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Episode #006

How Did The Russian Oligarchs Get So Rich?

December 6, 2019



[00:00:00] Hello and welcome to the English Learning for Curious Minds podcast by Leonardo English.

[00:00:08] I'm Alastair Budge, and today we are going to be looking at a Russian oligarchs.

[00:00:14] Specifically, how did they get so incredibly rich?

[00:00:20] At the end of the Soviet Union there were 150 million people living in Russia, in theory at least, equal, as private property had largely been [abolished](#)¹. Within a few years, 22 individuals ended up owning 39% of the entire economy with a large part of the rest of the population living in poverty.

[00:00:44] Today, we are going to be looking at how that happened.

[00:00:48] But before we get right into it, I just want to remind those of you listening to this podcast on Spotify, Apple Podcasts or whatever other podcast app you might be listening to it on that you can get a copy of the transcript and key vocabulary for this podcast on the website, which is leonardoenglish.com.

¹ formally put an end to (a system, practice, or institution).



How Did The Russian Oligarchs Get So Rich?

[00:01:07] The website is also full of loads of helpful tips, tricks, and guides about learning English with podcasts. So if you haven't checked that out, it's well worth doing so, if I may say so myself.

[00:01:19] If you're already listening to this on the website, then congratulations, you're one step ahead of the game already.

[00:01:25] Okay, so oligarchs.

[00:01:27] The word oligarchy comes from the Greek. Oligoi means few, and arkhein means to rule.

[00:01:35] So it means the rule of a few, and an oligarch, well, an oligarch is one of the few who rule.

[00:01:43] When we talk about Russian oligarchs, we're talking about the men, and I'm afraid it is almost exclusively men who managed to achieve vast wealth after the fall of the Soviet Union in 1991.

[00:01:56] Names you may be familiar with include Khodorkovsky, Berezovsky, Friedman or the owner of Chelsea football club, Roman Abramovich.

[00:02:07] To properly understand how the oligarchs managed to [amass](#)² such riches, it's important to understand a bit, not just about Russia, but also the world in 1991.

[00:02:19] The Soviet Union or the USSR was formed in 1922.

² obtain, get control of



How Did The Russian Oligarchs Get So Rich?

[00:02:24] For almost 70 years it had existed as a socialist republic and in the postwar period it had been pretty economically **stagnant**³ while much of neighbouring Western Europe and archrival the US had been enjoying the economic **spoils**⁴ of capitalism.

[00:02:42] In 1991 Russia was still a very poor country, or rather, Russians were very poor.

[00:02:49] GDP per capita was three and a half thousand dollars, about a seventh of that of America. When the USSR collapsed, Russia wanted some of that economic growth that the West had been enjoying.

[00:03:03] However, private ownership as a concept didn't exist in the same way.

[00:03:08] Everything from schools to shops to the factories you worked in. Everything was owned by the state.

[00:03:17] Although some privatisation **initiatives**⁵ had been launched by Mikhail Gorbachev in the late 1980s it wasn't until the early 1990s that the real push towards privatisation began.

[00:03:29] As everything had historically been owned by the Russian state, the state had to figure out a way to transfer ownership from itself directly to the people.

[00:03:43] In theory, the aim for this was to be as **equitable**⁶, as equal as possible, but in practice it was far from it.

³ without major movement, hasn't grown

⁴ goods stolen or taken forcibly from a person or place, treasure

⁵ an act or strategy intended to resolve a difficulty or improve a situation; a fresh approach to something

⁶ equal, fair



How Did The Russian Oligarchs Get So Rich?

[00:03:52] They didn't want to sell the state [assets](#)⁷ to the highest [bidder](#)⁸ as they feared that this would lead to ownership being concentrated among the Russian mafia and bureaucrats.

[00:04:02] So they had to figure out a way of transferring ownership away from the state in a way that gave it directly to the Russian people.

[00:04:12] Although they went about this in a number of ways, one of the most interesting, and one of the ways in which the oligarchs managed to get so much power in such a short period was through something called the voucher system.

[00:04:26] The system was actually pretty simple.

[00:04:29] To transfer [assets](#) from the state to the people, the Russian government gave a voucher to every man, woman, and child. These vouchers formed 30% of the state owned enterprises in Russia, of the state businesses in Russia. The idea here was that the Russian state was passing ownership back to the people.

[00:04:53] Ultimately the state belonged to the people, and this was a way of [formalising](#)⁹ the transfer of ownership. The vouchers had a [nominal](#)¹⁰ price of around \$20 and there were 150 million of them.

[00:05:08] If you're doing the maths, this means that there were a total of \$3 billion worth of vouchers for almost a third of the Russian economy making the entire Russian economy worth \$10 billion.

⁷ things owned by someone, goods

⁸ a person or organization making a formal offer for something, especially at an auction.

⁹ make formal, put into action

¹⁰ in name only



How Did The Russian Oligarchs Get So Rich?

[00:05:21] For a country that now has an economy of one and a half trillion dollars, and with a quarter of the world's natural gas reserves and 10% of the world's oil, that's quite a bargain price.

[00:05:35] As most normal Russians didn't have any real understanding of how [share ownership](#)¹¹ worked, it wasn't really clear that they could do anything with these vouchers. And they had more [pressing](#)¹² concerns, like having enough food and drink, and a huge number of these vouchers were sold off to other enterprising Russians who would typically then sell them off for a small profit.

[00:05:58] Ultimately, these shares from the voucher scheme ended up in the hands of a small group of investors and powerful individuals, who managed to get ownership of 30% of the Russian economy and paid significantly less than what the assets were actually worth.

[00:06:15] It's exactly the opposite of what was intended, at least in theory by the Russian state.

[00:06:22] That wasn't the only way though. By the time this had happened, a small group of men had managed to [amass](#) a large amount of wealth, through a series of what some might call [ingenious](#)¹³ [schemes](#)¹⁴, others might call well, somewhere between [scheming](#)¹⁵ and plain theft.

¹¹ the concept that something can be owned by multiple different people

¹² important

¹³ (of a person) clever, original, and inventive.: "he was ingenious enough to overcome the limited budget".

¹⁴ a secret or underhanded plan; a plot

¹⁵ make plans, especially in a devious way or with intent to do something illegal or wrong



How Did The Russian Oligarchs Get So Rich?

[00:06:40] As we know, Russia was transitioning from a centrally planned and state run economy to a market economy. Very few people in Russia had any idea of how to do this, and there were many, many [loopholes](#)¹⁶ that were [exploited](#)¹⁷ by [enterprising](#)¹⁸ Russians. Khodorkovsky, for example, one of the most famous oligarchs and one who ended up getting on the wrong side of Vladimir Putin, managed to set up his own bank after having found a [loophole](#) in factory [subsidies](#)¹⁹, and he amassed [a pile of cash](#)²⁰.

[00:07:16] As one of the only private banks in Russia, he managed to get vast amounts of money from the Russian state, with which he would then [speculate](#)²¹ on the [currency markets](#)²² and make a sizable profit from. Others had managed to make millions through [arbitraging](#)²³ the cost of Russian goods.

[00:07:36] That means they would buy something that was cheap in Russia and cheap, typically because it was subsidised by the state, and then sell it on the world markets where it could [command](#)²⁴ a much higher price.

¹⁶ an ambiguity or inadequacy in the law or a set of rules

¹⁷ taken advantage of

¹⁸ having or showing initiative and resourcefulness

¹⁹ a sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low

²⁰ a large amount of money

²¹ invest in stocks, property, or other ventures in the hope of gain but with the risk of loss

²² the markets where people buy and sell different currencies (different types of money)

²³ the simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of differing prices for the same asset

²⁴ get, or obtain



How Did The Russian Oligarchs Get So Rich?

[00:07:50] By the mid 1990s there were around two [dozen](#)²⁵ incredibly wealthy oligarchs in Russia, a group of whom controlled practically all of the media.

[00:08:00] At the same time the president Boris Yeltsin was deeply unpopular with the Russian people and heading for defeat in the presidential elections of 1996.

[00:08:12] Yeltsin's challenger was a man called Gennady Zyuganov, who ran on an anti-oligarch pro-communist message.

[00:08:20] The oligarchs [stood](#)²⁶ to lose everything. And so the powerful men controlling the media [threw all of their weight](#)²⁷ behind Yeltsin, and he came back to win a second term.

[00:08:33] The agreement between Yeltsin and the oligarchs, according to many commentators, was, give me a second term and you'll get [free rein](#)²⁸ to do whatever you want.

[00:08:45] Indeed, by the year 2000 a group of seven bankers known in Russia as semibankirskina controlled anything from 50 to 70% of all Russian financial activity.

[00:09:00] But how did they [amass](#) such incredible wealth and how did their wealth continue to grow in the latter half of the 1990s?

[00:09:09] Well, yes, they had managed to get control of [cut-price](#)²⁹ Russian assets partly through the voucher scheme, but there are two more ways that we're going to cover today.

²⁵ twelve

²⁶ to go towards or be destined for

²⁷ put all of their power

²⁸ twelve (12)

²⁹ with a big discount



How Did The Russian Oligarchs Get So Rich?

[00:09:21] Firstly, something called investment [tenders](#)³⁰.

[00:09:25] Even after the voucher scheme, the government left 20% of every state company still owned by the state.

[00:09:33] By the mid 1990s they were so [anxious](#)³¹ to continue the [sell-off](#)³² of state assets they would sell the remaining 20% to anyone who promised to invest in the company.

[00:09:46] As we know, a large proportion of the state owned enterprises were very [unproductive](#)³³. They were just really bad, inefficient companies, and they needed a large amount of investment to allow them to compete in a [market economy](#)³⁴.

[00:10:01] The Russian state was just desperate for someone to come along and fix these useless companies. And so in many cases, a promise of investment was enough to get the deal. So this means that a load of these companies were snapped up at rock bottom prices, and they've since been turned around, made more efficient and some are very valuable.

[00:10:23] The final way in which they acquired their loot was through something called the loans for shares scheme. It was definitely the most [scandalous](#)³⁵ of the ways in which the oligarchs became so wealthy.

³⁰ seek offers to carry out work at a stated fixed price

³¹ keen to, wanted to

³² the sale of

³³ badly performing (in a business sense)

³⁴ an economy driven by markets, as exists in a capitalist system. Opposite of a centrally-planned economy

³⁵ causing general public outrage by a perceived offence against morality or law



How Did The Russian Oligarchs Get So Rich?

[00:10:37] How this worked was that the banks run by the oligarchs were charged with [auctioning off](#)³⁶ some of Russia's largest state companies from steel manufacturers to oil and gas companies.

[00:10:50] The bankers [rigged](#)³⁷ the auctions, meaning that in many cases they were also participating in the auction, so they were the [auctioneer](#)³⁸ and the participant, and they could just pick themselves as the winner. Evidently, if you are choosing yourself to be the winner of an auction, you want to pay as little money as possible, and this is exactly what happened.

[00:11:14] Khodorkovsky for example, received a [stake](#)³⁹ in the oil and gas company Yukos for \$310 million. Right, that might sound a lot of money to me or you, but that [stake](#) was actually worth \$5 billion.

[00:11:29] Quite a [bargain](#)⁴⁰. Right?

[00:11:32] Unsurprisingly, this made the oligarchs incredibly unpopular with the regular non-oligarch Russian population.

[00:11:40] You know, the 99.99999% of the population.

[00:11:46] The discounts that these oligarchs got on the state assets didn't come from nowhere. It was money that should have gone into the Russian state, but instead, all of the profits flowed straight into the oligarchs' pockets.

³⁶ to sell off to the person who says they will pay the most money

³⁷ manage or conduct (something) fraudulently so as to produce a result or situation that is advantageous to a particular person.: "the results of the elections had been rigged" "charges of vote-rigging"

³⁸ the person or company who is in charge of an auction

³⁹ a percentage of a company

⁴⁰ good deal



How Did The Russian Oligarchs Get So Rich?

[00:12:00] Key to the oligarchs' success, in case you hadn't already guessed, was relationships with government. Although the Russian state was weak, none of these favourable deals would have been possible without close relationships with government officials. So knowing who to speak to and when was absolutely everything.

[00:12:20] Then in the year 2000 [along came](#)⁴¹ Vladimir Putin. While Putin's [reign](#)⁴² has been excellent news for many of the oligarchs, several have found themselves [purged](#)⁴³ and unable to return to Russia, including Khodorkovsky. There are several theories which are [uncorroborated](#)⁴⁴ of course, that [deals were struck](#)⁴⁵ between Putin and the oligarchs, whereby he promised that he wouldn't go after them in return for their support.

[00:12:48] There are also several theories that Putin asked for a lot more, and by a lot more, I mean a [chunk](#)⁴⁶ of their wealth. However, that's a conversation for another day.

[00:13:00] So where does this leave the oligarchs in 2019?

[00:13:05] A large proportion of all the wealth of Russia is still concentrated in the hands of very few, with 35% of all the wealth in Russia owned by only 110 individuals.

⁴¹ Arrived, used here to emphasis dramatic entry

⁴² the rule of

⁴³ remove (a group of people considered undesirable) from an organization or place in an abrupt or violent way

⁴⁴ not confirmed or supported by other evidence or information

⁴⁵ agreements were made

⁴⁶ A large amount or percentage of



How Did The Russian Oligarchs Get So Rich?

[00:13:20] Some of these individuals are still the same as those that [amassed](#)⁴⁷ vast wealth in the 1990s in the wild west days of Soviet capitalism .

[00:13:30] Indeed, a research paper in 2018 suggested that there is more than three times as much money held by Russians outside of Russia as there is held in Russia.

[00:13:45] Just to underline on that final point, and given that this wealth will largely be held by the oligarch population, there is more than three times the amount of money held by Russians outside Russia, which isn't going back into the economy or helping regular Russians than there is in the entire Russian economy.

[00:14:06] In July of 2019 the president of Russia, Vladimir Putin said, we do not have oligarchs in Russia anymore.

[00:14:17] I think I'll let you be the judge of that.

[00:14:20] As always, if you've enjoyed this podcast and you want to get notified whenever we release a new one, then just hit that subscribe button.

[00:14:27] If you're looking for the key vocabulary and transcript, you can grab that over on the website, which is www.leonardoenglish.com it's also in the show notes.

[00:14:38] And as one final thought, if you've enjoyed this podcast, please do consider taking 20 seconds out of your day and leaving a review.

[00:14:46] Every review helps more people find out about the podcast and the more people who listen well the better it'll get for everyone.

[00:14:54] You've been listening to the English Learning for Curious Minds podcast by Leonardo English with me, Alastair Budge. I'll catch you in the next episode.

[END OF PODCAST]

⁴⁷ See amass



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Key vocabulary

<u>Word</u>	<u>Definition</u>
Abolished	formally put an end to (a system, practice, or institution)
Amass	obtain, get control of
Stagnant	without major movement, hasn't grown
Spoils	goods stolen or taken forcibly from a person or place, treasure
Initiatives	an act or strategy intended to resolve a difficulty or improve a situation; a fresh approach to something
Equitable	equal, fair
Bidder	a person or organization making a formal offer for something, especially at an auction
Assets	things owned by someone, goods
Formalising	make formal, put into action
Nominal	in name only
Share ownership	the concept that something can be owned by multiple different people
Pressing	important
Ingenious	(of a person) clever, original, and inventive.: "he was ingenious enough to overcome the limited budget"
Schemes	a secret or underhanded plan; a plot



How Did The Russian Oligarchs Get So Rich?

Scheming	make plans, especially in a devious way or with intent to do something illegal or wrong
Loopholes	an ambiguity or inadequacy in the law or a set of rules
Exploited	taken advantage of
Enterprising	having or showing initiative and resourcefulness
Subsidies	a sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low
A pile of cash	a large amount of money
Speculate	invest in stocks, property, or other ventures in the hope of gain but with the risk of loss
Currency markets	the markets where people buy and sell different currencies (different types of money)
Arbitraging	the simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of differing prices for the same asset
Command	get, or obtain
Dozen	twelve
Stood	to go towards or be destined for
Threw all of their weight	put all of their power
Free rein	twelve (12)
Cut-price	with a big discount
Tenders	seek offers to carry out work at a stated fixed price
Anxious	keen to, wanted to



How Did The Russian Oligarchs Get So Rich?

Sell-off	the sale of
Unproductive	badly performing (in a business sense)
Market economy	an economy driven by markets, as exists in a capitalist system. Opposite of a centrally-planned economy
Snapped up	bought quickly
Rock bottom prices	very low prices
Loot	money, used here to convey that the money wasn't got legally. Usually used for criminal activity
Scandalous	causing general public outrage by a perceived offence against morality or law
Auctioning off	to sell off to the person who says they will pay the most money
Rigged	manage or conduct (something) fraudulently so as to produce a result or situation that is advantageous to a particular person.: "the results of the elections had been rigged" "charges of vote-rigging"
Auctioneer	the person or company who is in charge of an auction
Stake	a percentage of a company
Bargain	good deal
Along came	Arrived, used here to emphasis dramatic entry
Reign	the rule of
Purged	remove (a group of people considered undesirable) from an organization or place in an abrupt or violent way
Uncorroborated	not confirmed or supported by other evidence or information



How Did The Russian Oligarchs Get So Rich?

Deals were struck

agreements were made

Chunk

A large amount or percentage of

Amassed

See amass

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What did you struggle to understand?

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