24 to 76%.

Insert 4

Table 1. Dynamics of average monthly wages of workers and average monthly remuneration of executives of corporations in 2011–2016, thousand rub.

Indicators		2011	2012	2013	2014	2015	2016	2016 to 2011, %
PAO GMK Normickel PAO	Wages of workers	56	63	68.5	76	75	85	151.9
	Number of executives, people	20	19	24	26	27	27	135.0
	Remuneration	6015	12850	14253	6541	11433	12738	211.8
	To the wages of workers, times	107	204	208	86	152	150	+43
PAO RUSAL Bratsk	Wages of workers	No data	45	47	52	53.0	56	124.4
	Number of executives, people	No data	28	28	27	27	29	103.6
	Remuneration	No data	3391	4119	3924	3653	4640	136.8
	To the wages of workers, times	No data	75	87	75	69	83	+8
PAO Severstal	Wages of workers	34	39	47	53	54	61	179.4
	Number of executives, people	10	10	10	10	22	22	220.0
	Remuneration	8904	5417	6680	9563	37403**	36997**	415.5
	To the wages of workers, times	262	138	142	181	695	606	+344
OAO MMK	Wages of workers	40	43	46	47	52	55	137.5
	Number of executives, people	10	26	25	25	23	23	230.0
	Remuneration	434	1613	3879	1467	2827	2677	616.8
	To the wages of workers, times	11	37	85	31	55	49	+38
PAO NLMK	Wages of workers	35	39	43	48	52	58	165.7
	Number of executives, people	17	21	19	18	18	18	105.9
	Remuneration	2551	1600	2515	5363	7174	7464	292.6
	To the wages of workers, times	73	41	58	111	137	129	+56
PAO Gazprom	Wages of workers	77	79	90	94	106	114	148.0
	Number of executives, people	27	27	27	27	27	27	100.0
	Remuneration	5540	6574	9235	13559	14818	14491	261.6
	To the wages of workers, times	72	83	102	145	140	127	+55
PAO NK Rosneft	Wages of workers	44	51	60	65	70	75,5	116.2***
	Number of executives, people	12	19	21	20	18	14	116.7
	Remuneration	Data not available			17942	28337	31055	173.1***
	To the wages of workers, times	Data not available			276	405	411	+135***

* Monthly average remuneration per senior executive includes all types of remuneration, excluding dividends, including wages, bonuses, commissions, and reimbursement of expenses
** The growth in remuneration is due to the establishment of a management company.
*** 2016 compared to 2014.

In 2011, the average monthly remuneration of executives of major corporations in the tens and even hundreds of times exceeds the wages of employees: at PAO Gazprom – in 72 times; at PAO NLMK – in 73 times; at PAO Severstal – in 262 times; at PAO NK Rosneft (according to the data as of 2014) – in 276 times, etc.

By 2016, this indicator has significantly increased in all major corporations: at PAO Gazprom to 127 times; at PAO NLMK – 129 times; at PAO Severstal – 606 times; at PAO NK Rosneft – 411 times. **Moreover, in the majority of the corporations there has been an increase in the number of “recipients” of this remuneration:** for example, at PAO Severstal – from 10 to 22 people; at OAO MMK – from 10 to 23 people, etc.

Insert 5

Table 1. Dynamics of people’s per capita monetary incomes, fortune of owners of metallurgical corporations, and tax revenues of the budgets of Russian Federation constituent entities in 2012–2016 (in the prices as of 2016)

Indicators		2012	2013	2014	2015	2016	2016 compared to 2012, %
Vologda Oblast	People’s per capita monetary incomes, rub.	25036	26913	28273	28652	27379	109.4
	Fortune of the owner of PAO Severstal, billion rub.	528.1	479.4	1123.0	965.8	1000.1	189.6
	Tax revenues of the budget, billion rub.	55.1	50.9	52.8	48.7	51.9	94.2
Chelyabinsk Oblast	People’s per capita monetary incomes, rub.	26475	27863	28228	27527	23272	87.9
	Fortune of the owner of OAO MMK, billion rub.	168.7	121.0	297.2	336.7	474.4	281.2
	Tax revenues of the budget, billion rub.	129.8	129.5	131.6	133.2	131.1	101.0
Lipetsk Oblast	People’s per capita monetary incomes, rub.	27146	28955	31326	31012	28547	105.2
	Fortune of the owner of PAO NLMK, billion rub.	580.4	752.6	1002.0	824.8	920.1	158.5
	Tax revenues of the budget, billion rub.	46.6	46.5	50.8	51.7	48.4	103.9
Krasnoyarsk Krai	People’s per capita monetary incomes, rub.	29664	31128	29792	29975	28010	94.4
	Fortune of the owners of PAO GMK Normickel, billion rub.	902.9	830.1	1807.1	1242.5	1108.8	122.8
	Tax revenues of the budget, billion rub.	189.0	180.7	176.3	188.2	194.0	102.6
Irkutsk Oblast	People’s per capita monetary incomes, rub.	24057	24883	24875	25183	22017	91.5
	Fortune of the owner of PAO RUSAL Bratsk, billion rub.	345.1	289.8	531.2	186.4	291.5	84.5
	Tax revenues of the budget, billion rub.	146.1	134.0	133.5	116.1	128.5	88.0

*According to the Forbes Magazine methodology, the fortune of an entrepreneur includes the value of their assets: company shares, land, real estate, personal property, etc.
Source: Forbes Magazine. Available at: <http://www.forbes.ru/rating/bogateishie>

The maximum growth of people’s per capita incomes for the period from 2012 to 2016 is registered in the Vologda Oblast (by 9%), the maximum increase in tax revenues of the budget – in the Lipetsk Oblast (by 4%).

For comparison: during the same period, the fortune of the owners of major corporations located in these areas increased in 1.5–3 times: PAO Severstal – by 90%; OAO MMK – by 181%; PAO NLMK – by 59%; PAO GMK Normickel – by 23%.

Thus, the law is built so that the profit from the exploitation of national wealth goes to owners of corporations and is realized primarily in their private interests. As a result of this policy of “crony capitalism” that has taken root in the system of public administration, the number of dollar billionaires in Russia over the past 10 years increased by 60% and their wealth increased by 50% (Tab. 5).

However, the policy of “oligarchic capitalism” brings profit only to the people who create it and support it. So for about 30 years (1989–2016), **the growth of the aggregate real income of 50% of Russians with the lowest income (more than 57 million people) decreased by 20%**, and as for the 40% of those with average incomes

(almost 46 million people), it increased only by 15%. For comparison: the share of incomes of the richest 10% (11.5 million people) increased by 171%, that is, it almost doubled, and **the income level of 0.001% of the richest Russians (about 1,000 people) amounted to 4,122%, i.e. increased in almost 40 times** (Tab. 6).

In 1989–2016, the national average annual growth rate of people’s incomes amounted to 1.3%. At that, **57 million Russians face a decline in the growth rate of their income (-0.89%)**, and the richest 11.5 million people in the country experience an increase in their income by almost 4%; **among the 1,000 most wealthy Russian citizens, the growth rate of income in 1989–2016 amounted to 15%**.

Table 5. Changes in the wealth of Russia’s dollar billionaires

Year	Number of people	Fortune, billion US dollars	Fortune, billion rub.	On average per billionaire
2006	60	337.3	9168.4	152.8
2007	100	521.7	13343.5	133.4
2008	32	102.1	3553.1	111.0
2009	62	265.0	7983.0	128.8
2010	101	432.7	12660.1	125.3
2011	96	376.1	11240.6	117.1
2012	110	426.8	12835.0	116.7
2013	111	422.2	14689.3	132.3
2014	88	337.0	23476.8	266.8
2015	77	282.6	22357.7	290.4
2016	96	386.3	22077.3	230.0
2016 in % to 2006	160	114.5	241	150.5

Table 6. Growth of incomes and inequality in Russia (1989–2016 years), in %

Income group (distribution of per adult pre-tax national income)*	Number of people in the group as of January 1, 2017**, people	Average annual growth rate in 1989–2016	Aggregate real growth in 1989–2016
Total population	114566000	1.3	41
Bottom 50%	57283000	-0.89	-20
Middle 40%	45826400	0.5	15
Top 10%	11456600	3.8	171
Including Top 1%	1145660	6.4	429
Including Top 0.1%	114566	9.5	1054
Including Top 0.01%	11457	12.2	2134
Including Top 0.001%	1146	14.9	4122

* Distribution of pre-tax national income among equal-split adults. The unit is the adult individual (20-year-old and over; income of married couples is split into two). Fractiles are defined relative to the total number of adult individuals in the population. Corrected estimates (combining survey, fiscal, wealth and national accounts data).

** The population of the Russian Federation over 20 years of age was calculated by the author according to the data of the Federal State Statistics Service (www.gks.ru).

Source: Novokmet F., Piketty T., Zucman G. *From Soviets to Oligarchs: Inequality and Property in Russia, 1905-2016*. National Bureau of economic research. Cambridge, MA, August 2017. P. 78.

“Russians are sensitive to the inequalities that they face personally or see their existence in society. Income inequality is perceived most acutely today, and the sharpness of this inequality for the population has increased significantly during the crisis (which is not surprising, as income inequality in modern Russia defines a number of non-monetary inequalities that afflict today’s population, including the opportunity to receive necessary medical care)»¹⁰.

It should be noted that a high degree of social inequality is manifested in various spheres of life and goes far beyond financial well-being. Experts at the Institute of Sociology point out that “despite the fall in the real incomes of Russians due to the growth of prices in the past year, they began to note certain disparities as painful to society, rather than to themselves. This applies to all the inequalities they consider to be most common: inequalities in the access to healthcare and good jobs, inequalities in housing conditions, in opportunities for children from different social strata, in access to education... **High scores with which Russians estimate the severity of different types of inequalities currently existing in the Russian society are not detached from reality, but dictated by it**”¹¹.

As we can see from the data presented in *Tab. 7*, income inequality is perceived by Russians most acutely, but it is not the only issue that alarms them: other issues include the painful perception of inequalities in access to medical care, housing conditions, and good jobs. They are perceived as “painful to society” by 50–80% of Russians.

¹⁰ *Rossiiskoe obshchestvo: god v usloviyakh krizisa i sanktsii. Informatsionno-analiticheskii material po itogam obshcherossiiskogo sotsiologicheskogo issledovaniya* [The Russian society: a year in the conditions of crisis and sanctions. Information and analytical materials on the results of nationwide sociological research]. Moscow. Institut sotsiologii RAN, 2015. P. 32.

¹¹ *Ibidem*. Pp. 30-31.

Table 7. Perception of the acuteness of various inequalities by Russians, October 2015, %* (ranked by the inequalities painful personally for respondents)

Inequalities	Most painful for society in general	Most painful for oneself (for one’s family)
Incomes	82	66
Access to medical aid	59	39
Housing conditions	61	30
Access to good jobs	50	23
Opportunities for children from different social strata	31	18
Access to education	40	16
Leisure opportunities	14	12
Property ownership	18	12
Acquaintance with the people of influence	10	11
Getting to a necessary destination by public transport	8	10
Physical capabilities	7	9
Using computer and the Internet	3	3
<i>There are no such inequalities</i>	<i>3</i>	<i>9</i>

* The data show the situation concerning working Russians.
 Source: *Rossiiskoe obshchestvo: god v usloviyakh krizisa i sanktsii. Informatsionno-analiticheskii material po itogam obshcherossiiskogo sotsiologicheskogo issledovaniya* [The Russian society: a year in the conditions of crisis and sanctions. Information and analytical materials on the results of nationwide sociological research]. Moscow. Institut sotsiologii RAN, 2015. P. 31.

Thus, having analyzed the factual information obtained from various sources, we can conclude that the contours of a political system established by the ruling elite in the 1990s for the purpose of self-enrichment continue to prevail. With the fraudulently acquired capital, they were able to penetrate into the very depths of the political system of the country, thus forming a system of “capitalism for the few”, which “successfully” allows them to extort national wealth and use it for their own purposes. In other words, **the problem of social inequality in Russia remains unresolved not because there are some obstacles on the way to achieving this goal, but because the ruling elite does not set such a task in the first place.**

Deliberately ignoring social decrees of the President and the needs of the population, the financial and economic bloc of Russia's liberal Government creates favorable conditions for the enrichment of representatives of big business; as a result, by 2016, Russia has topped the ranking of countries by volume of "crony capital" (18%)¹².

There are a lot of representatives of economic science, who speak openly about the domination of oligarchic capitalism in Russia and warn about the disastrous consequences it may bring to our country (S.Yu. Glazyev, S.S. Gubanov, B.Yu. Titov, M.G. Delyagin, etc.). And it is not only about a threat to social stability, but also about the gap between key participants of the geopolitical competition. History has many examples of how this factor became crucial for the collapse of Russian statehood: **such critical backwardness in scientific, technological and socio-economic development was the prerequisite for the fact that the West actually financed the Revolution in 1917 and the collapse of the Soviet Union in 1991. And both these "projects", in fact, turned out to be quite successful for the West...**

In March 2012, on the eve of Vladimir Putin's third presidential term we paid attention¹³ to his call to **"turn the page", to "end the phase" and "settle the matters"** of the 1990s, when **"business was often reduced to a simple division of the state pie"**.

¹² The rating is based on the results of studies conducted in 22 countries. The top five countries in the rating include Malaysia (13%), the Philippines and Singapore (11% for each). At the bottom of the rating are South Korea, Poland and Germany (less than 1%). The Crony-capitalism Index is compiled by the journal *Economist*. The authors of the rating estimate the total wealth of billionaires whose business lies mainly in industries prone to monopolization, state regulation and state participation (gambling, oil and gas, and defense sectors, coal industry and metallurgy, real estate and construction, infrastructure projects, and banking), and compare it with the country's GDP (Source: Crony capitalism is mostly legal, but it is always unfair (editorial). *Newspaper "Vedomosti"*, 2016, May 9).

¹³ Ilyin V.A. K itogam politicheskogo tsikla [To the political cycle results]. *Ekonomicheskie i sotsial'nye peremeny: fakty, tendentsii, prognoz* [Economic and social changes: facts, trends, forecast], 2012, no. 1 (19), p. 13.

B.Yu. Titov: "Now the World Bank estimates the growth opportunities of the Russian economy at 1.2% up to 2025. Our government's assessments are the same. We believe that the Russian economy cannot develop with the rate of 1% of GDP per year when the average global economic growth is 3%. If we don't have a 4–6% growth, then Russia will experience further stagnation and move to the second, and then the third tier of countries according to its economic indicators... A growth rate that is less than 2–3% means that Russia may forever lag behind leading countries of the world, since the 1% growth of GDP at purchasing power parity (PPP) in China is 197 billion US dollars, in Russia – 37 billion US dollars. This means that 1% growth in China is 5.3% growth in Russia. We believe that in 2019, this growth should be 3.5–5%. The growth of 4–6% should be maintained until 2025. Then it may slightly decrease by 2035 – to 3–3.5%"¹⁴.

- "...Concerning what happened in the 1990s. We talked a lot on this subject, when the business was often reduced to a simple division of the state pie";

- "...We, of course, must turn over this page, as well... We need to close this period. Different options are offered, it is necessary to discuss them with society and with the expert community, but it is necessary that society should approve these options of settling the issues of the 1990s such as, frankly speaking, a dishonest privatization, and various auctions";

- "...It is necessary to provide public legitimacy of the very institution of private property, to ensure public trust in business; otherwise we will not be able to develop a modern market economy, nor can we create a healthy civil society... major decisions should be taken in 2012"¹⁵.

Moreover, Vladimir Putin stressed that "the main decisions about this should be taken as early as 2012"¹⁶.

¹⁴ The implementation of "Growth Strategy" will allow Russia to double its GDP by 2035: an interview with B.Yu. Titov (February 20, 2017). *Official website of the Stolypin Club*. Available at: <http://stolypinsky.club/2017/02/20/boris-titov-realizatsiya-strategii-rosta-pozvolit-rossii-k-2035-godu-udvoit-obem-vvp/>

¹⁵ Vladimir Putin's speech at the Congress of the Russian Union of Industrialists and Entrepreneurs on February 9, 2012.

¹⁶ Ibidem.

Almost six years passed since that time. V. Putin’s third presidency is coming to an end. However, it is premature to speak about any tangible signs of overcoming the “oligarchic capitalism” and its consequences. And this cannot but raise the questions: what next? What are we to expect from the next presidential term of Vladimir Putin, whose victory in the 2018 election is predicted by the majority of experts? Will he manage to reorient the country’s political system so that key issues of national security and national development took priority over the interests of “oligarchic capitalism” in the value system of the ruling elite? And will he be able to do so in an evolutionary way, not allowing a crisis of Russian statehood to break out? Will Russia be able, in the end, during the next six years to take the next step in its historical development, which is essential for maintaining its national security in the context of rapid progress?..

The questions are numerous, and the answers to them will be received, probably, in the nearest six-year period (which will be the last presidential term of Vladimir Putin, according to the Constitution of the Russian Federation). The solution to these issues will depend on **an integrated approach to improving the efficiency of public administration and on the political will of the head of state**, because the fusion of the interests of the political elite and oligarchy exists at all levels of the administration system, and this situation impedes the implementation of national interests, and this problem cannot be overcome without making tough internal policy decisions. It is important

that awareness of the problem of “oligarchic capitalism” and its negative consequences for the country should be a priority in the Program of action of the President for the near six-year term and that the general population should see that this Program is implemented on a system basis, that is, year by year, consistently, no matter what external or internal circumstances may be.

In conclusion, we should note that the President has the powerful resource that has more than once played a crucial role in Russia’s history: this resource is the trust of the population. However, like any other resource, the support that people show toward the head of state is not unlimited: it depends on how the key needs of the population are reflected in legislation and in administrative decisions of the authorities. According to the latest nationwide sociological research¹⁷, in society there is a growing need for change. The value of stability is increasingly giving way to the values of development. It is possible to realize this demand only if there is an effective system of public administration aimed to implement national interests; therefore, overcoming of “crony capitalism” is the main condition for Russia’s transition to a new stage of its historical development.

¹⁷ According to the Institute of Sociology, for the period from 2014 to 2017, the share of Russians who believe that “the country needs changes; it needs new reforms in the economic and political life” increased by 14 p.p. (from 30 to 44%). The proportion of people who believe that “the country needs stability; it is more important than change” decreased by 14 p.p. (from 70 to 56%). Source: Solov’eva O. People are tired of stability. *Nezavisimaya Gazeta*, 2017, July 13. Available at: http://www.ng.ru/economics/2017-07-13/4_7028_people.html

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