

What's New About Income Inequality in Russia (1980-2019)?

Trends in Comparison to Eastern Europe

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Abstract

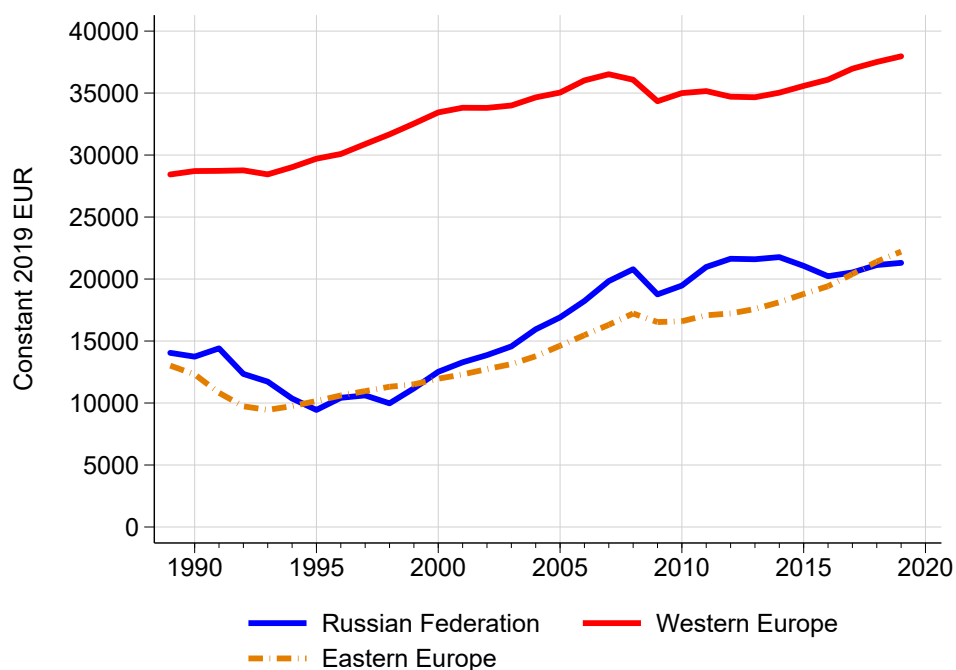
This brief looks at the evolution of income inequality in Russia using the updated Distributional National Accounts series on the World Inequality Database. In this brief, I describe the main developments of national income growth and income concentration for Russia from 1980 to 2019 and compare them to Eastern Europe. Three findings stand out. First, national income growth per adult has stagnated in Russia since the late 2000s. As a consequence, in recent years Eastern Europe has overtaken Russia in terms of national income per adult. Second, Russia's income distribution experienced a much stronger polarization during the 1990s' transformations than Eastern Europe's. Third, while in the last decade, low-income earners benefited most from growth, the long-run picture since 1989 is still characterized by disproportionate income increases for the top 10%.

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The Macro Picture: National Income¹

The economic development of Russia in the last 40 years has been dominated by the collapse of the Soviet Union in the early 1990s. Figure 1 shows that Russia's national income per adult plummeted between 1991 and 1995. After ten years of robust growth from 1998 to 2008, national income growth has stagnated since the global financial crisis and the simultaneous deterioration of oil prices. Another decline in the income level is visible after 2014, coinciding with a new fall in oil prices and the enforcement of international sanctions imposed after Russia's annexation of Crimea.²

Figure 1. Net national income per adult for Russia, Eastern, and Western Europe.



Source: World Inequality Database (<https://wid.world/>).

While Russia's per-adult national income had been slightly higher than Eastern Europe's since the year 2000, that situation has reversed in the last 5 years. In 2019, Russia's per-adult national income amounted to 96% of the income level in neighboring Eastern Europe and 56% of the income level

¹This issue brief draws on updates recently made to the Russian income inequality series on the World Inequality Database (<https://wid.world/>). Neef (2020) following the methodology of Novokmet, Piketty, and Zucman (2018) provides technical details.

²The national income series is compiled using data from UN MADT, OECD, IMF BOPS (see Alvaredo et al. (2020, p. 88)). The Maddison (2007) database is used for the construction of older national income estimates. Following Novokmet, Piketty, and Zucman (2018), I have corrected Russia's adult national income for the years until 1994 using the correction factors documented in Novokmet, Piketty, and Zucman (2018, Appendix A)

in Western Europe.³ Note also that national income levels are very diverse across Eastern Europe. Per-adult national income in Russia was about 87% of income in Eastern European EU countries but about 185% of income in Eastern European non-EU countries.⁴

Russia's Income Distribution in Comparison to Eastern Europe's

Figure 2 shows the evolution of the income shares of the richest 10%, the bottom 50%, and the middle 40% income earners in Russia and in Eastern Europe since 1980.⁵ For both regions, the transformation from centrally planned economies to market economies has defined the observed trends in income concentration since the late 1980s.

During the 1980s, the level of income inequality was roughly similar in both regions. However, during the transformation process of the 1990s, the income distribution became considerably more polarized in Russia than in Eastern Europe.⁶ While in Eastern Europe, the top 10% income share increased by about 10 percentage points, from 26% in 1989 to 36% in 2019, Russia's top 10% share almost doubled in the 1990s and stabilized at a high level of about 50% of national income in the early 2000s. At the end of the decade, coinciding with the global financial crisis and plummeting oil prices, the top 10% share dropped. In 2010, it amounted to about 45% of national income where it remained throughout the decade.

The lowest-earning 50% of Russian society saw their share of national income fall significantly during the 1990s. While they received about 30% of national income in 1990, their share dropped to roughly 10% in 1996. They have since recovered only part of their earlier losses, such that in 2019, they received about 18% of national income. Both the top 1% and the bottom 50% of Russian income earners received about 20% of national income in 2019. This means that individuals in the top 1% earned on average about 50 times what those in the bottom 50% made. In comparison, the lowest half of income earners in Eastern European countries have seen a much more moderate decrease in their income share during the 1990s. Note, however, that the income share of the bottom 50% has continued to decline gradually since then in Eastern Europe, while it has partly recovered in Russia, so that the gap between the two is relatively small in 2019.

³Western Europe includes Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Great Britain, Switzerland, Portugal, Spain, Greece, Malta, Cyprus, Sweden, Norway, Finland, Denmark, Iceland; Eastern Europe comprises Albania, Bosnia and Herzegovina, Bulgaria, the Czech Republic, Estonia, Croatia, Hungary, Kosovo, Lithuania, Latvia, Moldova, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovenia, and Slovakia.

⁴EU-Eastern European countries include Bulgaria, the Czech Republic, Estonia, Croatia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia, and Slovakia. Eastern European non-EU countries comprise Albania, Bosnia and Herzegovina, Moldova, Montenegro, North Macedonia, Serbia, Kosovo.

⁵Eastern European results are aggregates – not averages. Thus, they comprise between-country inequality and within-country inequality. However, within-country inequality was much higher than between-country inequality. See Morgan and Neef (2020).

⁶For Russia, due to the strong limitations of the underlying data sources, only broad orders of magnitude of income shares can be considered reliable, i.e. an interval of -/+3 percentage points around the point estimates stated in the brief. Also, estimates for 2019 are obtained using some degree of extrapolation. See Morgan and Neef (2020), and Neef (2020) for more details.

Figure 2. Income share of net national income for the top 10%, middle 40% (P50-90), and bottom 50% of income earners.

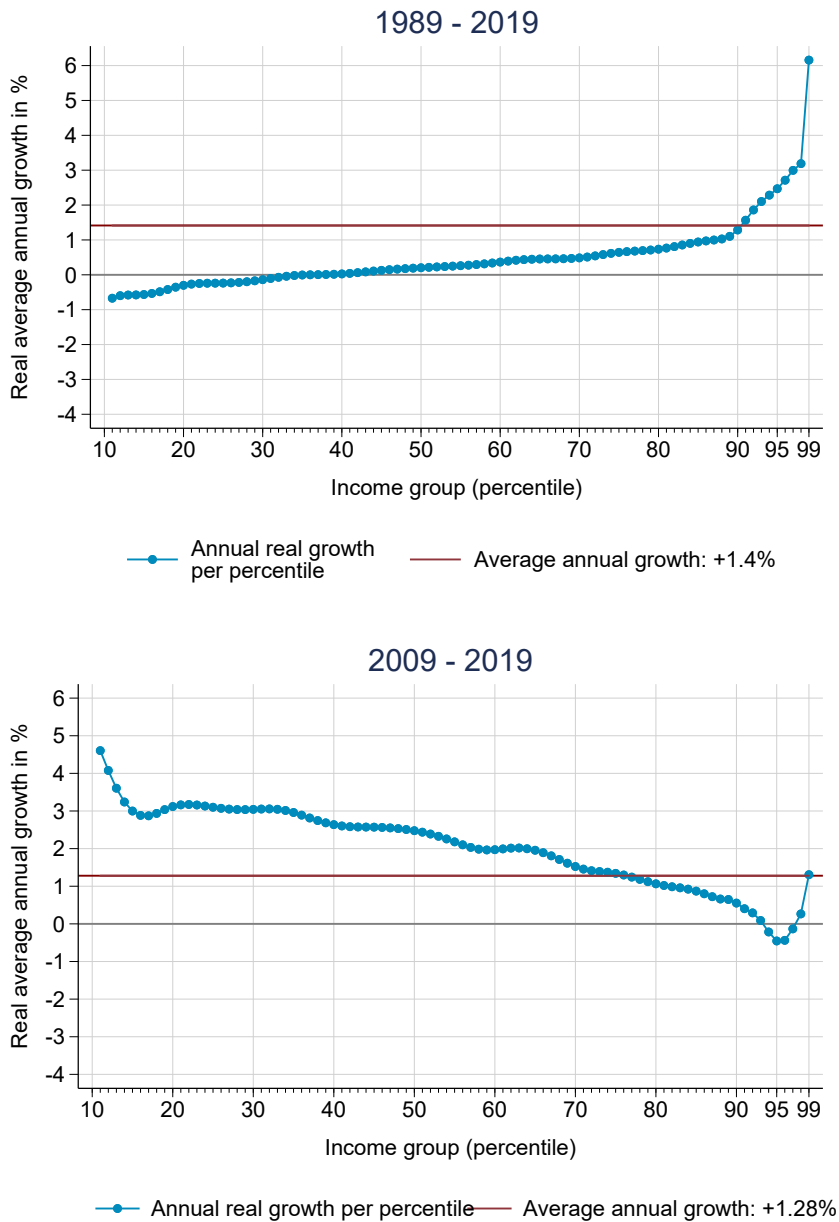


Note. Own elaboration based survey data, tax tabulations, and national accounts. For details see Neef (2020).

All in all, income inequality has increased significantly more in Russia than in Eastern Europe in the last 30 years. Reasons for these different paths might lie in initial economic disparities, different privatization, deregulation, and liberalization strategies, and the diverse political and institutional contexts these took place in (see for example Piketty 2020, 597f. 637f. ; Ther 2016).

Figure 3 shows more clearly that during the period from 1989 to 2019, the top 10% income earners benefited disproportionately from growth, while the lowest-earning 35% of the population have suffered a decrease in their real income. This picture is strongly influenced by the developments in the 1990s. In the last decade especially low- and middle-income earners have benefited from growth. Still, the breach resulting from the transformation process of the 1990s is far from being closed.

Figure 3. Growth incidence curves of pretax national income, Russia.



Note. Own elaboration based survey and tax micro data and national accounts. For details see Neef (2020), and Novokmet, Piketty, and Zucman (2018)

Conclusion

The rapid income polarization that accompanied the transformation process of the 1990s still shapes inequality in Russia today. While top incomes have soared, the 90% of the population with the low-

est incomes have seen their share of national income decrease. Today, incomes are still considerably more polarized in Russia than in Eastern Europe. In 2019, the highest-earning 10% of Russian society received about 46% of national income vs. 36% in Eastern Europe. We also stress that better data quality and transparency are highly needed to improve the precision of inequality estimates for the Russian Federation and to enable a more in-depth inequality analysis.

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The World Inequality Lab

The World Inequality Lab aims to promote research on global inequality dynamics. Its core mission is to maintain and expand the World Inequality Database. It also produces inequality reports and working papers addressing substantive and methodological issues. The Lab regroups about twenty research fellows, research assistants and project officers based at the Paris School of Economics. It is supervised by an executive committee composed of 5 co-directors. The World Inequality Lab works in close coordination with the large international network (over one hundred researchers covering nearly seventy countries) contributing to the database.

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