

Will today be the day?

Oligarchs can be good for the economy

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Chelsea fans have known it for a while: oligarchs are not all bad. Two economists showed recently that however demonised Roman Abramovich and his ilk are, they can improve the performance of nations, not just football clubs.

Oligarchs can provide much needed stability in the chaos of a nation moving from a dictatorship to a democracy, say the economists Yuriy Gorodnichenko, of the University of Michigan, and Yegor Grygorenko, of Citigroup Russia. Firms under oligarchic control are more productive, they say.

But it is not only stability that makes a company controlled by an oligarch more productive. Since they run such large conglomerates and have absolute control, they can ensure that integration is maximised and productivity is improved. In fact, oligarchs deliberately choose underperforming firms that can be improved.

A few oligarchs may be corrupt and want to siphon off the cashflow of their companies illegally but it is still in their interest to make sure the profits are as high as possible.

"We argue that reintegration of production chains in the midst of the disorganisation chaos in transition economies could have played an important role in explaining superior productivity of firms under oligarchic control and could have contributed to economic recovery of the transition economies," say the authors.

The authors say that the Russian oligarchs of today are similar to bandits in medieval China. "Those bandits were unpleasant governors but as long as they had shares in profits from economic activity, they enforced contracts, protected trade and facilitated production. Even robber barons can be socially beneficial," they say.

The authors are not proposing that an oligarchy is an ideal model for society. Ultimately, a democratic society is one that will produce the most good for the majority of the population, the authors point out.

"Oligarchic societies can dominate democracies in the short run but democracies dominate oligarchies in the long run," they say.

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