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INCOME INEQUALITY: ECONOMIC EFFECTS

Abstract: The last generation has seen significant progress in solving many global problems: hundreds of millions of people have emerged from poverty, access to education has expanded considerably, and huge potential has opened up to accelerate progress and build a society based on knowledge and development. However, sustainable development is hindered by serious problems, directly or indirectly caused by inequality: billions of people are still deprived of a decent life, inequality is growing within and between countries, and there are huge disparities in the distribution of opportunities, wealth and power. These new global problems threaten to destroy a significant part of what has been achieved over the last decades.

Key words: income inequality, economic inequality, wealth gap, economic effects.

Russia's transition from a communist to a capitalist economic model after 1989 brought about a large divergence in the income shares and growth rates of different income groups. Income inequality is determined by various factors: different distribution of ownership, different abilities, different level of education, professional experience, field of occupation and others. The share of national income of the bottom 50% of the population has fallen from 30% in 1989 to less than 20% today, while the share of the top 1% of those living in Russia has dramatically increased from around 25% to over 45% of the national income. Russia's rapid and chaotic "shock therapy" of privatization and the rise of offshore wealth, along with high inflation and a new market environment, have contributed to the rise of most wealthy citizens' incomes since 1989, thus widening the wealth gap. Today's inequality levels are comparable, and somewhat higher, than those observed during the tsarist period.

«Russia in figures», a statistical handbook published by the Federal State Statistics service, comprises the main indicators characterizing socio-economic situation in Russia including the quantitative indicators of income inequality given for every year (Table 1). The first measure is the Gini index (concentration index) used for measuring the degree of inequality in the distribution of income and wealth: its value can range from 0 to 1: the higher the value, the more unequally income is distributed in the society.

Table 1 - Total volume of money income of the population (“Russia in figures”, 2017)

	1992	2000	2005	2010	2012	2013	2014	2015	2016
Money income- total, percent of which by 20% groups of population	100	100	100	100	100	100	100	100	100
First (with lowest incomes)	6.0	5.9	5.4	5.2	5.2	5.2	5.2	5.3	5.3
Second	11.6	10.4	10.1	9.8	9.8	9.8	9.9	10.0	10.0
Third	17.6	15.1	15.1	14.8	14.9	14.9	14.9	15.0	15.0
Fourth	26.5	21.9	22.7	22.5	22.5	22.5	22.6	22.6	22.6
Fifth (with highest incomes)	38.3	46.7	46.7	47.7	47.6	47.6	47.4	47.1	47.1
Gini coefficient (index of income concentration)	0.289	0.395	0.409	0.421	0.420	0.419	0.416	0.413	0.414

The depth of inequality is characterized by the Lorenz curve that reflects the actual distribution of nominal incomes. Finally, assets ratio characterizes the degree of social stratification and indicates the ratio of the average income of the richest 10% of citizens to the average level of income of the poorest 10%: the greater the ratio, the less equity there is. Following the UN recommendations, it should not exceed 8-10, otherwise the situation in a democratic country is fraught with social cataclysms.

According to the Deputy Chairman of Vnesheconombank Andrei Klepach, who spoke in the discussion club «Valdai» on the issues of income inequality and its impact on the global economy, Russia is among the countries with very high levels of inequality (Figure 1). «10% of our

society get about 47% of the revenues. This is two times more than in 1980-s in the USSR, and already higher than in the USA and Europe: approximately at the same level as in Mexico and most Latin American countries» he said (Russian News Agency TASS). Inequality is a brake on the economy, concluded the economist.

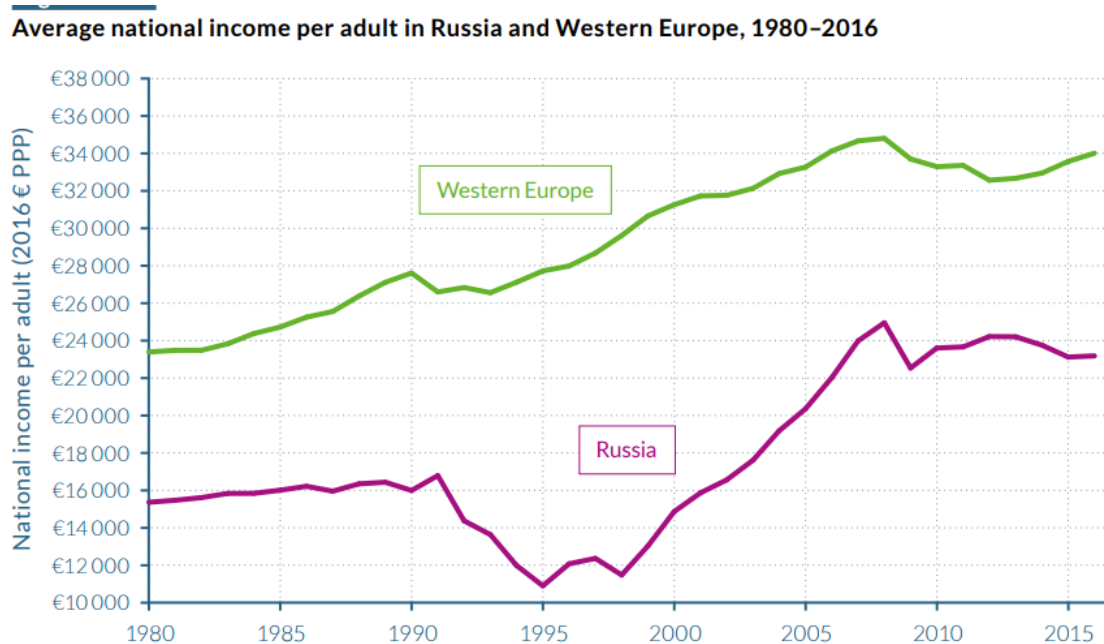


Figure 1 - World Inequality Report, 2018

The most important social problem deriving from income inequality is the issue of poverty. The resolution of the UN General Assembly, the «Agenda for sustainable development» (2015) noted that during the lifetime of the last generation significant progress has been made in the solution of many problems in the field of development. Hundreds of millions of people got out of extreme poverty, access to education has been expanded significantly. The spread of information and technologies, innovations in such diverse areas as medicine and energy, offer huge potential for accelerating human progress, overcoming the «digital divide» and the formation of a society based on knowledge and development.

However, sustainable development faces great challenges nowadays. Billions of people continue to wallow in poverty and are deprived of decent life. In recent years the number of people living in poverty has started growing again, inequality within and between countries is on the increase. There is extreme imbalance in the distribution of opportunity, wealth and power. Global humanity issues, directly or indirectly caused by inequality, such as escalating conflicts, violent extremism, terrorism and

related humanitarian crises and forced displacement, threaten to negate a large part of the gains in development achieved in recent decades.

Another group is environmental problems, where inequality and income inequality are the important factors of influence on the environment. With the growth of social welfare we see the overall growth of personal consumption, which in turn causes the growth of energy consumption and emissions. Since 2000 the distribution of income by 20 percent groups (quintiles) remained virtually unchanged (Figure 2).

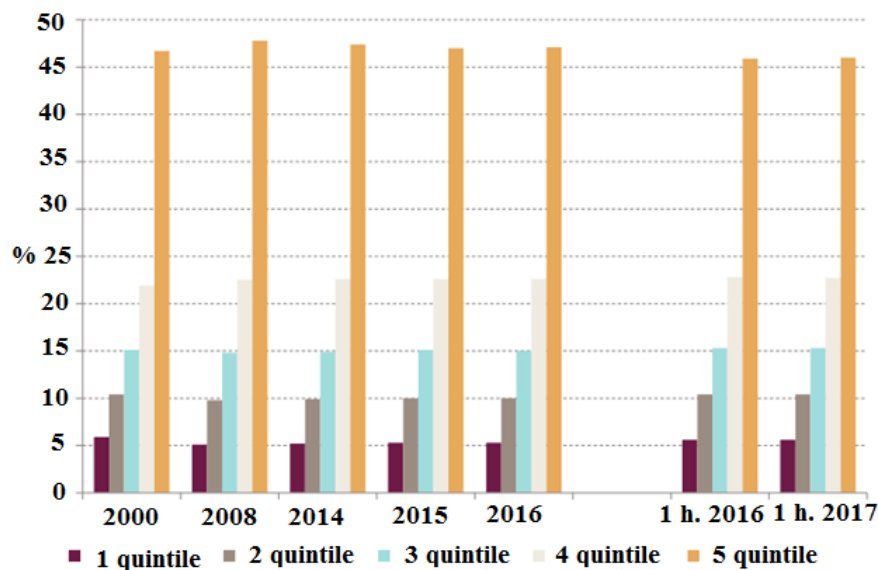


Figure 2 - Share of income by quintile of the population (Analytical centre for the Government of Russia, 2017)

A strong economic recovery of 2000-2008 has not led to the alleviation of the situation, although the nominal income per capita during this time increased substantially. Inequality has a negative impact on Russia's economic growth, but during economic upswings, the problem is obscured by growth of incomes of the poorer segments. The Chairman of the Government of the Russian Federation Dmitry Medvedev indicates that it «did not cause particular alarm in terms of sustainable and dynamic growth», but now «becomes the source of economic and political instability». During the recession of 2014-2015, the reduction of the gap between the rich and the poor, which began in 2013, accelerated. The data on inequality within regions show that the greatest social stratification is noted in the financial-economic centers and raw material export-oriented regions. Data broken down by Federal districts show that the highest inequality is noted in the Ural Federal district, where the share of income of the 5th quintile in 2016 was equal to 45,6% and the quintile ratio of the

funds was equal to 14.0 times. In 2012-2013, the proportion of the poor (with incomes below the subsistence level) in Russia reached a low of 10.7 to 10.8%, after it began to rise at the end of 2015, reaching 13.3 percent.

The modern world is rapidly changing, so it is important to understand the development of economic planning and find ways of reducing inequality. Elena Veduta, an expert from Moscow State University, reminded that various models of planning have existed in the world for several centuries. She emphasized that in the past, the government supported only certain industries, and it was a wrong policy: the long-term model focused on a certain industry will inevitably lead to crisis. It is essential to effectively allocate productive investment and optimize the structure of the final product for the consumer market.

The results of World Bank research and studies by Russian economists show that high levels of inequality slow down economic growth. The speaker noted that there are many signs which indicate that the current model of economic growth has exhausted itself. The report notes that there is a need to find more sustainable factors fuelling economic growth and income. The first way is to increase productivity to ensure diversified economic growth. The second is further improvement of human capital and improved access to services. An important step in addressing income inequality is the fight against shadow economy. The negative impacts of shadow economy can be attributed to the deformation of the tax sphere and budgetary sphere; the distortion of macroeconomic statistics; the negative impact on the monetary sector in the investment process, on the production efficiency, on the stability of ownership relations; the outflow of capital abroad; strengthening the economic sphere criminalization. All of these factors and especially the outflow of capital abroad only increase the society's stratification by income, therefore the ways offered by the World Bank researchers and other experts which can help cope with inequality, achieve economic growth and avoid social upheaval should be considered.

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НЕРАВЕНСТВО ДОХОДОВ НАСЕЛЕНИЯ: ЭКОНОМИЧЕСКИЕ ПОСЛЕДСТВИЯ

Аннотация: за время существования последнего поколения был достигнут значительный прогресс в решении многих глобальных проблем: сотни миллионов людей выбрались из нищеты, значительно расширился доступ к образованию, открылся огромный потенциал для ускорения прогресса человечества и формирования общества, основанного на знаниях и развитии. Однако в настоящее время устойчивое развитие сталкивается с серьезными проблемами, прямо или косвенно вызванными неравенством: миллиарды людей по-прежнему лишены достойной жизни, усиливается неравенство внутри стран и между ними, существуют огромные диспропорции в распределении возможностей, богатства и власти. Новые глобальные проблемы угрожают свести на нет значительную часть достижений полученных в последние десятилетия.

Ключевые слова: неравенство доходов, экономическое неравенство.

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