Update on Income Inequality in Russia compared to Eastern Europe (1980-2019)

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Abstract

This brief looks at the evolution of income inequality in Russia using the updated Distributional National Accounts series for Russia 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 and Western 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 growth was more beneficial for the bottom 50%, the overall picture since 1989 still points to income increases mainly for the richest 10% and income decreases or stagnation for the rest of the population.

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The Macro Picture: National Income

The economic development of Russia in the last 40 years was 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 after the global financial crisis and the simultaneous deterioration of oil prices. Another deterioration of the income level is visible after 2014, coinciding with another fall in oil prices and the enforcement of international sanctions imposed after Russia’s annexation of Crimea.

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

![Chart showing net national income per adult for Russia, Eastern, and Western Europe.]

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

While Russia’s adult national income had been slightly higher than Eastern Europe’s since 2000, Eastern European adult national income has overtaken Russian income in the last 5 years. In 2019 Russian national income per adult amounted to 56% of Western European average income and 94% of Eastern European average adult income.\(^2\) Note also that national income levels are very diverse across Eastern Europe. Average adult income in Russia is only 86% of the average in the Eastern European EU countries but about 182% of the average income in the Eastern European non-EU countries.\(^3\)

\(^1\)This 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.

\(^2\)Western 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.

\(^3\)EU-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.
Russia's Income Distribution in Comparison to Eastern Europe

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. For both regions, the transformation from centrally planned economies to market economies has defined the development of income concentration since the late 1980s.

During the 1980s income inequality was of broadly similar magnitude in both regions. However, during the transformation process of the 1990s the income distribution became considerably more polarized in Russia than in Eastern Europe. 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 has almost doubled in the 1990s and stabilized at a high level of about 50% of national income in the 2000s. At the end of the 2000s 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 the 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 had dropped to only about 10% by 1996. They have since recovered a part of their earlier losses. In 2019, the bottom 50% received about 18% of national income and have not reached their former income shares of the 1980s and early 1990s yet. In 2019, both the top 1% of Russian income earners and the 50% of the population with the lowest incomes received about 20% of national income. This means that the top 1% earn on average about 50 times of what the bottom 50% of income earners make. In comparison, the lowest half of income earners in Eastern European countries have experienced 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.

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

5 For Russia, due to strong limitations of the underlying data sources, broad orders of the 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 in net national income for the top 10%, middle 40% (P50-90), and bottom 50% of income earners.

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 and differences in transformation and privatization strategies and the political and institutional context these took place in (see for example Piketty 2020, 597f. 637f.; Ther 2016).

Figure 3 shows more clearly that during the period 1989 to 2019, mainly the top 10% of earners benefit from growth, while the bottom 90% have no increase or even decreases in their real incomes. While this picture is strongly influenced by the developments in the 1990s, in the last decade especially the bottom 90% of income earners have benefited from growth. Still, the breach resulting from the transformation process of the 1990s is far from being closed.

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

The dynamic income polarization during the transformation process of the 1990s still shapes inequality in Russia today. While top incomes have soared, the 90% of the population with the lowest incomes have decreased their share in national incomes. Today, incomes are still considerably more polarized in Russia than in Eastern Europe. The highest-earning 10% of the Russian society received about 46% of the national income vs. about 36% in Eastern Europe in 2019. We also stress that bet-
ter data quality and transparency is highly needed, to improve the precision of inequality estimates for the Russian Federation and to enable more in-depth inequality analysis for Russia.

References


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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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