

AFTER EQUALITY

Inequality trends and policy responses in contemporary Russia



Suburban district in the Moscow region. Photo: Daria Ukhova/Oxfam

Economic inequality in Russia – skewed income and wealth distribution – increased radically in the beginning of the transition from a state socialist system to a capitalist market economy. In the 2000s, despite significant economic growth and decreases in levels of poverty, income inequality has remained persistently high and has even increased. Spatial and social inequalities further exacerbate income inequality. As a result of these processes, inequality in access to healthcare, education, housing, jobs, and law has also increased. Since the mid-2000s, the Russian government has started to make attempts to address high inequality, focussing on regional economic development and redistributive transfers to low-income and vulnerable regions and people. However, without addressing labour market challenges, realizing the redistributive potential of the tax system and public services, improving anti-discrimination legislation, and addressing the problems of corruption and an inequitable law enforcement system, the fight against inequality in contemporary Russia is unlikely to succeed.

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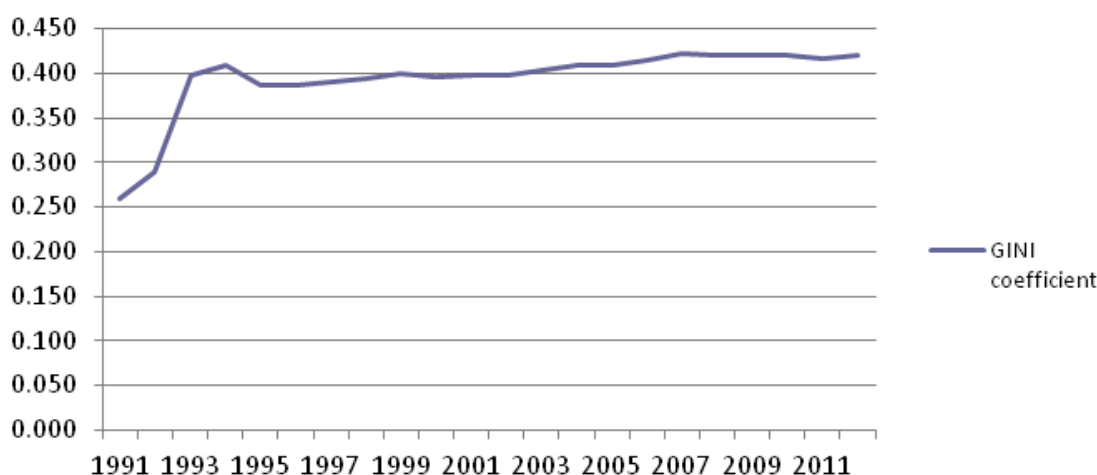
SUMMARY

Since the beginning of the market transition in 1991, economic inequality in Russia has soared. Between 1990 and 2012, the Gini coefficient of disposable income in Russia increased from 0.26 to 0.42,¹ and the difference between the incomes of the richest 10 per cent of Russians and poorest 10 per cent increased from four to almost 17 times.² One per cent of the richest people in Russia now own 71 per cent of the country's wealth.³

Income inequality has been increasing in many developing and developed countries in recent decades, but hardly any emerging economy has experienced such a radical change in income inequality in such a short time as Russia.⁴

The largest increase in income inequality occurred in the first few years of transition, when the country's economy plummeted. During this period a large proportion of the population fell into poverty, while others started to prosper from the new opportunities arising from a market economy. In the 1990s the expectation was that once the country's economy started recovering (as it eventually did in the 2000s) the inequality would reduce.⁵ Contrary to expectations however, high levels of inequality persisted and even increased throughout most of the 2000s.

Dynamic of Gini coefficient of disposable income in Russia, 1991–2012



Source: Oxfam's calculations based on the data of the Federal Statistical Service of the Russian Federation⁶

Increased income inequality in Russia has already directly impacted the country's society and economy, contributing to reduced economic growth, lower birth and higher mortality rates,⁷ and increased crime rates.⁸

High income inequality in Russia is traditionally attributed to high inter- and intra-industry wage inequality, concentration of entrepreneurial and rent income in the hands of a very small proportion of population (currently estimated at around 8 per cent), and weakness of the system of income redistribution, especially via the tax system.⁹

Along with the rising economic inequality across the country as a whole, spatial inequalities that had always been characteristic of Russia persist. Today, GDP per capita in the richest region is 10 times greater than that of the poorest – these regions are comparable to Norway and Iraq, respectively.¹⁰

Social inequalities along gender, ethnic, age, and other lines are another characteristic of contemporary Russian society. As the experiences of representatives of the Russian

chapter of Global Call Against Poverty (GCAP) suggest, women, elderly people, homeless people, migrants, etc. regularly face discrimination in the country.

Economic, spatial, and social inequalities are interlinked and exacerbate one another, fueling inequalities in living standards and access to economic, social, and legal institutions, further dividing Russian society along income and other lines and making inequality more entrenched.

Access to quality healthcare in Russia is clearly determined by one's income and place of residence. Expenses of the top income decile (the highest earning 10 per cent of the population) on healthcare were 10.8 times higher than those of the bottom income decile in 2011, and 11.3 higher in 2012. Differences in per capita financing of healthcare by the end of 2000s reached 10–12 times between some of the regions.¹¹

The high cost of modern housing renders it inaccessible for the majority of the population; in 2010, only 19.8 per cent of families could afford to buy new housing with their own savings and/or loans. For the rest, even rent often appears unaffordable; today around half of all young adults (age 21–40) in Russia live with extended family.

Russians are increasingly paying for education, as private tutoring in primary and secondary school is becoming a common practice and the number of publicly funded places in higher education is decreasing (falling 65.6 per cent in 2000/01 to 38.5 per cent in 2011/12).¹² The proportion of privately funded educational places and other services paid for by those in the top income quintile (the highest earning 20 per cent of the population) was 36.3 per cent in 2012, compared with 3.8 per cent by those in the lowest quintile.

Inequality in access to education results in an inequality in access to jobs, since younger people with lower education are at a higher risk of being employed informally.¹³ An individual's chances of securing a job are also heavily dependent on their region of residence, since unemployment rates vary vastly between the regions (for example, one per cent unemployment in Moscow compared with 49 per cent in Ingushetia in 2012).¹⁴ Inequalities along gender, disability, and residency registration status lines are other important factors in inequality in access to quality jobs in Russia.¹⁵

Economic inequality, according to the views of the Russian population, leads to inequality before the law. More than 70 per cent of Russians believe that the current judicial system in Russia protects the interests of rich and influential people more often than the interests of common people. In the past three years, 29 per cent of poor and 20 per cent of non-poor Russians had their rights violated.¹⁶ Today there is a strong public focus on the fight against corruption, which may be attributed to the Russian people's discontent with high levels of economic inequality.

Since the 2000s, Russian policymakers have started attempting to address the problem of growing income inequality. The measures have mainly entailed regional economic development programmes, interregional budget transfers, and increased spending on social protection programmes with a focus on the most vulnerable people.

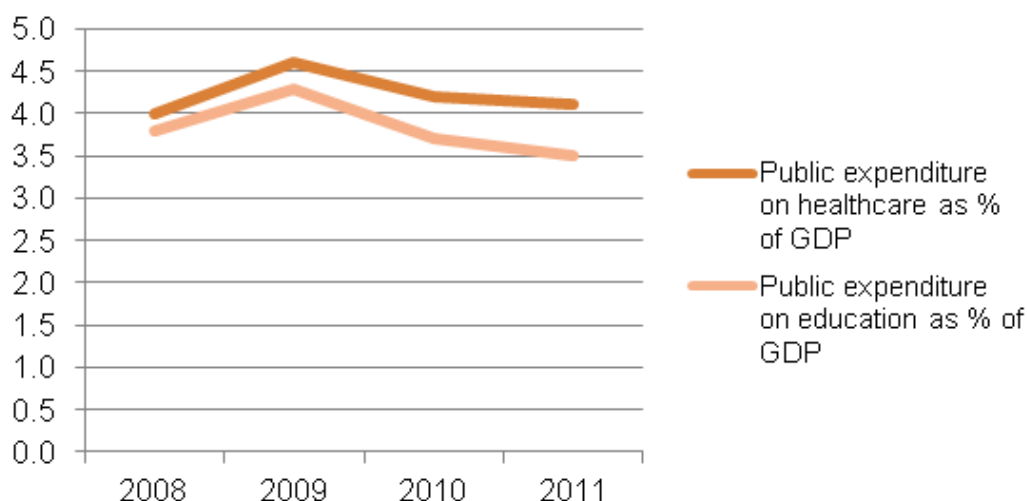
The effects of these policies on reducing inequality is difficult to estimate, due to the lack of counterfactual evidence (i.e. we do not know how high the levels of inequality would be without these measures), but what is obvious is that these policies alone are not enough to effectively tackle the problem of inequality in contemporary Russia. This is arguably due to other critical policies being completely absent or only recently brought into anti-inequality policy practice in Russia. These essential policies include:

1. Quality job creation. Intra- and inter-industry wage differentiation is one of the key factors of income inequality in contemporary Russia. Moreover, the number of working poor in the country currently stands at 13 per cent.¹⁷ Both of these factors are indicators of serious flaws in the Russian labour market and the current economic model it is

grounded in. The policy objective to 'create 25 million modern jobs by 2020' has recently been articulated by the government, but experts are rather sceptical about the prospects of its implementation.

2. Fiscal policy as a means of decreasing market income inequalities and as a source of additional revenue for social spending. Currently, Russia's tax system has virtually no redistributive effect with its flat income tax of 13 per cent. Moreover, it could also be argued that in its current state – with a 40 per cent rate of tax evasion¹⁸ and extortionate illicit financial outflows (comparable only to China)¹⁹ – this system actually exacerbates the problem of income inequality instead of solving it.
3. Improved public services such as healthcare and education. Public services have been internationally demonstrated to have a strong redistributive potential, yet in Russia are substantially underfunded in comparison with most OECD countries, and even some of its BRICS peers. Most concerning, in recent years public expenditure for these services has been steadily decreasing.
4. Anti-discrimination policy, which is essential for tackling social inequalities, such as gender, ethnic, and age discrimination. Currently, anti-discrimination legislation and mechanisms of its enforcement are very weakly developed in Russia.²⁰
5. Anti-corruption policy and policies that would ensure fair and equitable legal enforcement. The success of any anti-inequality policy in Russia will depend on the citizens' trust towards the government, and without addressing the problem of corruption and unequal access to the law this trust won't be recovered.

Public expenditure on healthcare and education in Russia, 2008–2011



Without transformation of the labour market and changes in tax policy, public services, anti-discrimination legislation, and efforts to address corruption and legal enforcement challenges, the fight against inequality in Russia is unlikely to succeed.

Moreover, these policies are precisely what the Russian citizens now expect from their government. As documented by a series of focus groups conducted in the spring of 2012 by Mikhail Dmitriev's Center for Strategic Research:

What Russians seem to want is not so much equalization for the sake of equalization but a well-functioning state with a significant welfare component. Many Russians in the provinces are deeply upset about the failure of a visibly corrupt bureaucracy to provide high quality education, healthcare, and legal enforcement. Mere redistribution of money—to regions or even to individuals—will not satisfy the demand for these services. Institutional changes are required.²¹

The key arguments and structure of the paper arose and were elaborated during the consultations with the member organizations of the Russian chapter of the Global Call Against Poverty (GCAP) – a network of more than 40 civil society organizations working all over Russia. The consultations were organized by Oxfam and facilitated by the author of this paper in June and September 2013 in Moscow, Nizhniy Novgorod, and Novosibirsk.

Box 1: Definitions

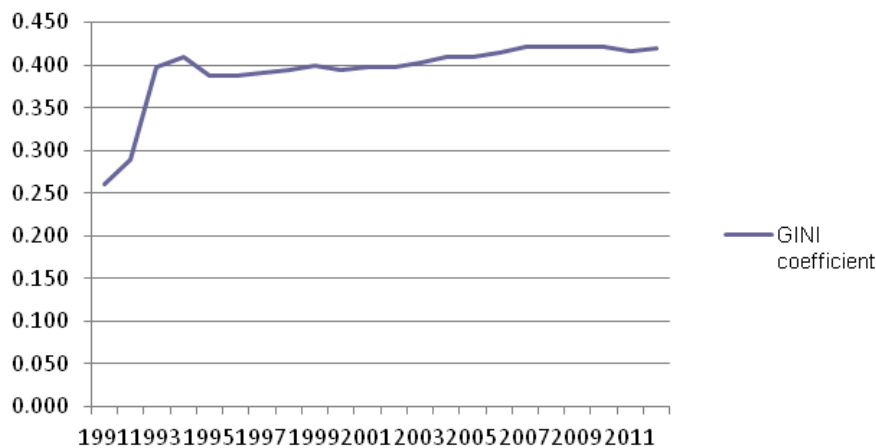
- *Economic inequality*: the difference between individuals or populations in the distribution of their assets, wealth and income.
- *Income inequality*: the difference between individuals or populations in the distribution of their disposable income.
- *Spatial inequality*: differences in the quality of life, wealth, and living standards between populations from different areas. Although spatial inequality sometimes is categorized as a subtype of social inequality, for analytical purposes in this paper we separate these categories.
- *Social inequality*: the existence of unequal opportunities and outcomes between individuals or groups of different social positions or statuses (including, but not limited to gender, age, and ethnicity).
- *Gini coefficient*: a measure of statistical dispersion – a value of 0 expressing total equality and 1 absolute inequality, commonly used as a measure of inequality of income and wealth. However, the Gini coefficient could be used as a measure of inequality for indicators of social development such as education level, opportunity, mortality, etc.

1 INTRODUCTION

Since the beginning of the market transition in 1991, Russia has witnessed one of the most radical and unprecedented growths in income inequality in history. During the late 1980s Russia achieved similar levels of income equality to those of Scandinavian welfare democracies; just over two decades later the levels of inequality are comparable to those of Turkey and many Latin American countries (Figure 2). Between 1990 and 2012, the Gini coefficient of disposable income in Russia increased from 0.26 to 0.42 (Figure 1); few emerging economies have experienced such a radical change in such a short time.²²

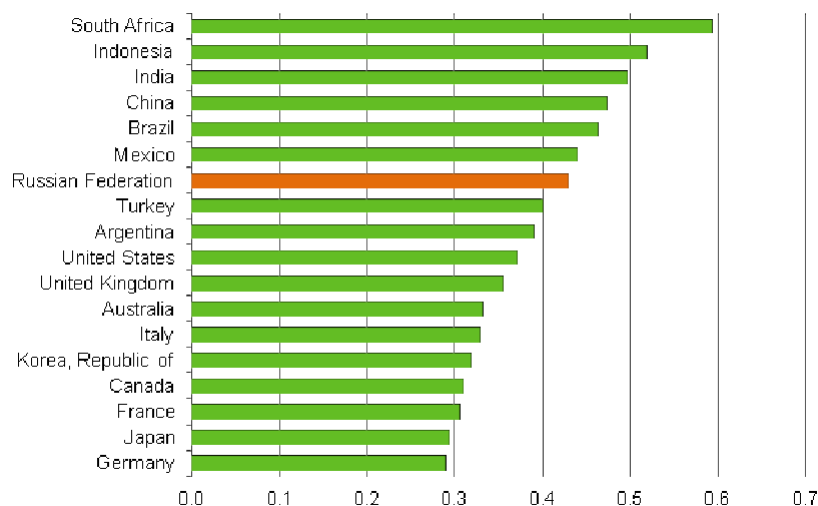
Between 1990 and 2012, the Gini coefficient of disposable income in Russia increased from 0.26 to 0.42

Figure 1: Dynamic of Gini coefficient of disposable income in Russia, 1991–2012



Source: Oxfam's calculations based on the data of the Federal Statistical Service of the Russian Federation²³

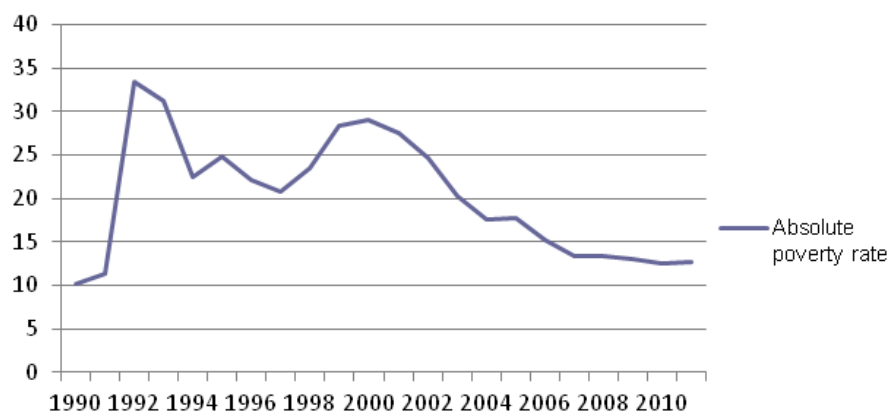
Figure 2: Gini coefficient of disposable income in the BRICS and select G20 countries, 2009-2012 (latest data available for each country was used)



Source: Oxfam's calculations based on The Standardized World Income Inequality Database²⁴

While the most radical increase in income inequality occurred in the early stages of the market transition when Russia's economy contracted and a large proportion of the population fell into poverty (Figure 3), income inequality continued to increase in later years, despite the economic recovery in the country. In the 2000s, despite a significant decline in poverty rates made possible by high economic growth, income inequality remained persistently high and even continued to rise for most of the decade, further dividing Russian society.

Figure 3: Absolute poverty rate in Russia, 1990–2011 (% of the total population living below the national poverty line, i.e. on less than \$220 a month in 2014)



Source: Oxfam's calculations based of the data from J.Klugman (1997) for years 1990 and 1991 and on the data from the Federal Statistical Service of the Russian Federation for later years²⁵

International research highlights numerous negative consequences of high levels of income inequality on society, including decreased levels of trust, lower levels of population wellbeing and health, and macroeconomic effects such as low economic growth and investments.²⁶ Russia has experienced similar consequences on the country's economy and the population's wellbeing. Research on the impacts of high levels of income inequality in Russia is limited, but existing studies show that its consequences included reduced economic growth, lower birth and higher mortality rates²⁷, and increased crime rates.²⁸

Box 2: Public perception of income inequality in Russia

High levels of inequality are perceived negatively by the majority of Russians. According to the 2013 representative population survey conducted by the Institute of Sociology of the Russian Academy of Science, 96% of the population indicate existence of acute inequalities in Russia.²⁹ Increased inequality and the perception that the new economic system is unfair have been shown to be one of the three key factors of low levels of subjective wellbeing in Russia.³⁰ The other factors include deterioration in terms of the quantity and the quality of public goods provision, such as education and healthcare; and the increase in income volatility and economic uncertainty.³¹ Reduction of income inequality is viewed by the vast majority of the Russian population as an urgent measure. Seventy-one per cent of poor people and 63% of non-poor (64% of the Russian population) – believe that the government should take measures to reduce income inequality.³²

During the 2000s, the Russian government implemented a number of policies, which arguably addressed the problem of growing income inequality, albeit to a limited extent.³³ The measures, among others, included increasing the minimum wage, the wages of public employees, and public pensions. While it is difficult to estimate the inequality-reducing effect of these policies in the absence of counterfactual evidence (i.e. we don't know at what level inequality would be without them), it is clear that their impact has been limited (see Figure 1).

64% of the Russian population believes that the government should take measures to reduce income inequality

The purpose of this paper is to consider the key inequality trends and the limitations of the current inequality policies in contemporary Russia. It will do so by first reviewing the key trends in *income* and *other related forms of inequality* in Russia, holding the view that income inequality should be analysed in its intersection with spatial and social inequalities, which have also been very prominent in the post-Soviet Russia. The paper will then proceed to look at how income and other forms of inequality are translating into inequality in access to education, healthcare, the labour market, housing, and law. The paper will conclude with a discussion of those policy areas that have been included, and those that have been only recently planned to be included or have not been considered yet at all in the anti-inequality policy practice, but which, as the paper will argue, are key to a successfully tackling the growing socio-economic divide in Russian society.

2 FRAMING THE DEBATE: INCOME INEQUALITY AND BEYOND

Although the most frequently discussed component, income inequality is just part of a complex and multifaceted phenomenon of economic inequality. Wealth inequality is another element of economic inequality and its significance in Russia should not be underestimated, as great disparities exist. Economic inequality often intersects with other types of inequalities, such as social and spatial inequalities.³⁴ It is beyond the scope of this paper to discuss all the ways in which various inequalities overlap with one another in Russia, so we will focus on the contributions of spatial and social inequality to economic inequality. However, it is important to emphasize that intersection implies that influencing happens in both directions.

The problem of income inequality, therefore, can't be comprehensively analysed, nor addressed, if we do not consider other types of inequality which characterize a country's economic and societal landscape. In case of Russia, the difficulty of undertaking such a multifaceted analysis of inequality is to a large extent determined by the lack of reliable data. However, in the next two sections we will attempt to at least lay the foundations for such an analysis. As the following section below illustrates, growth of economic inequality in Russia took place against the persisting spatial disparities that have always been characteristic for the country, with its vast territories, low population density, and very uneven distribution of natural resources, but which have exacerbated during the market transition. Moreover, social inequalities along lines such as gender, ethnicity, and age, also exacerbate the problem of economic inequality.

INCOME AND WEALTH INEQUALITY

In 2013, Russia was included for the first time in the World Bank's categorization of high-income countries – a label with associated connotations of high levels of population prosperity and the status of being a 'developed country'. Rapid economic growth in the 2000s brought Russia up into this category and resulted in a significant reduction in absolute poverty (Figure 3). Between 2000 and 2012, the number of people living below the national poverty line (an income of 7,372 RUB – approximately \$220 per month, set in the second quarter of 2013) decreased from 29 per cent to 11 per cent.³⁵ If we apply global measures of absolute poverty the trend is also downward. Currently, virtually no 'global poor' live in Russia. In 2012, the percentage of the population living on less than \$2.50 a day was estimated at 0.1 per cent.³⁶

Before market transition, incomes of the top 10% richest Russians was four times greater than those of the poorest 10%; by 2000, the difference was fourteen-fold, and by the end of the 2000s it was unprecedented at almost 17 times greater

While absolute poverty has been decreasing, income inequality has risen. Income inequality in Russia grew at a world record pace in the early 1990s, and moderate growth continued throughout most of the 2000s. In less than two decades, the Gini coefficient of disposable income increasing from 0.26 to 0.42; this was followed by stabilization after the 2008 economic crisis which in Russia mostly affected the earnings of high-income groups³⁷ (Figure 1). Income decile dispersion ratio reflects a similar trend. Before market transition, incomes of the top 10 per cent richest Russians was four times greater than those of the poorest 10 per cent; by 2000, the difference was fourteen-fold, and by the end of the 2000s it was unprecedented at almost 17 times greater (Table 1).

Table 1: Ratio between the disposable incomes of the highest income 10 per cent and lowest income 10 per cent in Russia, 1990–2012

Year	Decile dispersion ratio
1990	4.0
1992	8.0
1995	13.5
2000	13.9
2005	15.2
2008	16.6
2009	16.6
2010	16.6
2011	16.2
2012 (preliminary)	16.4

Source: Federal Statistical Service of the Russian Federation³⁸

The inequality-related measure of relative poverty (the number of people having income below 50 per cent of the median income in the country) was not measured in Russia until very recently; in 2012 was 18.7 per cent³⁹ – much higher than the OECD's average of 11.1 per cent.⁴⁰

It is important to note that experts generally agree that official statistics in Russia tend to underestimate the level of inequality, since rich households are underrepresented in the sample.⁴¹ Therefore, actual levels of income inequality are likely to be substantially higher than reflected by the numbers above.

High inter- and intra-industry wage differentiation is often credited as the key driver of income inequality in Russia. For instance, average salaries of agricultural workers are only 43 per cent of the national average, and the wages of the lowest and highest paid workers in finance, trade, and public catering, differ by 25 times.⁴² Wage differentiation played an especially prominent role in the rapid growth of income inequality during the 1990s, when workers in some industries received incredibly low salaries, often paid in-kind, and late or not at all.⁴³ During the economic recovery in the 2000s, the wages across all sectors started to increase, reducing the impact of wage differentiation on income inequality.⁴⁴ Wages still remain the main source of income both for low- and high-income groups (Table 2), but wage inequality actually appears smaller than total market income inequality (i.e. while wages of the highest 10 per cent of earners exceed wages of the lowest 10 per cent of earners by about 15 times, total market income inequality between these two groups is almost 20 times).

Average salaries of agricultural workers are only 43% of the national average, and the wages of the lowest and highest paid workers in finance, trade, and public catering, differ by 25 times

High levels of income inequality are also explained by the issue of a concentration of rent and entrepreneurial income in the upper-income groups in Russia. Although it is currently estimated that a very small share of the Russian population have such sources of income (about 8 per cent),⁴⁵ and entrepreneurial and rent income don't represent the major component of the total market income in any of the income groups (see Table 2), the difference between the top and bottom deciles in this type of income reaches 50 times.

The weakness of current redistribution mechanisms is another commonly identified driver of income inequality in contemporary Russia. While the system of social transfers reduces market income inequality between the top and the bottom income deciles by more than 25 per cent (Table 2), the tax system in Russia has almost no effect on inequality.

The tax system in Russia has almost no effect on inequality

Table 2: Market income, effect of redistribution mechanisms, and disposable income in Russia, 2011

	Bottom 10%, RUB per month	Top 10%, RUB per month	Decile dispersion ratio
Labour income – total	2234.8	43514.8	19.5
Wage	1916.5	29356.5	15.3
Entrepreneurial income	239.8	11818.8	49.3
Income from other labour activities (second job, consultancy, etc.)	78.5	2339.5	29.8
Non-labour income – total	12.9	645.8	50.1
Income from real estate property	7	534.9	76.4
Total market income	2247.7	44160.6	19.6
All social transfers	1128.8	3862.7	
Pensions	679.1	2583.8	
Benefits, compensation, etc.	449.6	1278.9	
Income after social transfers	3376.5	48023.3	14.2
Transfers from private individuals (incl. alimony) and companies	119	2140.6	
Income after all transfers	3495.5	50163.8	14.4
Taxes paid – total	265.3	4907.9	
Income tax	228.4	4297.2	
Property tax and other related contributions	21.2	211.1	
Property insurance	15.7	399.6	
Disposable income	3230.2	45256	14.0

Source: Oxfam's calculations based on the *Selective Monitoring of Population's Income and Participation in Social Programmes 2012* of the Federal Statistical Service of the Russian Federation⁴⁶. Note: data on decile dispersion ratio of the disposable income in Table 1 and Table 2 are not directly comparable, due to the different data sources these tables draw on.⁴⁷

In sections 4 and 5 we will look at the ways these key drivers have been, and could be addressed in policy practice.

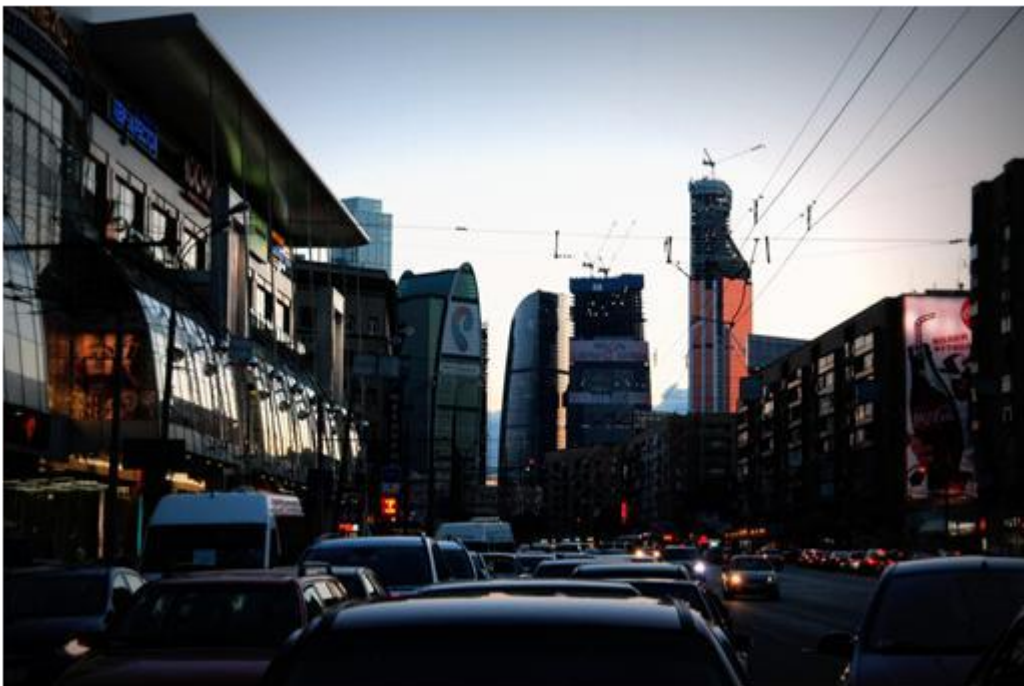
Box 3: Wealth inequality in Russia

Another important dimension of economic inequality in Russia is inequality of wealth. According to a 2013 Credit Suisse Report, '*Russia has the highest level of wealth inequality in the world, apart from small Caribbean nations with resident billionaires.*' The wealth share of the richest one per cent in Russia is currently the highest in the world and stands at 71 per cent of national wealth.⁴⁸ While globally, the wealth of billionaires collectively account for one to two per cent of total household wealth, in Russia today 110 billionaires own 35 per cent of all the country's wealth.⁴⁹

Analysis of wealth inequality is, therefore, crucial to better understanding the roots of economic inequality in Russia, but is severely complicated by the lack of reliable data; consequently this paper does not focus on this type of economic inequality. The World Bank is currently starting to research the factors underlying wealth concentration in Russia,⁵⁰ and hopefully this research will inform future endeavours to reduce economic inequality in the country.

SPATIAL INEQUALITY

Spatial inequality – the differences in quality of life, wealth, and living standards between populations from different areas – and in particular regional inequality, is another cause for concern in Russia, and one that we will focus on in this paper.



Russia has one of the highest levels of regional inequality in GDP per capita in the world

1: View on the Moscow City business district

The phenomenon of income inequality in Russia cannot be appreciated without the consideration of regional inequality. Today, Russia has one of the highest levels of regional inequality in GDP per capita in the world, (Table 2). Of note (according to the classification of the regions introduced by the Russian Academy of Science), only seven out of 83 Russian regions are considered as 'drivers of growth', while a staggering 30 are classified as 'adverse'.⁵¹

Table 3: Regional inequality in GDP per capita in Russia, 2009

	Annual GDP per capita in \$ PPP (2009)	Countries with similar GDP per capita
<i>Top five regions by GDP per capita</i>		
Tyumen region	57,175	Norway
Sakhalin region	43,462	Hong Kong
Moscow	40,805	Netherlands
Chukotka	39,220	Australia
St Petersburg	25,277	South Korea
<i>Bottom five regions by GDP per capita</i>		
Tuva Republic	7,578	Ecuador
Altai Republic	7,520	Suriname
Ivanovo region	7,425	Turkmenistan
Chechen Republic	5,023	Butan
Ingushetiya Republic	3,494	Iraq

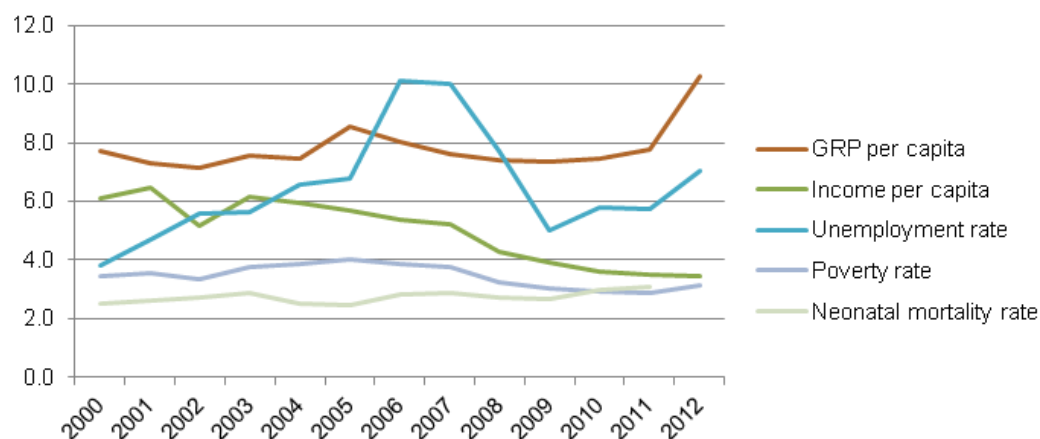
Source: UNDP (2011) *National Human Development Report for the Russian Federation 2011: Modernisation and Human Development*⁵²



2: Children playing near abandoned factory, Tuva region

Regional inequality has been one of the key factors contributing to the high level of income inequality in Russia in post-Soviet period.⁵³ The income, health, and well-being of an individual in Russia is in most cases significantly related to their region of residence. Figure 4 illustrates the dynamics of regional inequalities in the 2000s, highlighting the variation in socio-economic indicators such as GDP per capita, unemployment rate, income per capita, poverty rate, and neonatal mortality. Until the early mid-2000s, inequality in all indicators, except income per capita, was increasing. In the mid-2000s, with an increased use of regional budget transfers as a tool to ameliorate regional inequalities (see section 4), all types of inequality between the regions started decreasing, with the exception of neonatal mortality. However, since the end of the 2000s when budget transfers started decreasing, all indicators, except income per capita, have increased again.

Figure 4: Differences in key socio-economic indicators between top 10 per cent and bottom 10 per cent of the Russian regions, 2000–2012



Source: Oxfam's calculation based on data from <http://regionstat.ru>

The United Nations Development Programme's human development index (HDI) also indicates high levels of regional inequalities in Russia. In 2008, while the overall HDI for Russia was 0.825, in Moscow it was 0.929 (comparable to Israel, Slovenia, and Andorra that year), and in the lowest ranked region – the Republic of Tuva – it was only 0.717 (comparable to Equatorial Guinea).

In 2008, while the overall HDI for Russia was 0.825, in Moscow it was 0.929 that year, and in the lowest ranked region – the Republic of Tuva – it was only 0.717.

SOCIAL INEQUALITY

Members of the Russian chapter of the Global Call Against Poverty (GCAP) network, with whom we consulted, regularly encounter different forms of discrimination of certain population groups, such as older people, women, people with disabilities, and homeless people. But there is a significant lack of systematically collected statistical population data in Russia, which is essential for comprehensive analysis of social inequalities, and official statistics are rarely (if ever) broken down by gender, age, ethnicity, or other factors.

International measurements of social equality highlight the situation in Russia; according to the Global Gender Gap Index and the UNDP Gender Inequality Index the country's ranking for gender equality has been relatively low and on a downward trend in recent years (see Table 4).

Table 4: Gender inequality trends in Russia, Global Gender Gap Index and UNDP Gender Inequality Index

Year	Global Gender Gap Index (rank) ⁵⁴	UNDP Gender Inequality Index (index and rank) ⁵⁵
2008	42	n/a
2009	51	n/a
2010	45	0.329 (rank 48)
2011	43	n/a
2012	59	0.312 (rank 51)

The extent of social inequality in Russia today is evidenced by sound qualitative research; recent examples include the Human Rights Watch report on the situation of people living with disabilities⁵⁶ and the Refugee Board of Canada report on ethnic minorities.⁵⁷

Due to the lack of reliable statistical data, it is challenging to undertake an in-depth analysis of the relationship between social and income inequalities. In the following sections however, we will highlight some of the ways in which social inequalities in Russia are linked to and often perpetuate income inequality.

3 CREATING A VISCIOUS CYCLE OF INEQUALITIES?

Intersecting with each other, high income, social and spatial inequalities result in increasing inequalities in living standards and in access to a range of social, economic and legal institutions, further dividing the Russian society and making these divisions more entrenched.

Box 4: Russian opinion on the most acute forms of inequality

According to the 2013 representative population survey, Russians themselves think that the forms of inequality most strongly affecting the well-being of the country's population are:⁵⁸

- Income inequality (72 per cent of respondents pointed out this factor)
- Inequality in access to healthcare (47 per cent)
- Housing inequality (42 per cent)
- Inequality in access to education (31 per cent)
- Inequality in access to quality jobs (31 per cent)

Russians (perhaps at least those belonging to low income groups) appear to tolerate these inequalities less than a decade ago. The notion that unequal access to healthcare and education is *justifiable* by differences in income has substantially changed over the last 10 years. While in 2003, 53 per cent (in the case of healthcare) and 33 per cent (in case of education) of poor people did not agree with such reasoning, in 2013, 71 per cent and 74 per cent disagreed, respectively.⁵⁹ Thus, income inequality as a factor of access to social institutions is getting increasingly delegitimized.

INEQUALITY IN ACCESS TO HEALTHCARE



3: Local medical centre, Diveevskiy district, Nizhegorodskiy region

Inequalities in access to healthcare are of great concern to Russians (Box 4). Although the rights to health and to free healthcare are enshrined in the constitution of the Russian Federation, persisting and worsening underfunding of the public healthcare system and increasing privatization and commercialization of the healthcare sector are making access a growing challenge to the people of Russia.

According to a 2008 study by the World Health Organization⁶⁰, the main inequalities in access to healthcare in Russia include:

- Discrimination of people older than working age (longer waiting and financial difficulties older people experience paying for chargeable services)
- Much higher risk level of ‘catastrophic’ expenditure on healthcare for poor households
- Difficulty obtaining free healthcare services for patients with chronic diseases
- Lower level of accessibility of specialized outpatient care for inhabitants of small settlements as compared to the residents of big cities.

These examples indicate that the main drivers of inequalities in access to healthcare are income inequality and spatial inequality. Official statistics confirm that income inequality translates into inequality in consumption of healthcare services. In 2012, the expenditure on healthcare of the richest 10 per cent of the population was 11 times greater than that of the poorest 10 per cent.⁶¹ Regional differences in per capita financing of healthcare in 2008 reached 10–12 times between different regions.⁶² Furthermore, access to healthcare was shown to decrease with the size of a settlement.⁶³

Regional differences in per capita financing of healthcare in 2008 reached 10-12 times between different regions.

Box 5: Oxfam’s Rural Health project

In 2012–2013, Oxfam implemented the Rural Health project in the Diveyevskiy district of the Nizhegorodskiy region of Russia, specifically aimed at addressing spatial inequality in access to healthcare for socially vulnerable families with children aged three to 15. In a nine months’ period, regular trips to regional clinics for check-ups were organized for 200 beneficiaries who live in remote areas and were otherwise unable to travel there independently. Additionally, around 10,000 text messages were sent to residents of the Diveyevskiy district, covering such topics as right for free healthcare, patients’ rights, healthy lifestyles, useful information about the work of regional clinics, etc. The project is now being carried out by local authorities.

Research conducted by the St Petersburg Region Charitable Social Non-Government Organization (‘Nochlezhka’; a partner organization to Oxfam) found that social inequality, and in particular, discrimination based on the residence registration, is also a factor of inequality in access to healthcare in Russia. As their work with homeless people has revealed, and although completely against the federal law on the freedom of movement, residence registration is often used as a criterion for granting access to public healthcare. For this reason, people without residence registration, in particular the homeless and migrants, often can’t access free healthcare.⁶⁴

Although completely against the federal law on the freedom of movement, residence registration is often used as a criterion for granting access to public healthcare.

Access to healthcare is a major factor in health status in Russia – highlighting a mechanism by which income inequality causes other forms of inequality.⁶⁵ Estimates of health inequities among different socio-economic groups are almost non-existent in Russia, but the few examples of research that do touch on this issue show a clear correlation between income inequalities and disparities in health status.⁶⁶

HOUSING INEQUALITY

The issue of housing inequality is almost as high a concern for Russians as unequal access to healthcare. When analysing the inequality in housing in Russia, unusual trends become apparent.

The housing conditions in which most Russians live are relatively poor when compared with OECD countries.⁶⁷ In urban areas, 17 per cent of the population don’t have running

Only 19.8% of families could afford to buy new housing with their own savings and/or mortgage credits

water, a sewage system, or central heating in their homes, and 9 per cent do not have hot water. In rural areas, the situation is much worse; only 42 per cent of young urban adults (age 21-40) own a separate apartment for the nuclear family, while 50 per cent live with extended family, and the rest rent.⁶⁸

Despite these findings, there is a relatively low correlation between income and owned housing space in Russia – a result of the post-Soviet housing privatization system which granted property rights to occupants of Soviet housing, thus ameliorating potential housing inequalities that could have emerged as a result of the market transition.⁶⁹

But it is in other respects that housing inequality among Russian population is high. I.e. in case of the quality of housing we observe a large gap between different income groups. The Gini coefficient of housing space equaled 0.299 in 2009, while the coefficient of housing space with quality factored in was 0.448.⁷⁰ To put it very simply, rich and poor Russians may live in similarly sized apartments, but their apartments have substantially different conditions.

Moreover, due to high costs, new housing remains virtually inaccessible for the majority of the population. In 2010, only 19.8 per cent of families could afford to buy new housing with their own savings and/or mortgage credits; to exacerbate this issue, the average waiting time for social housing (apartments provided by the state to families with substandard housing conditions) in 2010 was 19 years.⁷¹ Thus, *income inequality* is gradually becoming a driver of housing inequality in contemporary Russia.

Social inequality also plays increasingly important role in determining one's chances of having quality housing. A new phenomenon observed in the market of rented housing also suggests that xenophobia and ethnic discrimination are becoming factors of housing inequality in urban areas where substantial migration inflows exist. Some landlords now openly state in the advertisements that they would rent out 'only to Slavic families'.

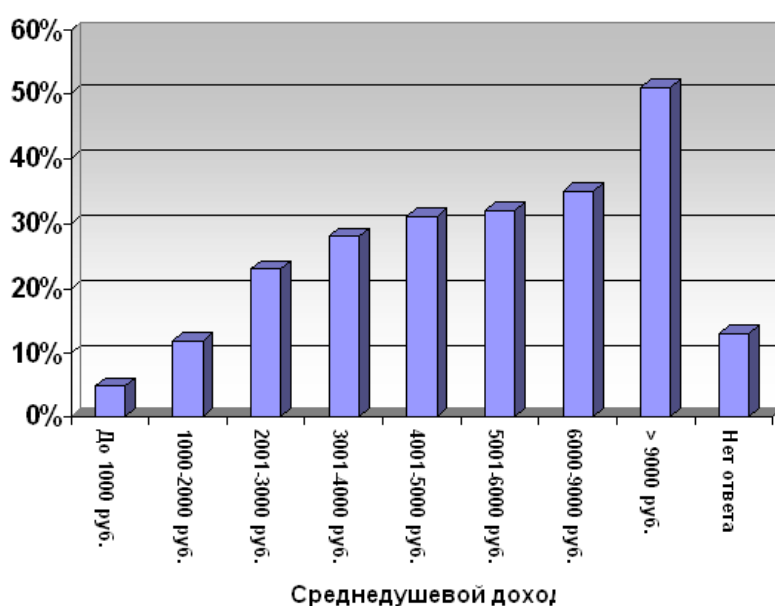


4: Residential building, Ostashkov, Tver region

INEQUALITY IN ACCESS TO EDUCATION

Inequality in access to education is a relatively recent phenomenon in Russia; during the Soviet era, primary, secondary, and tertiary education was universal and free for all. Although primary and secondary public education remains universally available and free, recent research suggests that parents are increasingly paying for additional courses and private tutors to compensate for the decreasing quality of education and to increase their children's chances of enrolling in higher education. Once more, the income level of a household is a key factor (Figure 5); existing and increasing income inequality is translating into inequalities in access to quality education.

Figure 5: Percentage of families paying private tutors in primary and secondary school by average household income groups, 2003



Source: Danilova 2011

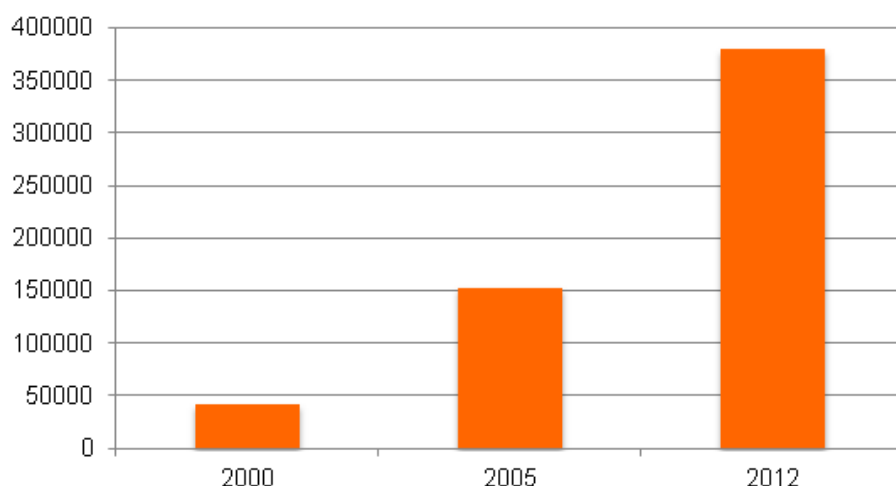
Note: horizontal axis indicates average household income in roubles

In higher education the situation has changed even more dramatically; during the 2000s, the proportion of self-funded students versus publicly funded students reversed. In the 2000/2001 academic year, 34.4 per cent of students were self-funded; this increased to 61.5 per cent in 2011/2012, while the number of educational places did not increase substantially.⁷²

As education is becoming increasingly commodified in Russia (Figure 6), expenditure on education is increasingly concentrated in the upper income quintiles (Table 4). Russians are spending increasingly more on their children's education, and the share of expenditure is increasing among richer Russians. We could, therefore, expect that educational inequalities along income lines will be exacerbating.

During the 2000s, the proportion of self-funded students versus publicly funded students reversed. In the 2000/2001 academic year, 34.4% of students were self-funded; this increased to 61.5% in 2011/2012, while the number of educational places did not increase substantially.

Figure 6: Total private expenditure on education in Russia (million RUB), 2000–2012



Source: Federal Statistical Service of the Russian Federation⁷³

Table 5: Expenses on education by income quintiles as a share (%) of the total private expenditure on education, 2008-2012

	2008	2010	2012
<i>Total expenditure</i>	100	100	100
<i>Q1 (lowest income)</i>	4.7	4.0	3.8
<i>Q2</i>	9.5	10.8	8.6
<i>Q3</i>	18.5	17.2	15.5
<i>Q4</i>	33.6	35.9	35.8
<i>Q5 (highest income)</i>	33.7	32.1	36.3

Source: Federal Statistical Service of the Russian Federation⁷⁴

Spatial inequality also represents an important factor of inequality in access to education in Russia. Significant differences in the quality of education between different regions and urban and rural areas are observed.⁷⁵

Social indicators such as disability status can significantly limit people's access to education. As recent research by Human Rights Watch demonstrates, access of people with a disability to professional and higher education remains extremely constrained.⁷⁶

Inequality in access to education is a particularly problematic issue for further perpetuation of income inequality in Russia, taking into account steadily increasing role of the 'higher education' factor in income inequality, the weight of which increased seven-fold between 1992 and 2010.⁷⁷

Box 5: Digital inequality

There is a newly emerging measure of inequality in Russia that is becoming of high concern to today's government – that of 'digital' inequality.⁷⁸ Only 45 per cent of Russians who are considered to be poor (those living below national poverty line) have computer skills, unlike 73 per cent of the rest of the population. While 57 per cent of poor people do not have a computer at home only 22 per cent of those who are not classified as poor do not have one. This form of inequality further limits people's access to good quality jobs and significantly impedes 'modernization' processes – the e-initiatives of the current government remain inaccessible for a large proportion of the country's population.

INEQUALITY IN ACCESS TO QUALITY JOBS

Inequality in access to quality jobs is also considered by the Russian population as one of the most acute and problematic forms of inequality existing in the country. This concern is particularly understandable when the historical context is considered. In the Soviet Union labour was a right, and the unemployment rate was almost zero, as in the Soviet planned economy almost every citizen was provided with – and, importantly, had to have – a job. In the beginning of market transition, unemployment rates in Russia soared. As the economy improved and achieved sustained growth in the 2000s, unemployment rates started to improve. By the end of 2013, official unemployment rates were low at 5.6 per cent.⁷⁹ Given the context, what do Russians consider to be inequality in access to quality jobs?



5: Textile factory, Vyshnyi Volochek, Tver region

First, Russia still has significant informal economy sector. In April 2013, vice-minister O. Golodets pointed out that only 48 million out of 86 million Russians of working age work in the formal sector. According to different estimates, in 2012, between 14 and 25 million Russians worked in the informal sector (worked for private persons or entities without legal status).⁸⁰ In addition to this, according to the estimate of trade unions, almost half of 'formally employed' in Russia work in jobs from which their employers paid only minimal income taxes and social insurance contributions paying them the part of the salary exceeding the minimum wage 'in an envelope'.⁸¹ Although for self-employed workers staying 'in the shadow' represents a way to increase their profit by avoiding taxation, for those who are employees in the informal economy there is a lack of social security, which increases the risk of falling into poverty and perpetuating inequality. The likelihood of being employed in the informal economy is higher for individuals with lower education, as well as for those of a younger age.⁸² This is a clear example of how *inequality in access to education* is translating into inequality in access to quality jobs.

By the end of 2012, unemployment rates between the region with lowest unemployment rate (Moscow) and the region with highest unemployment rate (Republic of Ingushetiya) was almost 50-fold (1% compared with 49%).

Second, inequality in access to quality jobs has a clear regional dimension. Although the average unemployment rate in the country appears to be comparatively low, unemployment rates across the regions vary vastly. By the end of 2012, unemployment rates between the region with lowest unemployment rate (Moscow) and the region with highest unemployment rate (Republic of Ingushetiya) was almost 50-fold (1 per cent compared with 49 per cent).⁸³ Even if we exclude Ingushetiya with its high levels of participation in the informal economy, regional differences will still be very significant. Thus, spatial inequality appears to be a significant factor of inequality in access to labour market.

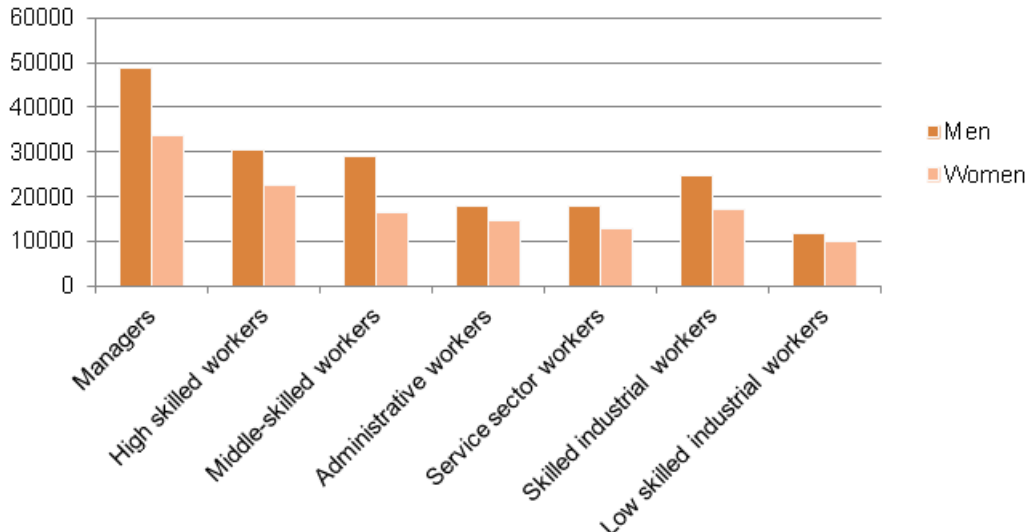
Box 5: Oxfam's rural and urban livelihoods programmes

Oxfam's livelihoods programmes in small towns across several economically disadvantaged regions and in rural areas of the Tuva region were specifically designed to address the problem of poverty and spatial inequality. The programmes aimed at enhancing economic opportunities for small town and rural residents through self-employment. During 2005–2010, Oxfam provided access to financial and non-financial business support services and improved the businesses of at least 15,000 micro-entrepreneurs from 15 Russian regions. A total of 450 people had started their own businesses as a result of the programmes and 62 per cent of the beneficiaries were women. The capacity of local authorities in five small towns to support local entrepreneurs was improved and financial infrastructure was developed in seven regions of Russia.

Third, gender inequality plays a role in determining access to quality jobs. Although there is no noticeable gender gap in employment rates in Russia, the gender pay gap remains very high; on average, women are paid 64 per cent of the pay of men for the their work.⁸⁴ This gap is related to relatively high levels of gender segregation in Russia's labour market, where women traditionally dominate in lower-paid public sectors; for example, the number of women working in the healthcare sector is almost four times higher than the number of men and in education there are more than five times more female than male employees. But as Figure 7 suggests, women and men are paid differently even when they do exactly the same work. Moreover, women in the Russian labour market face the problem of the 'glass ceiling'; only 20 per cent of companies have female top managers, while 29 per cent of firms have female participation in ownership.⁸⁵

The gender pay gap remains very high; on average, women are paid 64% of the pay of men for the their work

Figure 7: Average salary of men and women, according to professional categories (RUB per month), 2011



Source: Oxfam's calculations based on the data of the Federal Statistical Service of the Russian Federation⁸⁶

Finally, there are a number of other social inequalities that limit people's chances of obtaining quality jobs in Russia. People with disabilities face discrimination during recruitment, receive lower salaries, and work in precarious conditions,⁸⁷ and internal migrants and homeless people face discrimination because residence registration is frequently put forward by employers as a recruitment condition.⁸⁸

Internal migrants and homeless people face discrimination because residence registration is frequently put forward by employers as a recruitment condition.

INEQUALITY BEFORE THE LAW AND CORRUPTION

It is important to consider that economic inequality, according to the views of the Russian population, leads to inequality before the law. Seventy-four per cent of poor people in Russia and 71 per cent of the non-poor believe that the current judiciary system in the country protects the interests of rich and influential people more often than interests of the common people. Twenty-nine per cent of poor people and 20 per cent of non-poor people stated that they had their rights violated in the past three years. The most common cases included access to healthcare and social benefits, labour relations, and contacts with the police.⁸⁹

'...corruption rests on the foundation of unequal resources and it leads to greater inequality in turn.'

Related to the issue of inequality before the law is the problem of the prevailing high levels of corruption, which unites Russia with many other emerging economies. In 2012, Russia was ranked 133 out of 174 countries in Transparency International's Corruption Perceptions Index. Notably, Russia has a lower ranking than all of its BRICS peers – Brazil, India, China, and South Africa.⁹⁰ Although corruption debates in Russia are in most cases framed within the good governance and rule of law discourse, it could be argued that the high levels of public demand for fighting corruption have a strong social justice underpinning and are related to high levels of wealth and income inequality. As Uslaner argues, *'corruption rests on the foundation of unequal resources and it leads to greater inequality in turn.'*⁹¹

4 INEQUALITY POLICY SOLUTIONS: LOOKING BACK

So far in this paper we have considered the trends of income, spatial, and social inequality that have emerged in post-Soviet Russia. We have also looked at how these inequalities lead to inequalities in access to healthcare, education, housing, the labour market, and the law. In the next two sections, we will review how Russian policymakers have been trying to address the problem of growing income inequality in recent years and which policies are essential for making the fight against inequality more effective in the future.

As mentioned in the introduction, during the 2000s the government undertook a range of policy measures that, to certain extent, addressed the problem of high levels of income inequality and related regional inequality. Two key notions underpinning the government's approach to inequality to date, have been that economic development would lead to reduction in inequality both between regions and individuals, and that inequality could be reduced by 'lifting up the bottom' (be it poor regions or poor people) through budget transfers and increased spending on social protection.

REGIONAL ECONOMIC DEVELOPMENT

Regional economic development policies focus on creating so-called 'points of growth' by improving investment climates and infrastructure in the regions. Overall, experts evaluate effectiveness of these policies rather pessimistically. It is argued that the focus has been too strongly on economic 'equalization' of the regions, which to date has been relatively unsuccessful and is unlikely to succeed in the future because of enormous differences in the distribution of natural resources across regions and vast differences in geographic location.

At the same time, insufficient attention is paid to the reduction of regional inequalities in human capital.⁹² National priority projects⁹³ aimed at modernizing education, housing, and healthcare and improving demographic situation in the country that were initiated in 2005 and were supported by significant budget transfers from the federal centre to the regions could potentially address those issues, but with the reduction of the federal funding following the 2008 crisis, they are unlikely to do that.

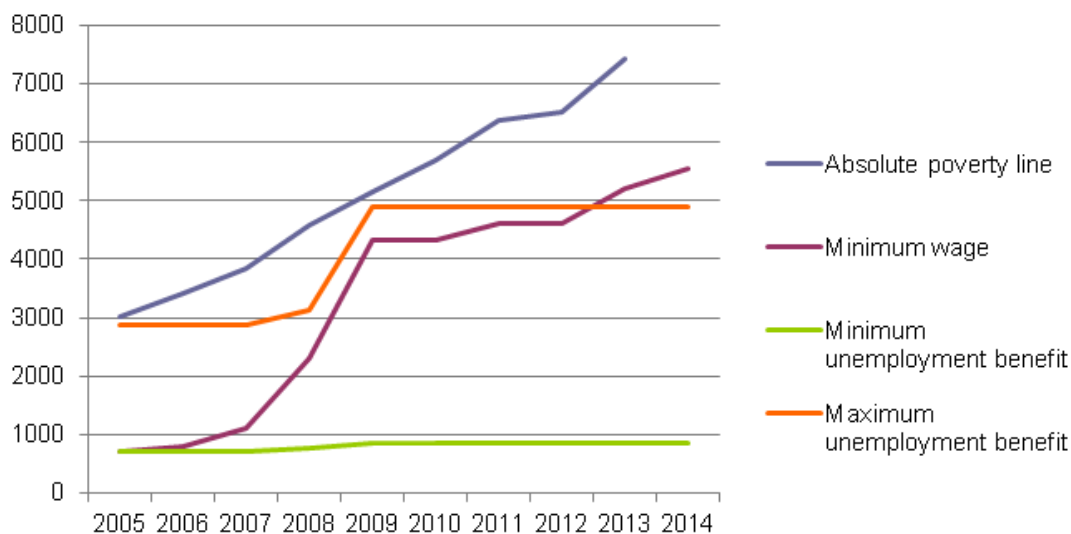
'LIFTING UP THE BOTTOM'

Efforts to reduce inequality in the living standards of populations of different regions are made through interregional budget transfers to support low-income regions. Budget transfers as a tool to reduce regional inequalities have been strongly criticized by the expert community, which argues that funds usually stay in the pockets of regional elites.⁹⁴

Increases in spending on social protection have followed a similar logic, focusing on the low-income groups. The first type of policy within this category has targeted labour market factors. The measures have included increasing the salaries of public sector employees (a group with one of the lowest incomes in the post-Soviet period), gradual increases of the minimum wage, and increasing unemployment benefits. Public sector salary increases have been shown to have a positive effect on income inequality reduction.⁹⁵ At the same time, increases in the minimum wage – which still remains substantially below the national poverty line (in 2014, minimum wage equaled only 75 per cent of the national poverty line) – have not really solved the problems of the poorest people. In 2011, the number of working poor (people whose income was below the national poverty line) in Russia was

estimated at 13 per cent.⁹⁶ The maximum unemployment benefits also remain below the national poverty line, amounting to just 66 per cent.

Figure 8: National poverty line, minimum wage, and unemployment benefits rates, (RUB per month), 2005–2014



Source: Federal Statistical Service of the Russian Federation⁹⁷



6: Local market, Ostashkov, Tver region

Increasing public pensions is another policy implemented by the Russian government in an effort to reduce inequality. Notably, this measure appears to have had a significant anti-poverty effect, since pension age has since ceased to be a poverty factor.⁹⁸ However, the impact of this policy on income inequality has been quite limited. The Global AgeWatch Index 2013 evaluated the overall well-being of elderly people and ranked Russia as 78 out of 91 countries for which the data were collected, falling behind some less prosperous, post-Soviet neighbours, due to the wide income gap between the older people and the rest of society. In January 2104, the size of the average pension still equated to only 34.7 per cent of the average salary.⁹⁹ Average consumption of people aged 60+ as a percentage of average consumption of the rest of the population in Russia currently stands at the level of 46.9 per cent.¹⁰⁰

Another policy to reduce inequality focuses on measures of social protection for the socially vulnerable population groups. Although overall financing of the social protection system has started improving, the system remains underfunded and has, therefore, had a limited redistributive effect.¹⁰¹

This result is also a result of poor targeting – in 2011 safety net programmes for poor people accounted for only 0.5 per cent of GDP, while the overall social protection spending in Russia stood at 18.8 per cent of GDP.¹⁰² Moreover, about 50 per cent of the population who are poor do not have access to safety net programmes – a result of the chaotic development of the safety net programmes during the 1990s and mistakes in defining the eligibility of beneficiaries.¹⁰³

About 50% of the population who are poor do not have access to safety net programmes

Finally, at the end of 2012, the new state programme on 'Provision of affordable and comfortable housing and public utilities' was passed. The core components of this programme to increase affordability of housing for lower-income groups include construction of low-cost housing, reduction of interest rates on mortgages, credit subsidies, and increases in the volume of social housing.¹⁰⁴ The results of this programme are yet to be seen.

The key problem of the 'lifting up the bottom' approach in Russia is that most of the time the sources allocated for the programmes discussed above are not well targeted, and most crucially, are too limited to have significant redistributive effects.

5 INEQUALITY POLICY SOLUTIONS: LOOKING FORWARD

In the previous section we looked at a range of policies that the Russian government has adopted to tackle the problem of growing income inequality. While it should be recognized that those policies address important factors of income inequality in Russia such as regional inequality and low wages in certain sectors, and have been shown to have an overall poverty reduction effect, to date the impact has been very limited. As we discuss in this section, the limited effectiveness of the government's efforts to tackle income inequalities is a result of the complete absence of a number of key policies or their importance significantly underestimated in the current policy discourse and practice on income inequality. We will now consider these crucial gaps in policy.

ADDRESSING LABOUR MARKET CHALLENGES

As previously highlighted, the number of working poor in Russia is estimated to be 13 per cent,¹⁰⁵ indicating significant flaws in the labour market. As Vladimir Putin himself addressed in 2012:

*'One-sided resource-based economy does not ensure development and demand for human potential and, thus, by default, causes inequality. Its reserves are exhausted, while for the sake of Russia's development, an annual GDP growth of 5–6 per cent in the next decade is required. The real change of the structure of the economy, creation of the new – and return of the leadership in the traditional – industries, development of the small and medium business – these are the key issues.'*¹⁰⁶



7: Timber factory, Ostashkov, Tver region

A presidential order issued in May 2012, following the elections, demands creation of 25 million quality jobs by 2020,¹⁰⁷ and during its G20 presidency in 2013 it was on job creation that Russia chose to focus the agenda. Creation of quality jobs and transformation of today's low-productivity, low-paid jobs into highly productive 'modern' jobs could become an important inequality antidote for Russia, where inter- and intra-industry wage inequality represent one of the key factors of income inequality.¹⁰⁸ However, a decreasing number of jobs in recent years and a lack of economic growth and investment, make many experts doubt the feasibility of this programme.¹⁰⁹ Current conditions are also a sign of that the government will need to look for other policy solutions to the problem of inequality.

REDISTRIBUTING THROUGH TAXATION

While increasing spending on social protection has been at the centre of the government's policies, the other side of the fiscal policy coin – taxation – has mostly been absent from the anti-inequality policy discourse and practice.

In its current state, the Russian tax system exacerbates rather than solves the problem of income inequality. First, payroll tax evasions in Russia are high, currently estimated at the level of 40 per cent.¹¹⁰ Although the government has been making attempts to enforce legal measures against employers paying wages 'under the table' or 'in envelopes',¹¹¹ there are signs of increasing numbers of jobs that are being informalized.¹¹² Experts tend to explain payroll tax evasion by employers as a reaction on the increases of social insurance contributions and the low trust people have in the government's ability to fairly spend the taxes they collect.¹¹³ Furthermore, Russia currently does not have progressive income tax system with income tax on salaries and rent set at 13 per cent.

To date, Russian policymakers appear to have been hesitant to step into the area of tax policy. The justification for persisting adherence to flat income tax by policymakers and experts is that progressive income tax would hurt Russia's fragile middle class most, cause further informalization of the labour market, and increase tax evasion.¹¹⁴ Therefore, instead of a progressive income tax, the majority of experts and policymakers usually propose introducing property taxes, taxes on luxury goods, and a 'solidarity tax' of 3–5 per cent for people with very high incomes.¹¹⁵ But the steps in the direction of those taxes have also been miniscule so far. In 2013, a tax on luxury cars was introduced, but the long-awaited real estate property tax reform has been once again postponed.¹¹⁶

The introduction of progressive income tax could reduce the Gini coefficient of disposable income from 0.42 to 0.34, reduce the decile dispersion ratio by 8.3 times, and the absolute poverty level to 6.78%.

In any case, the current and rather small role allocated to tax policy in the fight against income inequality in Russia is unjustified. A well-designed tax system could not only effectively reduce market income inequality, but also generate additional revenue, which could then be spent on social protection and public services, leading to further reduction in inequality. As Oxfam partner's research in 2009 has shown, the introduction of progressive income tax could reduce the Gini coefficient of disposable income from 0.42 to 0.34, reduce the decile dispersion ratio by 8.3 times, and the absolute poverty level to 6.78 per cent.¹¹⁷

Table 6: Possible progressive tax scale and their effect on inequality in Russia, 2009

Per capita income range (RUB/month)	Income tax rate (%)		Key inequality indicators	Flat tax scale (13%)	Progressive tax scale
0-5,083	0	➔	Gini coefficient	0.424	0.341
5,084-15,000	16				
15,001-30,000	30		Relative poverty	19.90%	10.17%
30,001-50,000	43				
50,001-75,000	50		Decile dispersion ratio	18.16	8.30
75,001-1,000,000	55				

Source: Institute of socio-economic problems of population of the Russian Academy of Science, 2012

Box 6: Fighting illicit financial outflows

Russia faces the problem of enormous illicit financial outflows. In the period from 2002 to 2011, the cumulative size of illicit financial outflows equalled \$880.96bn, ranking Russia second to only China in the world.¹¹⁸ These outflows clearly have a direct negative impact on the tax base and consequently on the system of social protection and its redistributive potential. They also further exacerbate income and wealth inequalities. In this sphere the government has been rather active – at least rhetorically – and in 2013 it started a campaign on ‘deoffshorization’. It is expected that measures to push Russian business from the offshore jurisdictions will be introduced in the near future;¹¹⁹ this could become an important contribution to the fight against both income and wealth inequality. Until concrete actions are taken in this area, it is hard to say what their actual impact on inequality will be.

PUBLIC SERVICES AS A WEAPON AGAINST INEQUALITY



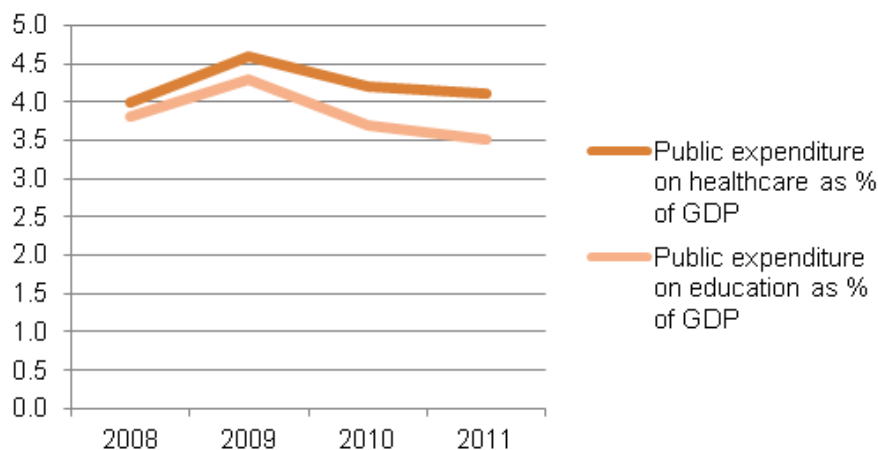
8: Local medical centre, Diveevskiy district, Nizhegorodskiy region

Public services such as universal public healthcare and education have very strong redistributive effects.¹²⁰ By placing ‘virtual income’ in everyone’s pockets, public services reduce income inequality in OECD countries by an average of 20 per cent.¹²¹

However, in Russia the redistributive role of these services remains unrecognized. While the government has been active in increasing spending on social protection, public expenditure on healthcare and education systems in Russia (already relatively low when compared with OECD countries and some of the BRICS) has actually been decreasing (Figure 9). This will undoubtedly further affect accessibility and quality of these services, and eventually will decrease their redistributive potential even further.

By placing ‘virtual income’ in everyone’s pockets, public services reduce income inequality in OECD countries by an average of 20%

Figure 9: Public expenditure on healthcare and education in Russia as percentage of GDP, 2008–2011



Source: Federal Statistical Service of the Russian Federation¹²²

Although to date there are no studies that look specifically at the redistributive effect of healthcare and the educational system in Russia, the case of preschool education provides a clear example of how underfunding of these services (resulting in low accessibility) leads to inequality in access to the labour market and further perpetuation of income inequality, especially in its intersection with gender inequality. Currently, access to public preschool education in Russia is very limited; it is estimated that in 2013, 450,000 children across the country were on a waiting list for a place in kindergartens.¹²³ This situation severely limits access to the labour market for people with children, especially for women. Among families without children who have unemployed members, only 7 per cent of cases are they intentionally not seeking work; conversely, among families with children this is the case for 20 per cent of the households (for families with three children this number goes up to 36 per cent), and most of those adults are women.¹²⁴

BETTER ANTI-DISCRIMINATION LAWS

Article 19 of the Constitution of the Russian Federation prohibits discrimination based on one's gender, race, nationality, language, place of birth, income status, residence, religious views, beliefs, or belonging to public organizations. However, overall anti-discrimination legislation and mechanisms for its enforcement are very weakly developed in Russia.¹²⁵ Improvement of this legislation is essential for tackling social inequalities, which are inextricably linked with income inequality.

ADDRESSING CORRUPTION AND LAW ENFORCEMENT CHALLENGES

Key societal demands addressed to the state today include guarantee of civil rights and justice, reduction of violence and social inequality, solving of housing problems. Everyone is aware what the key challenges for achieving that are, I won't say anything new – these are low effectiveness of the government and corruption
V.Putin, Address to the Federal Assembly 2012¹²⁶

The struggle against inequality in Russia should be underpinned by a strong drive to make law enforcement fair and equitable and fight corruption at all levels of social institutions. Many of the factors contributing to high levels of income inequality in Russia, for example a large informal sector and high levels of tax evasion, are based on very low (among the lowest in the world)¹²⁷ levels of institutional trust characterizing Russian society. Consequently, many of the key anti-inequality policies, such as progressive taxation,

deoffshorization, and creation of jobs in the formal sector, simply could not be effectively implemented in Russia, unless the problems of corruption and inequality before the law are effectively addressed.

CONCLUSION

Currently, Russian society faces unprecedentedly high levels of income and wealth inequality, which is exacerbated by high levels of spatial and social inequality. This situation raises a lot of concerns and dissatisfaction across different groups of the Russian population. Unlike poverty, inequality concerns both poor people and non-poor people in the country. High income, social, and spatial inequalities result in increasing inequalities in access to social institutions, such as healthcare, education, the labour market, housing, and even the law, which threaten to perpetuate the problem of inequality even further.

Russian policymakers are increasingly focusing on the problem of inequality, and since the mid-2000s a number of policies have been put in place to address income inequality and regional inequality. These policies have been predominantly focused on economic development of the regions and on redistributive transfers to the low-income and vulnerable regions and people. While it is difficult to estimate actual inequality-reduction effect of these policies, it is obvious that they have been insufficient to reversing current inequality trends. As this paper showed, without addressing labour market challenges, realizing the redistributive potential of the tax system and public services, improving anti-discrimination legislation, and addressing the problem of corruption and an inequitable law enforcement system, the future fight against inequality in contemporary Russia is unlikely to succeed.

Moreover, these policies are precisely what the Russian citizens now expect from their government. As documented by a series of focus groups conducted in the spring of 2012 by Mikhail Dmitriev's Center for Strategic Research:

*What Russians seem to want is not so much equalization for the sake of equalization but a well-functioning state with a significant welfare component. Many Russians in the provinces are deeply upset about the failure of a visibly corrupt bureaucracy to provide high quality education, healthcare, and legal enforcement. Mere redistribution of money—to regions or even to individuals—will not satisfy the demand for these services. Institutional changes are required.*¹²⁸

The latter seems to bring Russian population close to the population of other emerging economies, such as Brazil, Thailand, and Turkey, which in recent years have increasingly been actively demanding better public services and better and more transparent investment of public money from their governments.

NOTES

All URLs last accessed April 2014

- 1 Russian Federation Federal State Statistics Service <http://www.gks.ru>
- 2 Russian Federation Federal State Statistics Service op.cit.
- 3 Credit Suisse (2012) Global Wealth Report 2012, Zurich: Credit Suisse Research Institute, <https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=88EE6EC8-83E8-EB92-9D5F39D5F5CD01F4>
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