

POVERTY AND INEQUALITY IN CONTEMPORARY RUSSIA

Oxfam has more than 60 years experience helping people overcome poverty the world over – from Asia and Africa to the United Kingdom and the United States. Since 2003, Oxfam has been working in the Russian Federation, where we have applied our international knowledge to our work with civil society partners from Murmansk to Vladivostok and many places in between. In 2012, advocacy on pro-poor social policy will become central to our in-country work. This briefing paper is meant both to outline Oxfam’s vision of the situation around poverty and inequality in Russia and to introduce our policy recommendations, which we will develop further as our work in this area rolls out.

1. WHY TALK ABOUT POVERTY AND INEQUALITY IN RUSSIA

The rapid economic growth that Russia has experienced in the past decade has, unfortunately, not resulted in radical decrease of poverty and inequality among the Russian population. And while the absolute poverty rate has been substantially decreased (from 29% in 2000 to 13% in 2011) and nowadays a significant part of the Russian population is enjoying the benefits of this economic growth – as expressed in the unseen by many developed countries level of consumption – **more than 18 million Russians (1 in 8 people) still live below the national poverty line**. Notably, the past year has even seen an increase in the number of poor people: **200,000 Russians became poor in 2011**. The situation of poor people in contemporary Russia is further exacerbated by the growing level of inequality, which is further aggravating subjective experience of poverty and limiting people's chances to escape poverty. However, with Moscow being home to the biggest number of dollar billionaires in the world and Russia's aspirations to present itself as a successful middle-income country, the poor and marginalised are becoming invisible and being silenced.

Persisting poverty and growing inequality in Russia is a systematic issue caused by failures of the system of social protection and redistribution in Russia. Anti-poverty measures implemented in the 2000s made the poverty of many people less deep, but have not actually managed to bring them out of poverty. And the recent suggestions of the newly formed team in the Ministry of Finance to change the method of calculation of the poverty line, which should result in the reduction of the actual number of people falling below this line¹, put a big question mark over the government's intentions to effectively tackle the problem of poverty and inequality in Russia. But without doing this Russia risks facing a serious economic and social crisis in the near future.

2. POVERTY: WHAT IT IS AND HOW IT LOOKS IN RUSSIA

The first important step in any discussion of poverty is to define it. The most widely internationally used concepts of poverty are absolute and relative poverty.

Absolute or extreme poverty could be defined as a lack of sufficient resources to secure basic life necessities. There exist international, national, and sub-national/regional absolute poverty lines. The current international poverty line was set by the World Bank at the level of 1.25\$ (PPP) per day². Such extreme forms of poverty are said to have been eliminated in Russia in 2009. The national absolute poverty line in Russia corresponds to the estimated price of the basic consumer basket, which currently is set at the level of 6.800 RUR (136 GBP) for a working adult per month. Regional poverty lines in Russia vary from approx. 75% to 200% of the national poverty lines. Currently, **12.8% of Russian population (1 in 8 people) live below subsistence level**. However, as a wide range of Russian policy experts agree in Russia today the 'contents' of the basic consumer basket do not meet the public health standards and do not correspond to the real patterns of consumption, and its price is substantially understated³.

Raising the national absolute poverty line to the level of the real price of basic consumer basket and reconsidering the content of the basic consumer basket to account for actual population consumption patterns, as well as health, educational and informational needs should become the first step on the way to addressing the problem of poverty in Russia.

Relative poverty is the state in which some people's income is so much lower than the general standard in the country or region that they are almost unable to participate in ordinary economic, social and cultural activities. Relative poverty could be measured in a number of different ways, but the most common measure used in the OECD countries defines people as relatively poor, if their equivalised disposable income is below 60% of the national median income. Relative poverty has serious psychological and social implications. People living in relative poverty experience high levels of distress in their daily lives, being constantly confronted with very difficult choices they because of the insufficient financial resources that they have. Thus, for example, pregnant women living in relative poverty have to choose between paying for the contract in the maternity hospital, which in contemporary Russia often serves as a 'guarantee' of good quality services, and buying necessary goods for their future baby. In the countries with low public provision of healthcare, education, and social services, relative poverty also substantially limits one's children's chances for upward social mobility. The measure of relative poverty is not officially used in Russia, but, according to estimates, in 2010, 31.7% of the Russian population lived below the relative poverty line⁴ (median income in that period was 13,400 RUR (268 GBP)).

Introducing a relative poverty line would allow better monitoring and, therefore, more effectively address actual situation with poverty and inequality in the country.

When talking about poverty, however, it is important to understand that poverty has a number of characteristics, such as intensity (also referred as depth of poverty, or poverty gap) and duration (or persistence). Poverty experienced by the majority of poor people in Russia is currently not very deep – about **three-quarters of those currently living in poverty would need to increase their income by less than a half, in order to get out of absolute poverty.** Both absolute and relative poverty in Russia are also characterised by relatively low duration. For two-thirds of families that experienced poverty it was a short period of 1–2 years. However, it is important to note that **at different moments poverty has been experienced by more than 50% of Russian families and for many, these episodes of poverty were repeated.**⁵

Moreover, it is important to remember that **poverty is not just about income.** It is also about bad health, educational disadvantage, joblessness, inadequate housing and environmental conditions that people live in. **In 2011, Russia was listed on the 66th place in UNDP's Human Development Index rating⁶,** and thus fell behind most of the OECD countries, as well as some of its post-Soviet counterparts, such as the Baltic States and Belarus. **In 2012, in the OECD's Your Better Life (also known as Happiness) index rating that evaluated the quality of life in OECD countries plus Brazil & Russia⁷, Russia achieved only 32nd place (out of 36).**

Increasing access to and quality of social services, including healthcare, education, childcare and care of the elderly is key to fighting poverty and inequality.

3. INEQUALITY: WHAT IT IS AND HOW IT LOOKS IN RUSSIA

Inequality is a measure of disparity between high and low income groups in a given society. While in Russia – and certainly also beyond it – one may often hear arguments that inequality is a necessary precondition of economic growth, when put into actual context, this argument appears simplistic, if not false. **Higher levels of inequality are associated with higher crime rates, lower levels of trust, and poorer population health, among others⁸.** This, in its turn, leads to instability, decrease in investments, and the undermining of government institutions, which eventually negatively affects economic growth itself⁹.

Inequality is also vital for understanding of poverty, especially relative poverty, since the ways in which wealth and income are distributed in a country determine the extent and depth of poverty experienced by its population. As the international experience suggests, **societies with a more equal distribution of income also have lower levels of poverty.**

In the last twenty years, Russia has witnessed an unprecedented growth of income inequality. **In the span of just two decade, Russian society, which in the end of the 1980s by its level of inequality compared with Scandinavian countries, has become more unequal than most of the G20 countries, including China, Indonesia, and Turkey¹⁰.** Since the 1990s, the decile dispersion ratio (the ratio of the income of the richest 10% of the population to the income of the poorest 10%) in Russia has jumped from 8 to 16, and GINI coefficient (an indicator of income distribution across all the income groups) grew from 0.24 to 0.46. It is also important to note that **in the recent years, inequality in Russia has continued to grow.**

4. FACTORS OF POVERTY AND INEQUALITY IN RUSSIA

In order to understand why poverty and inequality persist in contemporary Russia, it is important to look at their main factors.

Key poverty factors

Contrary to common notions in Russia that ‘Who does not work does not eat’ (‘Кто не работает - тот не ест’), **a large proportion of poor Russians – 38% – do actually work¹¹,** and they are poor precisely because of the kind of work that they do. The cause of this injustice lies in the archaic structure of economy, resulting in unacceptably low salaries in some of its sectors – often below the minimum subsistence level. In this respect, it is important to note that the **official minimum salary in Russia – currently, 4,611 RUR/month (92 GBP) – is way below the national poverty line.** When compared with fifty-one countries that joined the ILO Minimum Wage Fixing Convention, Russia ranks 40th out of 52 in the rating of minimum wages.¹²

Raising the official minimum salary at least to the level of the national poverty line would contribute to the elimination of the phenomenon of working poverty.

Children are another major group among the poor in contemporary Russia. **Almost 28% of those living in absolute poverty – or 5,000,000 people – are under 18 years.** A greater number of children in a family is associated with higher chances of poverty. Thus currently, the relative poverty rate is 25% for a nuclear family with one child, 26% for a nuclear family with two children, 35% for a nuclear family with three children, 32.5% for single parents with one child, and 42.7% for single parents with two children. The major reason for this is that the **government expenditure on child benefits in Russia is comparatively very low** – it is significantly lower than in most OECD countries, and 20–30 times lower than in Scandinavian countries famous for their low levels of child poverty¹³.

Moreover, child benefits, like many other social benefits in Russia, **often do not reach those most in need, due to the ineffective benefit targeting system.** Currently, only 7% of the overall government’s expenditure on social transfers is spent on targeted programmes for the poor¹⁴, and only half of the poor actually have access to those targeted programmes.¹⁵

Box 1. Increasing social transfers is an effective anti-poverty measure: Russia's success in raising pensioners out of poverty

In the recent years, **as a result of the significant increase in pension benefits, pension age, which was one of the most significant factors of poverty in the 1990s and beginning of 2000s, has basically stopped being so.** Pensioners living in pensioner-only households constitute only 0.5% of those living in absolute poverty. It is important to note, however, that overall pensioners still constitute 13% those living in absolute poverty in Russia, which is related to the fact that in mixed households, pensions are redistributed to other poor non-pensioner household members.¹⁶

It is also important to note that poverty in Russia is concentrated in small towns and rural areas – **40% of those living in absolute poverty live in rural areas, while another 25% in towns with population below 50,000**¹⁷ – where people more often experience the intersecting influence of the individual-level factors listed above.

The profile of poverty in Russia is also gendered. First of all it is due to a significant gender pay gap. Currently, for the same work, Russian women earn on average 35% less than men.¹⁸ Second, among single parents and pensioners women are the vast majority: 94%¹⁹ and 72%²⁰ respectively.

Improving targeting and increasing social transfers is essential for tackling the factors contributing to poverty in Russia.

Key socio-economic inequality factors

One of the major factors in income inequality in Russia is **high inter-industry and intra-industry salary differentiation.** Thus, for example, people working in agriculture earn only 43% of the national average salary, and the salary of the lowest paid workers in the financial, trade and public catering, and services sectors is 25 times smaller than the salaries of the top-earners in the same sector.²¹ Another factor significantly contributing to inequality is that **entrepreneurial and rent incomes** are concentrated **in the hands of 5% of the population.**²² High inequality is also related to **the weakness of current redistribution mechanisms in Russia**, i.e. high levels of payroll tax evasion (estimated at the level of 40%), flat income tax (13%), and regressive social security taxes (paid only on part of the annual salary, i.e. 600,000 RUR (10,200 GBP)).²³

Introducing progressive taxation would allow both a narrowing of income inequality, and an increase in revenue, which in turn could be used towards increasing social transfers.

Box 2. Redistribution is key to reducing inequalities: Russia's success in reducing regional inequalities in the 2000s

Another important aspect of inequality in Russia is its **strong regional component.** However, in contrast to individual-level income inequality, in the 2000s, regional inequality was substantially reduced thanks to intensified redistribution between the regions through the system of social transfers. Thus, the GINI coefficient of regional income inequality was reduced from 0.32 in 2000 to 0.20 in 2009.²⁴ However, in 2010, with a reduction of federal transfers to the regions, the situation with regard to regional inequalities has started worsening.²⁵

5. CONCLUSIONS AND RECOMMENDATIONS

The nature of the factors contributing to poverty and inequality in contemporary Russia clearly shows that poverty and inequality could not be considered as simple side-effects of economic transition, and continuing economic growth alone won't resolve these problems. Persisting poverty and growing inequality in Russia represent the result of the inefficiency of the system of redistribution and social protection. In order to reduce poverty and inequality, and, eventually, to make future economic growth possible and sustainable, new pro-poor social policies should go to the top of the government's agenda in the nearest future.

Oxfam believes that the following measures will lead to a substantial reduction in poverty and inequality in Russia:

- Raising the national absolute poverty line to the level of the real price of the basic consumer basket and reconsidering the content of the basic consumer basket to account for actual population consumption patterns and health, educational, and informational needs;
- Introducing a relative poverty line which would allow for better monitoring of the actual situation of poverty and inequality in the country;
- Increasing access to and the quality of social services, including healthcare, education, childcare and care of the elderly are key to fighting poverty and inequality;
- Raising the official minimum salary at least to the level of the national poverty line, which would contribute to elimination of the phenomenon of working poverty;
- Improving the targeting of and increasing social transfers;
- Introducing progressive taxation, which would allow both the narrowing of income inequality and also an increase in revenue, which could be used to increase social transfers.

NOTES

- 1 'Ministry of Finance is intending to change the method of subsistence minimum calculation', 30.05.2012
<http://www.vestifinance.ru/articles/12147>
- 2 PPP in prices of 2005
- 3 I.Denisova. 2012. Income distribution and poverty in Russia. OECD Social, Employment and Migration Working Papers no. 132. Organisation for Economic Co-operation and Development.
- 4 L.Ovcharova et al. 2011 Poverty and inequality in Russia. Independent Institute of Social Policy for Oxfam Russia
- 5 I.Denisova. 2012. Op. cit.
- 6 <http://hdrstats.undp.org/en/countries/profiles/RUS.html>
- 7 <http://www.oecdbetterlifeindex.org>
- 8 R.Wilkinson & K.Pickett. 2009. The Spirit Level: Why More Equal Societies Almost Always Do Better. Allen Lane.
- 9 Oxfam. 2012. Left Behind by the G20: How inequality and environmental degradation threaten to exclude poor people
- 10 Ibid.
- 11 V.Soptsov. 2012. Expert commentary to Oxfam's Left Behind by the G20 report. Institute of socio-economic problems of population of the Russian Academy of Science.
- 12 FBK (PKF Moscow). 2012. Country rating according to minimum wage. <http://www.fbk.ru/upload/images/MROT-1.pdf>
- 13 Ibid.
- 14 L. Ovcharova. 2012. Dynamics and factors of inequality in post-Soviet Russia. Expert commentary to Oxfam's Left behind by the G20 report. Independent Institute of Social Policy.
- 15 M.Malkova. 2009. Public social transfers. Independent Institute of Social Policy
- 16 Soptsov. 2011. Op. cit.
- 17 Russian State Statistical Agency data from 2010 http://www.gks.ru/free_doc/new_site/population/urov/urov_52.htm
- 18 L.Ovcharova et al. 2011 Poverty and inequality in Russia. Independent Institute of Social Policy for Oxfam Russia
- 19 The last available data on gender balance among single parents were presented in the draft of the Gender Strategy of the Russian Federation and date back to 2002 <http://www.owl.ru/win/docum/rf/strategy/strategy.htm>
- 20 Russian State Statistical Agency data from 2010 http://www.gks.ru/bgd/regl/b10_111/Main.htm
- 21 Ovcharova. 2012. Op. cit.
- 22 Ibid.
- 23 Ovcharova. 2012. & Soptsov. 2012, op. cit.
- 24 N. Zubarevich. 2010. Russian regions: Inequality, crisis, modernization. Independent Institute of Social Policy.
http://www.socpol.ru/publications/pdf/Regions_2010.pdf
- 25 Ibid.

© Oxfam GB November 2012

This paper was written by Daria Ukhova. Oxfam acknowledges the assistance of Sergey Zhidkikh in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please e-mail dukhova@oxfam.org.uk or szhidkikh@oxfam.org.uk

This publication is copyright but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured and a fee may be charged. E-mail policyandpractice@oxfam.org.uk.

The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78077-260-8 in February 2013.

Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK

