

Inequality in Russia during transformation: to Europe or Latin America?

ABSTRACT

During 90s the post-socialist countries tried to proceed to market and democracy to be reached by forming of middle classes, democratic institutes and elites. However, by XXI century it became obvious that countries of Central and Eastern Europe and Russia chose different ways of development. Russia went by not a European but by a Latin American model. CEE came close to a “European” distribution of income and have generally joined the European democratic tradition. Russia has come to the distribution of income and consumption of Anglo-Saxon norms, but of distribution of property to Latin American ones. Problems of democracy and development in Russia should be go close in comparison with Latin American situation.

The features of Russian democracy model, especially the situation of 90s have predetermined the line of factors often being missed during analysis (especially the privatization character). In this paper we tried to delineate the factors that determined the distinction of democracy of Russia and other post-socialist countries, which thereby predefined the likeness with Latin American model. It is necessary to take into account the specific character of property distribution in conjunction with the middle class position in the post-transformation society. Nowadays the weakness of middle class, conflicts inside of elites and combination of Latin American inequality with recourse curse form an interesting situation for a further research.

Key-words: *inequality, democracy, middle class*

Transformation

Two decades of transition in the former USSR countries and Central and East European countries show the more and more diversity rather than similarity in the development of economies, market institutions and democracies. The common Egalitarian, totalitarian past have changed for different models of inequality and democracy. The analysis of the situation at start, possible path of changes was marked quite symbolically by the subtitle of the work of Adam Przeworski – “political and economic reforms in Eastern and Latin America”². Since that time the path of two dozen countries led them in different directions – it is time to discuss why it was happening and what economic and social factors

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² Adam Przeworski “Democracy and the market” (political and economic reforms in Eastern and Latin America), Cambridge University Press, 1991.

led to the so visible disconcert. We are not trying to cover a vast space of former socialist area now, but focusing on the specific path of Russia.

During 90s the post-socialist countries tried to build market and democratic institutions. It was supposed to be reached by forming of middle classes, democratic institutes and elites. However, in XXI century it became obvious that countries of Central and Eastern Europe and Russia chose different ways of democracy development. As one author formerly noted – Russia went by not a European but by a Latin American model. In fact even building of an overall dominant party “Unity of Russia” reminds of “Mexican” political traditions – all fractions inside one super construction.

The countries of Central and Eastern Europe which entered the transition with a rather similar (relatively flat) distribution of property and income have easily joined the European democratic tradition. But Russia (unlike Poland and some other CEE countries) turned neither to the continental European nor to the Anglo-Saxon model of property and income distribution and democracy, but to the Latin American one.

The feature of Russian democracy model, , have been predetermined by the line of factors often being missed from analysis. Russian soviet history and egalitarian culture (not practice) was not suited for dramatic privatization, especially taken the privatization character. In this paper we tried to delineate the factors that determined the distinction of democracy of Russia and other post-socialist countries, which thereby predefined the likeness with Latin American model. We are studying the Russian democracy and its further perspective of development during the period of modernization which is supposed to begin after the global financial and economic crisis. There are constant conflicts between private business and raiders, attempts of individual groups of officials to seize the property of those who privatized the property in 90s in the country. The large private business has an off-shore formal appliance. The nowadays weakness and potential of middle class, conflicts inside of elites and combination of Latin American inequality of property with *resource curse* form an exclusively interesting situation for a research.

At the start of reforms Russia had certain features different to other countries. Few factors ignited the deviation at the early crossroad point. The nature of the fast privatization of soviet assets was the factor one. Expectedly the speed for privatization was a result of the general desire of reformers to reach a point of no return to communism. In a way it helped to very different elements to secure control on the vast property. In this fast and hectic process

the interests of proto middle strata were lost³. Rules were not securing any shareholding for intellectuals or clerks. High concentration of the Soviet assets on the enterprise level helped to the huge concentration of wealth. Mass ownership was promised, voucher privatization imitated transparency, but outcome was very narrow concentration of control, mass shareholding had not been so far reached⁴.

Second factor was the depth of crisis and its length – Russian transitory crisis lasted for a decade (1989-1999) and GDP collapsed by 43%. Few households were able to adjust quickly and survive for a decade in the harsh conditions. Third factor which affected the income and wealth distribution in Russia was the specific distribution of assets by industries and regions. Whole industries had just disappeared in the crisis; the structure of employment had dramatically changed by regions, by industries and by job level. The key part of the story was the mass collapse of stable and well-paid positions in the middle of society. Inequality was coming pretty fast from all three directions: emerging of new riches; impoverishing the poor; destabilizing the middle. Potential middle class elements were to emigrate in numbers for a decade of 90-s, mostly to the OECD countries. Brain drain continues till now, while now on the more typical scale for a middle income country, which is losing best students first of good universities, and to a middle class jobs in more affluent countries. Russian observers normally do not contest the evaluations of émigrés up to two million of educated people. In terms of personal fate this emigration was quite a success. Russians have become a middle class (without voting rights) all around the world. Financially stable stratum of the society with main features of the middle class from developed democratic countries stays within 20-25% of population by all estimates and evaluation (T.Maleva, N.Tikhonova and others)⁵.

Obviously, this loss of Middle income educated people (to emigration) negatively affected the democratic electorate base. Here we must return to few specific factors, including the sociology on inequality and poverty. First, Soviet population had “too high” education for the deep prolonged crisis of 1990-s to sustain it in the country. Open borders – thanks to democracy – allowed many people to move for better life. This also the difference between Russia and CEE countries – latter experienced the severe, four-five years long crisis, and

³ For the assessment of the early studies for distribution and inequality in transition see “Police Forum: Income and Wealth Distribution” with a number of prominent authors in “The Economics of Transition”, vol. 7, #2, 199, pp. 275-466.

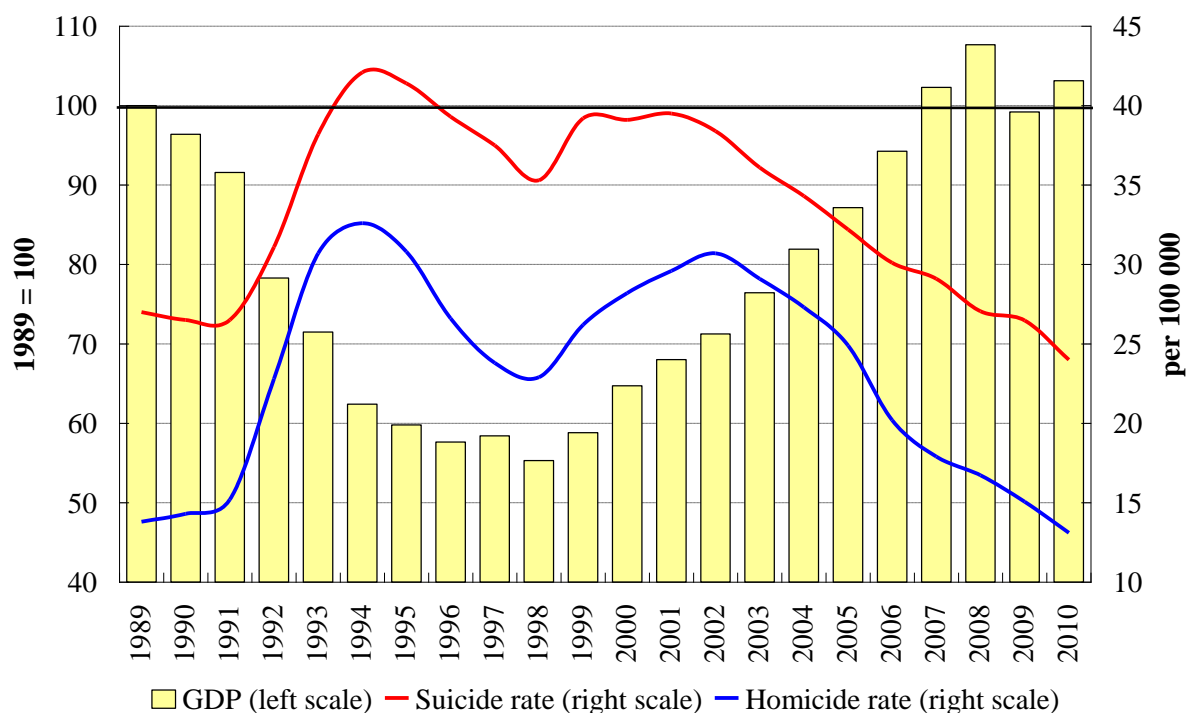
⁴ There is no report on Russia like “Truth about Privatization in Latin America” by A. Chong and F. Lopes-de-Silanes, IADB, 2003.

⁵ See Leonid.Grigoriev and Tatiana Maleva “Middle class in Russia at the turn of stages of transformation” “Voprosy ekonomiki” #1, Moscow, 2001; Leonid Grigoriev and Alla Salmina “Structure of the Middle Class in Russia: preliminary analysis for future studies”, “Spero”, #13, Moscow, 2010.

Russian got into crisis of a decade long and minus 43% of GDP. We normally would expect more educated people to stand for democratic values, but the education helps to evaluate the costs of waiting (for a family) versus cost of leaving the motherland. What (emigration) would be sociologically impossible in the normal situation may be a solution at the time of desperation. Dignity of the suffering people should be taken into account – some families and individuals (esp. with good education) may consider the country had failed them.

The depth of the crisis may be seen by the suicide and homicide rates in the past two decades (graph 1). That picture gives a good understanding of shock that hit Russian society. Collapse of communism and the dissolution of the Soviet Union were occurring at the same time as market reforms and transitory crisis. It's hard to find more complications and problems for citizens of the Soviet State, who were supposed to become Russian democrats and market liberals overnight. Only after 20 years of transition the level of GDP, and both suicide and homicide rates return to the level of 1989 – two decades of development were lost. And the society has been slowly returning to some stability which came with high oil prices and current political regime in 2001-2007.

Graph 1. GDP volume, Suicide and Homicide rates, 1989-2010.



Source: Federal State Statistics Service

Inequality

In the time of the crises the inequality was growing as since the start of reforms, as in 2000-s at the time of upturn. High concentration of property in 90-s led to the further concentration of wealth and even more income disparity. Table 1 gives some comparison on the income inequality for Russia and four groups of countries: Latin American, Anglo-Saxon (plus Israel), South&East Europe and Central&North Europe. First observation - Russian GDP per capita is close to Latin American level with (second) GINI index close to the richest Anglo-Saxon group. East European and Mediterranean countries have higher (except Ukraine) level of GDP per capita and less disparity. And for the reference the developed Central&North European countries show level of GDP and income distribution pattern, the most adequate for the strong democratic institutions. It's important to reiterate, that for countries in transition those parameters reflect the situation after two decades of transformation and development. Now they may be considered not a temporal, but a constant feature of the country. We believe that the share of most rich quintiles and deciles is also an important parameter for the measuring inequality. Third, in Russia the share of income of top 10% of households is very close to Argentinean Mexican, right after Brazilian and Chilean. Generally the same is true for the income share of top 20% of households. By this parameter Russia is close to Anglo-Saxon group but still so different for the lack of the mobility and high relative GDP level. We would like to stress the huge "Latin American" difference between share of income of the 10th and the 9th deciles in Russia. In Anglo-Saxon group the rate is close to 2:1, but in Russia it is 2,4:1; while in Latin America - Brazil and Chili – factor 2,5-3. This concentration of income (in statistically visible area) represents the serious difficulty for harmonization of interest in the society on a number of issues, including taxation, subsidies, and the role of civil organizations etc. The thinner is the affluent part of the society, the weaker are foundations for political parties, and more narrow the sources of financing for Media, more complicated to retain status of independence for political activists.

Table 1. Income inequality – international comparison⁶

Country	GDP per capita (PPP), 2005, U.S. \$	GINI index, %*	Income share held by						
			lowest 10%*	lowest 20%*	second 20%*	third 20%*	fourth 20%*	highest 20%*	highest 10%*
Russia	11.9	42	2	5	10	15	22	48	34
<i>Latin America</i>	10.8	52	1	4	7	12	20	57	40
Mexico	11.3	46	2	4	8	13	20	55	35
Brazil	8.6	57	1	3	6	11	19	61	45
Argentina	11.1	49	1	4	8	13	22	53	36
Chile	12.3	55	1	4	7	11	18	60	45
<i>Anglo-Saxon and Israel</i>	32.4	39	2	6	11	16	23	45	29
United Kingdom	31.6	36	2	6	11	16	23	44	29
United States	41.7	41	2	5	11	16	22	46	30
Israel	23.8	39	2	6	11	16	23	45	29
<i>South&East Europe</i>	18.6	34	3	8	12	17	23	41	26
Italy	27.8	36	2	7	12	17	23	42	27
Spain	27.3	35	3	7	12	16	23	42	27
Greece	25.5	34	3	7	12	17	23	42	26
Hungary	17	30	4	9	13	17	23	39	24
Poland	13.6	35	3	8	12	16	22	42	27
Latvia	13.2	38	3	7	11	16	22	45	27
Ukraine	5.6	27	4	9	14	17	22	37	23
<i>Central&North Europe</i>	29.4	28	3	9	14	18	23	38	23
France	29.6	33	3	7	13	17	23	40	25
Germany	30.5	28	3	9	14	18	23	37	22

⁶ Data on inequality are presented for 1995 (France), 1996 (Czech Republic), 1999 (Netherlands, United Kingdom), 2000 (Germany, Greece, Italy, Spain, Sweden, United States), 2001 (Israel), 2002 (Poland), 2003 (Latvia, Chile), 2004 (Hungary, Mexico, Brazil), 2006 (Argentina), 2007 (Russia, Ukraine).

Country	GDP per capita	GINI index, %*	Income share held by						
			lowest 10%*	lowest 20%*	second 20%*	third 20%*	fourth 20%*	highest 20%*	highest 10%*
Netherlands	34.7	31	3	8	13	17	23	39	23
Sweden	32	25	4	9	14	18	23	37	22
Czech Republic	20.3	25	4	10	15	18	22	36	23

That is why the study of problems of democracy and development in Russia should be very interesting in comparison with Latin American history and situation across the ocean. Another point is that Russia has come to the distribution of income and consumption to Anglo-Saxon norms, but in distribution of property to Latin American ones⁷. Of course it's very hard to find the reasonable quality data for property control and distribution. But all anecdotal evidences, the nature of control revealed in the cases of mergers may lead to conclusion on the high concentration of control and ownership in Russia.

Russian income inequality issue never was much about “real” poverty. It is not typical for the developing world. And Russian poor are the special stock of impoverished educated people, who are actively voting at elections and supporting social stability, role of the state much more, than the young generation. Here it's important to stress the difference that brings high education to the stress of crisis and inequality, and it again brings some difference to all group of countries, but especially to Latin American. By inequality the most of studies normally would call the poverty based inequality, esp. for Latin America with more than 30% of population living at the level under \$2 a day⁸. That kind of poverty and respectably inequality does not persist in Russia and Central and East Europe. Here we are looking mostly for the huge inequality per se – not poverty. Relatively higher average income of poor (by deciles) should not be considered as lesser psychological, social or political problem for those people affected. As well the society is considered the poor conditions for elderly people with university degrees as a shame. Low income for the Middle Middle stratum (intellectuals) is forcing the brain drain across the borders to OECD countries. This is especially important loss for the democratic political movements – twenty years of emigration (probably as much as two million educated people). Recent Nobel prizes in physics for two Russian in the United Kingdom is a good case for display. The background idea for this success was developed

⁷ We cannot find the numbers for property concentrations in Latin America.

⁸ See Leonardo Gasparini and others “Income, Deprivation, and Perceptions in Latin America and the Carribean”, CEDLAS, 2008, tabl 4.6, p.53.

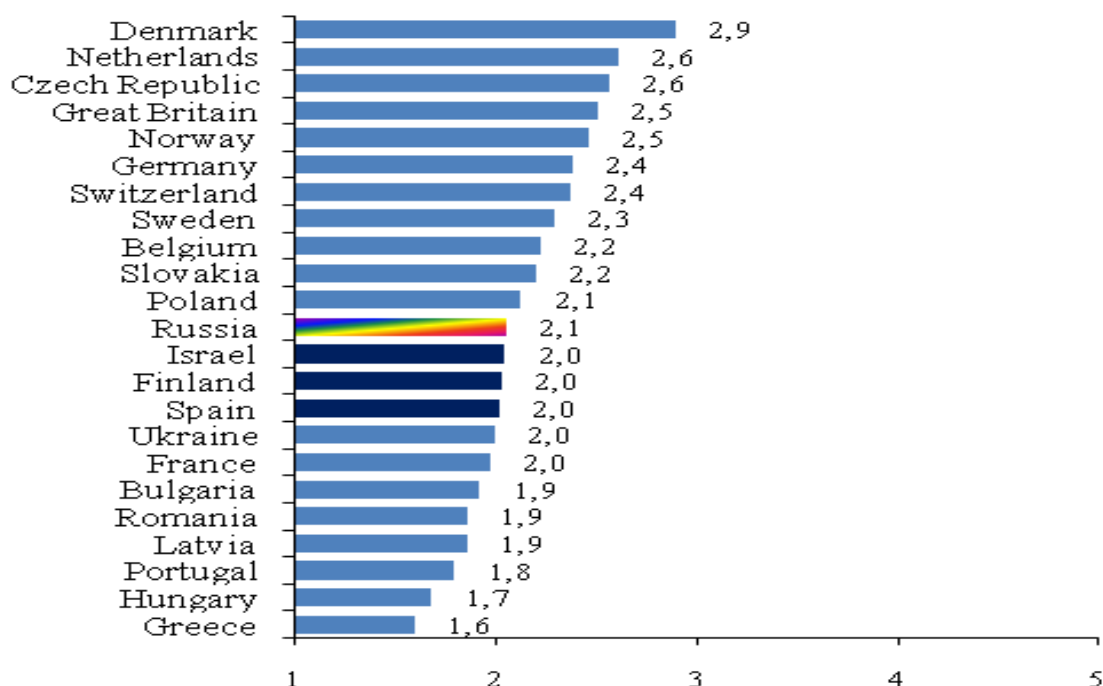
twenty years ago in the Soviet Union, but only transfer of scientists to the West made it possible to complete the study.

The huge exchange with the West on the level of people's travel, education and work is leading to mixed results in terms of the domestic democratic process. Better knowledge of developed and established democracy practices is definitely a gain for Russia. But at the same the deep economic crisis of 1990s, high income differential with "Near West" and domestic inequality have created a serious stimulus to emigrate rather to participate in the difficult democratic process.

Attitudes

Russia is not too much living with the memory of the state domination and protection, as some "outsiders" believe. Measuring the depth of inequality we need to have some indication on peoples' attitude to the problem. We do not have Latin American data on the topic, but we can use European social survey (ESS) of 2008. Graph 2 gives the measure of attitudes of population of some European countries to inequality. Respondents' attitudes were ranked by countries on the demand for reducing of inequality". The question was: "Government must take measures for reducing the difference of personal incomes" with the scale from 1 to 5 (1 – "fully agreed" and "5 – fully disagreed"). Graph gives average numbers for countries. Dark color is given to countries with the same value of the measure as in Russia (Kruskal Wallis Test, chi-square test, $p < 0.05$). We may read and interpreter this outcome in a different way. On one hand it's a sign of more reasonable market attitude of Russian population. But on the other hand it means Russians are tolerable to huge visible income disparity, and at the moment they do not press by democratic (or by other means) for more justice in the social system.

Graph 2. The degree of agreement of respondents with the statement “Government should reduce differences in income levels” (1 - "strongly agree", 5 - "strongly disagree") - country average (ESS) ⁹



The strongest demand for equality came from Greece and Hungary; and the weakest – from Dania, the Netherlands, Czech and UK. Essentially that should be expected. South and East of Europe are still looking for equality from the relatively low GDP per capita levels. Russia is in the center of the graph, together with Spain, Israel and Finland. In this respect the popular demand for equality in Russia is less important, than in many post communist countries like Bulgaria, Ukraine, and Latvia etc. It indicates that drive for equality diminishes - so Russia has left one camp but did not fully join another one. Equality issue less important in the countries with more flat income distribution and high GDP per capita with the special situation in Anglo-Saxon countries with high vertical mobility. Another aspect of Russian situation is a vast disparity among regions. Income per capita varies among regions by a very high degree – close to disparity in the United Nations.

Our study and information show certain degree of request of equality after two decades of transformation. Meanwhile this request could be much higher, taken into account level of inequality. We can mark that special studies in Russia show that the level of inequality is considered unfair to all strata and not too much concentrated in the certain social

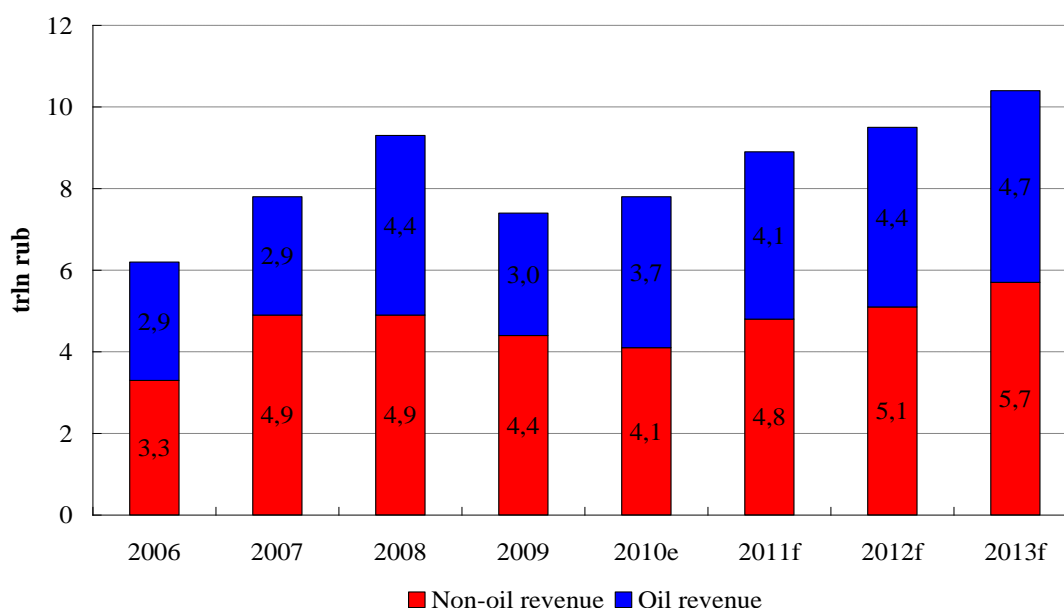
⁹ Color indicates countries with no statistically significant differences with Russia (Kruskal Wallis Test, chi-square test, $p < 0,05$)

group. Important step to cooperative approach in Russia may observed in the request for better equality but not the forceful redistribution like in early XX century. General attitude is for the more just distribution of incomes, while population is definitely against extreme case of wealth demonstration, arrogant behavior or unfair (corrupt) incomes. Also people stand for adequate rewards for talents and merits.

Although the Russians are less characterized by egalitarian values than the population of most countries of CEE, all the same the request for inequality reduction in Russia is high enough. Dissatisfaction with the current level of property distribution in the country is strengthened by the corruption issue, low standards of living of the popular majority and absense of basis for steady economic growth. Inequality increases social tensions in the society and causes a number of social processes that are unhealthy in their basis.

Recent study of Institute of Sociology RAN shows the attitude for more equality. Less affluent groups speak for more flat income distribution. But the inequality in the ownership is felt and also noticed. The injustice of inequality in income differentiation is noted by 86% of population, and for ownership – 74%. Too quick and too unfair privatization of soviet assets lies in the background of such attitudes¹⁰.

Graph 3. Russian budget revenue, trln ruble, 2006-2013.



Source: Ministry of Finance

Oil income plays too important role in Russia – especially for the budget. Graph 3 gives the striking picture of dependence of the Russian budget on oil revenue – “oil curse”. 40% or more of expenditures are covered by oil rent. At the same time this picture show the

¹⁰ Социальные неравенства и социальная политика в современной России / [Отв. ред. М.К. Горшков, Н.Е. Тихонова]; Ин-т социологии РАН. – М. Наука, 2008. – С. 17-22.

“independence” of the state from the businesses and citizens, and their taxes. This is another feature of the Russian economic situation, affecting democratic process. Power elite has not yet consolidated and the infighting for property continues. Elites are struggling with countries problems and its own legitimization and strengthening the control. Essentially the elites have not made a final choice on the type of modernization of economy, the society and the state¹¹. The comparison of Russian Elites and other elites (esp. Latin American) is still waiting for more research, but we are sure on its difference Russian elite and elites in CEE.

In the context of deep inequality, the establishment of democracy and economic development of the country are impossible. During the last decade economic growth in Russia has been carried out mainly due to the increase in oil revenues. It is the increase in raw material prices that created a semblance of stability in the country and, in its turn, discouraged political elites to carry out an effective social and economic policy. Instability of income, in its turn, prevented the implementation of long-term economic and social reforms. Most of the reforms, particularly in the field of social policy, had a mostly demonstrative character.

Corruption at all levels of government, increased and struggle for power among different interest groups leave their mark on policy reforms. The same problem is typical for Russia. In the context of etacratism inherited from the Soviet times the state policy is mainly aimed at implementing the interests of political and financial elite that are closer to the government¹². And the reason of it should be sought not only in the absence of freedom of speech and underdevelopment of civil society institutions, but in the lack of relevant experience of respecting the public interests. During the years of the Soviet past the practice of centralized decision-making and country governance was established.

Democratic development, an open dialogue between the authorities and the population of the country and maximum consideration of population needs not yet materialized in real conditions of the country. The experience of western countries shows that the study of public opinion is becoming increasingly popular within the new political economy when making important strategic decisions at the state level. For example, F.Cook, J.Barabas and B.Page tried to answer the question if the political elites followed public opinion in decision-making in the field of social policy¹³. In order to determine the position of the political elite itself with

¹¹ See Leonid Grigoriev “Elites and Middle Class” in “Spero” #13, Moscow, 2010; and “Elites: the Choice for Modernization” in “Russia: the challenges of transformation”, ed. By P.Dutkiewicz and D.Trenin, NY University Press and SSRN, NY and London, 2011.

¹² Шкаратан О.И. Социальная политика. Ориентир – новый средний класс // Общественные науки и современность. # 4. 2006. С. 42.

¹³ Cook F., Barabas J., Page B. Invoking Public Opinion: Policy Elites and Social Security // The Public Opinion Quarterly. Vol. 66. # 2 (Summer, 2002). P. 235-264.

regard to the number of social welfare issues, the authors conducted a content analysis of messages and speeches of the President, members of Congress, experts and party leaders. The results of their study showed that politics when discussing social problems very often relied on public opinion. Similarly, in Russia the authorities react to specific problems and notorious cases, including corruption, but the systemic struggle is much more sluggish.

According to the type of democracy Russia is the closest to the U.S. mode, but with the huge dominance of the ruling elite. The control of most of the national property by the elite causes similarity of these two countries. And we believe this problem is even more acute in Latin America countries. Financial independence of the political elite of the state from the tax payments of the population, particularly of the middle class, and incomes of small businesses allow these elite to carry out the policy independent of the interests of large populations, in fact, the interests of the educated class that is interested in modernization and reliance on human capital rather than natural resources.

Conclusion

Russia and Russian problems are mostly being studied in the global context, energy of geopolitics. Issues and problems of Russian democracy are mostly considered as elite problem: persons in leadership, quality of élite, weakness of the civil society, political parties et cetera. There is a fundamental question if the country with Latin American level of GDP per capita and with Latin American income inequality to have a democracy of the European quality and stability. First, we suppose there is no “GDP-income” simplistic determination of democracy. Second, Russian path in last two decades was seriously damaging for the Middle class financial independence and sustainability as a backbone for civil society. Third, “oil income” gives to a state (and elite) some degree of independence from taxes of citizens and businesses. Oil rent goes for supporting the Poor, not to post-industrial development with strengthening of the middle class. Russia still retains a huge (but endangered) human capital for development and for democracy. Essentially, Russia is not a Latin American country per se, but it is rather far from Central and East Europe in terms of the development and inequality, and may be continues to deviate further. Its democratic institutions are under stress and the path toward the European democracy will be difficult and very very specific. Russian state has some degree of independence from taxpayers, and elites are still struggling with the essence of modernization concepts. All aspects of Russian social and regional inequality with applications to democracy will need more research.