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Strategists' Song and Dance

By Konstantin Sonin

One of pop diva Alla Pugachyova's first songs was about a harlequin who, regardless of the ups and downs in his own life ("no one can see my tears"), has to take the stage every day and make people laugh. Investment funds are in much the same situation. Even if the country they specialize in is experiencing difficulties, they have to make the investors, both current and potential, feel good about it. By taking people's money and investing it, however, they assume a lot of responsibility. They can't just make up the numbers. So sometimes they have to do a little song and dance.

About a year and a half ago, right after Mikhail Khodorkovsky was arrested, Al Breach, head of research at Brunswich UBS, pulled off an unforgettable feat of linguistic gymnastics at an international conference. First, he found something good to say about the oligarch's arrest, then --without skipping a beat -- he recommended that the government use the thriving oil industry as a model for reforming the natural gas sector. Breathtaking. I couldn't pull off a stunt like that; my tongue's not flexible enough.

When you're tongue is not flexible enough, sometimes it is hard to deal with the facts. In a comment titled "Baiting the Bear," which ran in The Moscow Times last December, Eric Kraus, chief strategist for Sovlink Securities, revealed that the "Russian state was born in 13th-century Kiev." The piece was written in English, of course, and Kraus -- who holds a doctorate from the University of Paris VI -- may have figured that Russians, who were still living in caves not so long ago, wouldn't read it. Your average foreign investor might not realize that Kraus should have changed the city or the century, or preferably both.

But Russia's one thing. William Browder, CEO of Hermitage Capital Management, the world's largest investment fund specializing in Russia, recently decided to rewrite U.S. economic history. Browder is known for making contentious statements, such as his claim that the destruction of Yukos actually strengthens the institution of private property. His prediction may be correct, depending on what happens in the future. But when Browder gazes into the past, he runs into trouble.

In an interview that ran in Expert magazine a few weeks ago, Browder flatly rejected the notion that the "robber barons" who dominated the U.S. economy in the late 19th century provided a suitable analogy for the current situation in Russia. This is not a trivial matter because after the Rockefellers, the Carnegies and the Mellons made their fortunes in less-than-admirable ways, they cleaned up their image and donated huge sums for the creation of universities and the like. But Browder insisted that the comparison is inaccurate. "In the United States in 1890, there were 750,000 people known as 'robber barons' who controlled around 45 percent of the U.S. economy. In Russia today, 22 oligarchs control around 40 percent of the economy." On the contrary, J. Bradford DeLong, one of the world's most respected economists and an expert on long-term issues of inequality and growth, estimated that in 1900 there were around 22 "billionaires" in the United States. Not even 22,000, just 22. Matthew Josephson, who coined the term "robber barons," came up with a similar figure. In other words, the analogy is a perfect fit.

Maybe they should be more upfront with investors and simply explain that greater risk means lower prices. In this situation, investors are advised to buy, not sell. And this creates greater opportunity for growth. It's a positive message, and it steers clear of history.

Konstantin Sonin, professor at the New Economic School/CEFIR, wrote this column for Vedomosti.