

Trends in Poverty, Inequality and Social Policy in Contemporary Russia

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Abstract

Mass poverty in Russia has declined since 2000 due to the effects of economic growth. The official proportion of the poor declined more than twofold from 29 percent in 2000 to 13.3% in 2007, but fell only slightly between 2008 and 2013 and started rising in 2014. The decrease of real incomes, high inflation rates pushing up the subsistence minimum, freezing of social transfers and wages in the public sector have been the main factors of poverty in Russia since 2014. The year 2015 marked the largest decline in living standards and increase in poverty since the economic crisis of 1998-1999, largely ending the gains of poverty reduction years. Although the methodology of poverty estimation was changed in 2013 we may discuss the issue of a “lost decade” also in the social dimension of Russia’s development. The aim of the research is to understand how income, income inequality and poverty have been developing in Russia at national level and what policy measures have been adopted to alleviate poverty and curb inequality.

Our first research question is, Whether or not Russia had reached a turning point between growth with rising inequality and growth with stable or declining inequality in line with Kuznets curve hypothesis? To answer this question, we reassess the relationship between economic growth, inequality and poverty (Bourguignon triangle) using vector error correction (VECM) and vector autoregression (VAR) models. We use cointegration and Granger causality tests to evaluate the link and causality between economic growth, inequality and poverty.

The second research question is, What were the factors for change in poverty during the period from 2000 to 2015? To understand this, we decompose the change in poverty by income and inequality components using backstopped poverty line of 2015 (the procedure of subsistence minimum calculation has been updated several times since 1992 and therefore poverty lines are inconsistent over time) and Kolenikov-Shorrocks (2005) imitation model. We also give particular attention to the choice of poverty line and poverty measure. As poverty rates are of a significant magnitude and vary with the measure used we also apply data from independent authors (Ovcharova, Denisova, Karabchuk, Bogomolova etc.). The comparative analysis of the official and independent data enabled us to conclude that there is ambiguity in the estimates of

monetary poverty in Russia. The discrepancy of poverty estimates is observed even among the same authors. The impact of macroeconomic crisis on household welfare is studied from three perspectives: the income and employment, the relative prices of purchased goods and services, and access to finance (including the cost of credit and the burden of servicing debt).

The third research question is, How effective are poverty reduction programs? To answer this question we calculate pro-poor growth indices for FGT class of poverty measures (headcount, depth and severity) using Kakwani and Pernia (2000) approach.

We address all questions from the empirical perspective through an analysis of official aggregated Rosstat data as well as unofficial household survey data presented in RLMS-HSE and World Bank.