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Chapter IX

Inequality in Russia since 1990

NICK MANNING

(For legal reasons, this is a 10% selection of this chapter, consisting of the introduction and conclusion)

Most observers agree that there has been a dramatic increase in inequality in Russia, and that inequality matters. But there are many arguments as to why it is significant. The key question concerns the effect of the transformation of Russia on inequality and poverty. Marshall once characterised (and celebrated) the hyphenated society of democratic-welfare-capitalism as the ideal mechanism for managing the transition from pre-industrial to post-industrial society. This was to be accomplished by the political control of a capitalist economy. Inequality would grow, but the poor would be helped and enabled to retain their place in society. The traditional view was that it is economic growth that matters, particularly in relation to poverty reduction, and that a period of inequality within a country was a price to be paid for moving from an agricultural economy to a developed economy, epitomised in the Kuznets 'curve'. In the Russian case, the process of transformation into a capitalist economy was expected to generate inequality, but the simultaneous evolution of democracy would, it was hoped, enable citizens to vote for enough welfare support to contain the impact of the transformation on those at the bottom.

In more recent times, it has become accepted that there are "varieties of capitalism" and that successful connections between a polity and an economy can come in various ways. Mid-twentieth century optimism is no longer justified. Inequality does not seem to have moderated in Latin America, and appears to have

Inequality grew rapidly in the 1990s in Russia. There are a variety of ways in which this has been measured, but the trend over time comes through clearly. In the last five years the rate of growth of inequality has slowed and reversed. The significance of this pattern varies. For macro economic issues, there is the question of whether inequality hampers economic growth - now becoming a new orthodoxy in some economic circles. However this probably depends on whether Russian economic growth is widely embedded, or, as is more likely the case, it is driven by export oriented raw materials sectors. These are likely to be far less sensitive to domestic inequality than the manufacturing sectors of the Asian 'miracle' in the 1990s.

The causes of inequality are relatively clear. Those who moved into the private employment sector benefited from a marked premium, as did those who were able to develop private non-wage economic activities. Those who remained in traditional employment, either manufacturing or services, suffered from wage arrears and pay restraint in the face of inflation that undermined the old egalitarian distribution. In contrast to Central European societies, the returns to education have not been strong in Russia, nor are gender effects pronounced. Some of these effects have been ameliorated in recent years - especially the reduction in wage arrears. On the other hand, regional inequalities have not reduced, and the impact of capital cities (especially the Moscow effect), and export oriented raw materials regions, remains substantial. However the ability of survey techniques to capture the upper end of the income and wealth distribution has been limited and we cannot find a clear picture of the rich from this general work on inequality.

While inequality may not get in the way of current Russian economic growth, it clearly does have consequences for Russian individuals and households. Poverty has also grown rapidly, and the consequences for ordinary lives have been

devastating. Millions have lost their lives through premature mortality, and infectious disease has reappeared. A whole generation has lived through a period of great instability and anxiety.

It may be that rapid change in economic fortunes keeps open the possibility for households and individuals to secure a better future at some point, but there is evidence that a significant layer are now stuck in longer term poverty. This itself can amplify the accumulation of personal misfortunes, and give little prospect of relief through personal efforts. The impact of government social and regional policies and spending is at best neutral as to its impact on this group, and more likely worsens inequality through poor targeting and financial restraint.