

Growing Dimensions of Inequality in Evolving Market Economy: Whether Globalization Is to Blame

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Abstract

In the paper income based and non-monetary dimensions of inequality in Russia are explored. Special attention is given to the impact of globalization on shaping inequality patterns. It is argued that in the case of Russia globalization has contributed to exacerbating inequality at least in three ways. Firstly with the lift of “iron curtain” neo-liberal economic concept was adopted as theoretical background for reforms. As a result excessive reliance on market forces and curtailment of social guarantees led not only to a rise of wealth and income differentiation but to undermining equality of opportunity and hence to reproduction of inequality patterns. Secondly, liberalization of foreign trade and global competition gave impetus to rapid development of the fuel sector not only exacerbating the structural bias in economy but also adding to wage differentiation. Thirdly, globalization diversified employment opportunities providing for certain categories of workers access to international labour market which offered much better terms of employment as compared to Russian standards. So on the one hand globalization provides new opportunities for development and individual success. On the other hand in the absence of strong state commitment to equitable provision of social goods it is bound to exacerbate inequality problem.

Introduction

During several decades various aspects of globalization processes and their impact on socio-economic development of nations attract attention of civil society leaders, policy-makers and researchers all over the world. There is a vast volume of literature dedicated to interdependence of globalization and inequality. The most popular area of research so far bringing controversial results concerns the distribution of world income and wealth between the industrialized nations and the developing countries and the prospects of absolute poverty elimination in the globalizing world.

Another trend of research deals with the impact of globalization on inequality within countries. The outcomes are controversial both for the industrialized nations and for the third world economies. The initially popular race to the bottom concept is now frequently being questioned (De Graue and Polan 2003; Lammert 2004; Harjes 2007). The IMF report (2007) asserts that during the past two decades globalization has contributed significantly to rising inequality in most parts of the world with evolving market economies being one of the few exceptions. At the same time it emphasizes the fact that real incomes have grown both in the rich and in the poor countries and for all population groups. Thus in the long run everybody benefits from globalization. According to Dreher and Gaston (2006) globalization has exacerbated wage inequality in developed countries but its impact on inequality in less developed countries has been quite small. The research done by Dollar (2001) for a wide range of developing countries reveals no systematic relationship between any measure of globalization and changes in household inequality.

Less attention is given to the impact of globalization on inequality trends in transition economies (most of which now reaching the status of economies with evolving markets). The comparatively vast research on perspectives of economies with evolving markets in the globalizing world is directed mostly on such problems as competitiveness and economic growth (Kolodko 2000 and 2003; Kurenkov 2003; Sorokin 2005 among others). There is a lot of profound empirical and theoretical research on trends and dimensions of inequality in the period of socio-economic transformation (Atkinson and Micklewright 1992; Silverman and Yanowitch 1997; Milanovic 1998; Mitra and Yemtsov 2006; Medvedev et al. 2007; Shevyakov 2007 among others).

However few papers explore the interdependence of globalization and inequality. Vorobyov and Zhukov (2000) analyze the role of structural bias toward globally competitive oil-and-gas sector in exacerbating wage inequality during the period of economic decline. Yudaeva (2002) provides a comprehensive analysis of economic dynamics and inequality trends in a range of former Soviet-type economies during the first decade of reforms comparing growth and income inequality outcomes of active and passive globalizers. In both papers globalization is defined in a narrow functional way as liberalization of trade regimes combined with free movements of capital and hard currency. Inequality is also reduced mostly to its monetary dimension of wage and income divergence. Besides, the discussion is naturally limited to the period of economic decline and initial recovery stages.

In this paper a more comprehensive approach both to globalization and to inequality is shared. The World Bank researchers provide a good working definition of globalization as growing integration of economies and societies around the world as a result of flows across national boundaries of goods, services, capital, people, technology, ideas, and culture (Dollar 2001; Dawson 2003). It should be stressed that such elements as ideas and culture are very important in shaping globalization outcomes. Among intangible goods and capital flows it is the technology transfer leading to skill biased technological change that is most readily mentioned (Dollar 2001; Williamson 2006; IMF 2007). However some authors draw attention to transfer of values and norms (Whalley 2005; Czerwinska-Schupp 2007). This intangible impact of globalization has

played a crucial role in shaping the inequality patterns in the post-Soviet economies, especially in the CIS countries including Russia.

Inequality is also a multidimensional concept¹ entailing inequality of opportunity and inequality of monetary and non-monetary outcomes. Wage and income distribution is the most easy to quantify dimension of inequality where vast statistical data is available. Therefore it remains the main “battlefield” of researchers with different concepts of globalization and its outcomes². Precise quantitative assessment of the non-monetary dimensions of inequality is hardly possible. The fact makes them “unrewardable” items for exploration. Nevertheless non-monetary dimensions are not less important. Moreover there is a substantial interlacement between monetary and non-monetary dimensions of inequality. As often stated by development economists the poorer countries and strata of population often do not have equal access to the opportunities presented by globalization (Sen 1999; Aisbett 2005).

One of the big changes that took place during the socio-economic transformation of the 1990s in Russia was the change in relative significance of monetary and non-monetary dimensions of population well-being and of inequality of different socio-economic groups in particular. In order to evaluate inequality trends in economy with evolving markets it is vital to look into the factors contributing to inequality paying particular attention to the non-monetary dimensions such as access to education, healthcare, benefits of culture being crucial to equality of opportunity.

The paper is structured as follows. In the first section the forms and scale of inequality in the pre-reform Russian economy are evaluated and the role of global competition as a factor stimulating reforms is highlighted. In the second part the concept of reform adopted in Russia is analyzed. It is shown how the way the reforms were shaped was influenced by globalization and what impact the reforms had on inequality patterns during the period of economic decline. The third section focuses upon the key trends in distribution of opportunities and outcomes among different groups of Russian population at the latest stage of reforms when the outward economic crisis has been overcome and the country’s position in the world economy strengthened. To conclude the impact of globalization on inequality patterns and trends in Russia is summarized.

The starting point

The pre-reform Russia was a closed economy and basically an egalitarian society characterized by relatively high socio-economic security of all categories of population. It was based upon an implicit social contract between the state and the people. Several factors contributed to curbing inequality both in its monetary and non-monetary dimensions.

The first to mention is paternalistic attitude of the state that always “knew better” what was good for its citizens and took the responsibility for their well-being. The niches for development of civil society were scarce and there was little room for bargaining of parties with diverse interests. The situation had a great impact on the mentality of people. It was characterized with fear of responsibility and willingness to delegate decision-making to the upper levels coupled with prevalence of collectivistic norms and behavior patterns over the values of individual success³.

Along with normative there was an economic basis for promoting equality constituted by the structure of property ownership and incomes. In the absence of private income generating property the only sources of monetary income were labour remuneration (wages and salaries) and state social transfers. There is a substantial empirical research confirming the view that absence of private property and related incomes in Soviet-type economies was a strong factor curbing inequality (see Stevenson 1997 for the review of the discussion). It is worth noting however that the level of wages and wage setting mechanisms themselves also contributed to the process. The wage level in Russia

was traditionally low both in absolute and relative (as a GDP share) terms. In other words under artificially sustained full employment a meager wage fund was distributed among a disproportionately large number of employed.

The minimum wage level officially set by the state exceeded so called minimum consumer budget at least 1.5 times (Rimashevskaya 1997: 120). Thus it provided a low but socially acceptable standard of living for the majority of working population. Poverty was usually limited to traditionally vulnerable categories – families with many children, lone mothers and separate households of elderly people (Ellman 1990). It is worth noting that unlike the minimum wage the size of minimum consumer budget was never officially proclaimed but it was always “kept in mind” when setting the minimum wage. Strong minimum wage obligations left little place for wage differentiation.

The wages for different occupations were directive set according to the tariff scale which took into account the required skill level, working conditions and relative importance of occupation and/or branch of economy with regards to strategic goals of the state. As a result wages in engineering, machine-building, and other defense oriented industries were relatively higher while those employed in consumer oriented sector (food, textiles, etc) and the majority of workers in health, education, and culture were relatively underpaid. It is worth noting however that wage and income inequality as well as generally low level of wages were to a large extent ameliorated by a very high level of labour decommodification.

In the Soviet-type economy the most important factor for bringing down inequality was free or heavily subsidized provision of key social goods. The social contract implied guaranteed access to education, healthcare, housing habitation, social security albeit in exchange to political loyalty and restrictions of individual freedom. The state sought after uniform standard of social goods provision (though in practice quality of healthcare and schooling was generally better in cities, especially big cities, than in rural areas) and not after satisfying the diversity of individual preferences.

There was strong emphasis on promoting equality of opportunity in the key spheres of self-realization. All through the Soviet period fighting illiteracy and providing vast educational opportunities was a first rate priority. Up to the 1970s public expenditure on education as a percent of GDP was growing for at least two decades being twice as much as the corresponding share in the GDP of the USA (Martsinkevitch 2005). As a result in a relatively short period of time Russia succeeded in substantially upgrading the educational and professional qualifications of its labour force. According to the Census of 1989 the share of adult population with university education amounted to 13% while the share of adults with insufficient education (less than 8 years) was about 37%. For comparison the corresponding figures for East European countries at the start of market reforms were 5.3% versus 54.6% for Poland, 5.8% versus 66.9% for Hungary, 5.7% versus 75.7% for Bulgaria and 3.5% versus 57.3% for Czechoslovakia (Degtjar 1984).

In the era of industrial mass-production economy the artificial socio-economic situation created by Soviet-type regime acted as a strong device preventing poverty and promoting egalitarian goals and at the same time brought visible advantages. The mere fact of sustaining full employment and providing a regular job for everybody contributed to equitable distribution of work-related security and acted against social exclusion (Ellman 1979). In the situation when everybody around was not very well-off and the range of consumption opportunities was very modest there was little space for “subjective” poverty and feeling of deprivation.

The centralized closed economic system was good at accumulating resources (including resources of human capital). On the one hand, skilled labour was underpaid which meant little or no monetary returns to human capital investment (Gregory and Kohlhase 1988). But on the other hand,

acquiring tertiary education gave important intangible rewards like status, interesting work, flexible working hours, and decent working conditions. High prestige of professional occupations made young people to opt for more education, free provision of social goods enabled them to realize their ambitions irrespective of social and income status of their families, and the “iron curtain” made outflow of skilled manpower from the national economy virtually impossible.

Thus the system succeeded in combining high stimulus for skill upgrading (and hence high quality of human resources) with egalitarian distribution policies and low inequality. According to Rosstat data⁴ at the start of reforms (1991) the Gini coefficient for total money incomes was only 0.260 and the Gini coefficient for wages – 0.317. Both indicators were lower than in the majority of developed countries to say nothing about such unequal developing economies as Brazil, Columbia and Chile.

With the post-industrial era entailing globalization it all changed. The world where innovation is crucial for competitiveness of any nation makes new demands to the skills and personal qualities of people incompatible with egalitarian paternalistic values and restricted economic freedom of the centrally planned economy. Along with education and skill such qualities as creativity, initiative, willingness and ability to take responsibility and risk become the key factors of economic success. These challenges of the new stage of world development made the prospect of radical reforms in the Russian economy and society inevitable.

The concept of reform and its first inequality outcomes

The Russian reforms were aimed at a dual goal of transition from a centrally planned to a market based economic system and adaptation to competitive demands of the global economy. The task was both ambitious and associated with a wide array of grave risks both in economic and social sphere.

It should be stressed that as compared to many developing countries and to some countries of the former Soviet block, at the start of transition Russia possessed substantial competitive advantages including well-educated and skilled labour force and a vigorous core of high-tech industries (though mainly defense oriented with consumer oriented sector lacking behind). It also had a developed system of social guaranties in many aspects compatible with the demands of modern welfare state. In other words the socio-economic system could rather be characterized as biased not as underdeveloped. Therefore in the case of Russia a specific version of socio-economic reform taking into account those competitive advantages should have been elaborated.

Unfortunately with the lift of the “iron curtain” the standard neo-liberal approach to shaping the reforms based upon the mainstream economic paradigm institutionalized in the Washington Consensus principles was adopted. It should be stressed that all the principles of the Washington consensus not just trade and FDI liberalization are a product and a reflection of globalization. As Standing (2004: 20) puts it “in the minds of many, globalization has become equated with global application of the so-called ‘Washington Consensus, which can be taken as implying 11 key policy commitments... Underlying this policy package is the belief that national governments must accept less ‘discretionary’ power over national policymaking and adapt to the dictates of a global model, identified and promoted by the Washington-based international financial institutions. These institutions can in a sense be described as the midwives of globalization and of economic liberalization in particular”. All the more rapid dissemination of mainstream views among both researchers and policy-makers in many evolving market economies is one of the most vivid manifestations of the globalization process.

The selected strategy of minimizing the role of the state in economic and social spheres and rapid privatization consistently implemented in Russia during the first decade of reforms had very

controversial results. Spontaneous liberation of market forces was accompanied neither by a coherent state policy aimed at correction of structural bias in the economy, efficient utilization of manpower and accumulation of human capital, nor by elaborating an adequate safety net. Social policy of the state was reduced to “ramshackle” protection aimed at compensating (at least to some minimum extent) the costs of reform to the most vulnerable population groups in order to avoid social unrest⁵. The result was severe economic decline accompanied by regressive changes in the structure of GDP and employment, diminishing socio-economic security of population and rapidly growing inequality both in its monetary and non-monetary dimensions.

Several groups of factors contributed to the inequality growth during the period of decline. *The first group* is linked to the change in the structure of personal incomes towards rising share of incomes from property and entrepreneurship (Table 1).

[Table 1 About Here]

As a result of rapid inequitable privatization the bulk of income generating property fell into the hands of a small group of people mainly belonging to the former Soviet “nomenklatura” that had access to elitist social capital (Hedlund 2001; Glinkina 2005). Official statistics on the distribution of property incomes among different income groups is unavailable (or may be non-existent). However according to expert estimates only about 35% of population receive any property incomes at all and about 50% of such incomes are concentrated in the hands of 1% of population (Berezin 2006).

Another trend revealed by independent surveys is increasing share of hidden property incomes. Ovcharova et al. (1998: 158-159) point that a rapid increase in the share of the 10th decile wage group as compared to the 9th between 1993 and 1997 is a reflection of the fact that disproportionately high wages conceal de facto property, entrepreneurial or mixed incomes. During the period mentioned the share of managerial personnel in the 10th decile increased from 25% to 42.1%, and the share of top managers – from 10% to 26.2%. Ovsienko and Petrakov characterize this trend as “great income redistribution” from workers to the managerial strata through the rise of exploitation rate (Ovsienko and Petrakov 2004: 71).

Between 1990 and 1999 the real per capita wages experienced a substantially greater decrease as compared to real per capita incomes (reaching in 1999 the minimum level of 31.7% and 55.7% of the level of 1990 respectively). According to the estimate of Ovsienko and Petrakov (2004: 72) the share of labor remuneration in the GDP decreased by 30%. Thus it is the least well-off part of population for which wages constitute the main source of income that bore a disproportionately higher cost of reform.

The second group of factors lies with the shift in the quality and structure of wage employment itself. At the first glance the dynamics of structural change in employment under economic liberalization may be assessed as a positive trend for there is a stable pronounced growth of employment in services (from 41.9% in 1992 to 53.1% in 2000) with a decline in the shares of primary and secondary sector employment (Table 2). This trend corresponds to the long-term shift in employment observed in developed market economies and is sometimes assessed as a positive process reflecting the transition to the post-industrial stage (Vishnevskaya et al. 2002: 72-74).

[Table 2 About Here]

However if we look more carefully at the structure of the shift in the Russian case the assessment will be less optimistic. The decline in industrial employment was accompanied by an even more pronounced productivity decline and unfavorable changes inside the sector with stably growing

share of export oriented extractive industries and declining share of manufacturing. The share of mining in the overall industrial employment increased from 12.5% in 1990 to 21% in 1998 and 25% in 2000, while the corresponding figures for engineering industry were 38%, 30% and 27%, for light industry - 11%, 6.7% and 6% respectively. Per capita production of basic food products and consumer goods went down.

The growth of employment in tertiary sector was mainly due to more than twofold expansion of trade (to a large extent so called “shuttle” trade with imported goods) and extra-rapid growth of public administration. At the same time the shares of industries responsible for the quality of economic growth and human capital formation increased only slightly if at all. So the outwardly positive shift in employment structure conceals a disturbing tendency to primitivization of employment.

The worsening of employment structure was accompanied not only by a threefold reduction in average real wages but also with their redistribution toward the only parts of economy that has actually benefited from globalization – the fuel and energy complex and financial sector (table 3). Average wages in the oil-and-gas exceeded average wages in light industry, education and health 4-6 times to say nothing of agriculture. Taking into the account the high incidence of wage arrears in the less lucky branches of economy the wage gap between privilege sectors and the outsiders was even greater.

[Table 3 About Here]

As a result the problem of “working poor” in Russia has become a sad reality. Both official and independent surveys demonstrate that in the Russian case low-paid workers tend to be concentrated in the same households. Thus low wages of the second earners in most cases are not compensated by wages of other family members. According to a sample survey of household budgets conducted by Rosstat 64.7% of poor households and 58% of extremely poor households comprised at least two regularly employed grown up members. Russian population security survey (PSS)⁶ reveals that 77% of low paid workers belonged to poor households as well.

The most alarming is that unlike the situation in developed economies where the poverty problem is acute mainly for low skilled workers, in Russia a large share of professionals employed in the public sector, including teachers, physicians, librarians, etc. have been hit. In the 1990s the wages of medical doctors, paramedical, nurses, instructors at pre-school centers fell below the poverty line while the wages of teachers and pedagogues exceeded the subsistence minimum by a mere 1.1-1.4 times. According to PSS among employees with wages below subsistence minimum 28.8% possessed university education and another 43.3% non-university tertiary education. The fall of wages in the public sector industries vital for human development and innovation and concentrating high skilled manpower was substantially deeper than the average.

The inevitable result was intensification of “brain drain” in both classical and internal forms. Employment in R&D decreased from 2.8 million in 1990 to 1.2 million in 1998 and 0.8 million in 2002. The direct outflow of researchers from the country accounts for a substantial part of the decrease though the estimates vary from 0.5-0.8 million to only about 20 thousand persons (Supian 2003). Many others physically stayed in the country but found distance jobs with Western companies and research institutions, thus becoming “regular members” of the international labour market (Belozeroва 2006).

As it is proved by several household surveys (Ovcharova et al. 1998, Soboleva 2004, Toksanbayeva 2006) good jobs providing relatively higher wages and at the same time higher level of work-related security have been increasingly concentrated in the privileged sectors of economy, industries and

locations. The key trend in wage distribution has been increasing dependence on such factors as sector of employment, socio-economic situation of enterprise and place of living and diminishing role of education, skill and performance level.

Thus in the first decade of transition few categories of workers have benefited from reforms. Besides the mentioned above managerial personnel acquiring disguised property and rental incomes among the beneficiaries were those employed in successfully globalizing extractive industries and in the new sectors of informational and financial infrastructure. Many of the latter jobs are provided by foreign or joint stock companies located in Moscow, Saint Petersburg and other actively globalizing zones and constitute a part of the global labour market.

The third group of factors contributing to inequality comprises a sharp reduction in free public sector provision of social services and liberation of prices for basic food and consumption goods. From the beginning of reforms the official minimum wage growth fell far behind the growth of living essentials' prices. Up to 2001 minimum wage constituted less than 15% of official subsistence minimum. It should be mentioned that in 1992 the subsistence minimum was reduced twofold as compared to the minimum consumer budget of the Soviet times which led to "statistical" reduction of poverty incidence from 70% of population to just 33.5% (Rimashevskaya 2002: 12).

Rapid commercialization of health, education, housing and communal services led to a situation when vast categories of population, including economically active and regularly employed, were unable to satisfy their basic needs. Growing prices for daily services have led to "naturalization of household economy". For about 80% of households such services as laundry, chemical cleaning, repair shops became an inaccessible luxury which meant an increase in the household burden of women (Baskakova 1998: 254). During the first decade of reforms the average costs for attending pre-school institutions increased tenfold. As a result the share of households that cannot afford kindergarten services rose from 10% in the beginning of the 1990s to 58% in 1999 (the year when real wages reached their minimum level).

The most acute problem contributing to inequality of opportunity is unequal access to education. Judging from rapidly growing enrolment rates university education is gradually becoming almost universally accessible. But the enrolment increase was wholly due to 'commercial' students (paying tuition fees for their education). Moreover it has been accompanied by a growing share of secondary school dropouts. According to Population Census data, between 1989 and 2002 the share of young people (15-24 years) possessing not more than primary education increased from 5.6% to 7.5%. Another 9.2% of the age group 20-24 possess only 8 years of education which manifests an almost twofold increase as compared to 1989. The growing share of functionally illiterate low competitive and low productive marginal groups of population is the most open and vivid manifestation of segmentation of educational opportunities. But in a large part the growing segmentation is of hidden character and concerns the quality of education supplied (Boldov et al. 2002, Soboleva and Lomonosova 2005).

Thus during the period of economic decline vividly manifesting attributes of so called "passive globalization" (Yudaeva 2002) at least two trends contributing to inequality growth could be outlined. *First* is rapid growth of inequitable and inefficient wage differentiation. It is inequitable since it is highly dependent on belonging to either globalizing or stagnating sector of economy almost irrespective of education, skill and performance level of workers. It is strategically inefficient since is weakly linked to technology transfer and innovation and by no means can be regarded as a consequence of skill biased technological change. The *second* trend which may be labeled as the Russian version of "race to the bottom" is towards recommodification of labour leading to increasing scale of deprivation and undermining equality of opportunity.

The recovery period – who gains: extending opportunities versus extending inequality

In the late 1990s the economic crisis was overcome and the recovery stage began. The GDP growth has been to a large extent initiated by the rapid growth of oil prices meaning increasing dependence of the Russian economy on the world market trends. Nevertheless it was accompanied by pronounced improvement in the living standard of population and accumulation of vast resources in the national budget. The latter fact opens more opportunities for rectifying structural inequalities both through enlarging direct transfers to the vulnerable and increasing provision of social goods to promote equality of opportunity. The first steps have been made in this direction within the framework of so called National Projects elaborated for support of education, health, housing, agriculture and demography.

However the projects are mainly of demonstrative symbolic character. The total volume of financing allocated for all five projects amounts to no more than 10% of the actual budget surplus. As Glasiev (2007: 45) puts it “the positive impact of the National Projects on the country’s socio-economic development is ten times less than the negative impact of the budget policy on the whole”.

As regards poverty and inequality perspectives during the recovery stage at least two important tendencies may be observed. The first is the change-over from real wage decline to real wage growth with wage differentiation going down. Between 1998 and 2006 the real wage grew 1.8 times almost reaching its pre-reform level. The second is that the gains in wages fell behind the gains in company profits and budget revenues (Table 4).

[Table 4 About Here]

As the available National Accounts data show the net corporation profits demonstrate the highest rate of growth. Between 2002 and 2005 the net profits increased 2.4 times, the volume of production and import taxes collected by the state – 2.2 times, while the wages – less than 1.9 times. If in 2002 corporations got 0.37 rubles of profit for every ruble spent on wages, in 2005 the corresponding amount reached 0.48 rubles. The relative share of the state received in the form of taxes also went up from 0.40 rubles to 0.47 rubles (Table 5).

[Table 5 About Here]

Taking into account that about 2/3 of the net profits goes to the property owners and top management in the form of dividends and other profit based remuneration, the role of none-wage factors of income inequality tends to increase steadily. Indeed during the last decade the scales of wage and income inequality were changing in opposite directions: a substantial narrowing of wage differentiation was accompanied by a modest rise in income inequality (Table 6).

[Table 6 About Here]

The reduction of wage differentiation to a large extent has been due to gradual pulling of the official minimum wage up to socially acceptable level and to increasing salaries of the public sector employees. At least two important results have been achieved.

[Figure 1 About Here]

Firstly a substantial part of population was raised above the poverty level: in 2006 the poverty rate equaled 16% as compared to 29% in 2000. At the same time it is worth noting that a substantial part of wage-earners is still living right above the subsistence minimum level. The comparison of

subsistence minimum with median wage demonstrates that during the whole period of reforms the purchasing capacity of the majority of employed population reduced threefold and today is still less than two subsistence minimums. Thus the material well-being of the majority of population improves much less slower than is demonstrated by mean indicators biased towards the most affluent groups.

[Table 7 About Here]

The second positive outcome is the strengthened labour market position of “rank-and-file” skilled labour in the spheres not involved explicitly in the globalization processes first of all public sector professionals. This is reflected in the changes in wage differentiation by economic activity type⁷. As can be seen from Tables 8 and 9 such public sector activities as education and health manifest the most dynamic wage growth while the growth rates in the fuel and energy complex have slowed down and lagged behind economic average. In spite of the highest growth rates the relative wages in public sector are still substantially below the economic average. The leading position is stably occupied by financial sector employees belonging de facto to international labour market. On the whole the inter-industry difference in wages remains quite high with agriculture, food, and consumer goods industries (and to a lesser extent engineering) lagging far and far behind the successfully globalizing sectors of oil-and-gas and financial infrastructure.

[Tables 8 and 9 About Here]

On the whole assessing the wage and income outcomes of economic growth of the last decade it is safe to conclude that the poverty problem is stepping aside while the inequality problem persists. All the more gradual decrease in wage inequality is to a large extent counteracted by a pronounced extension of its non-monetary dimensions for a large part associated with unequal access to social goods. The verbal accent on social priorities is accompanied by persistent reorientation to market based provision of services in the spheres of education and health. The emphasis is made upon diversification of the range and quality of these services in order to meet the structure of consumer demand.

The result is too well predicted. With the diversified market the affluent population groups acquire vast opportunities to improve quality of life and accumulate considerable human and social capital they pass to the next generation widening the gap between themselves and the less affluent remaining in the vicious circle of scarce opportunities and meager achievements. A good example is given by the latest developments in the sphere of education. An independent survey reveals an enormous variation in the sum of money the respondent families could afford to invest in university education of their children: from \$100 per year to \$7,000 per year (Roschina and Drugov 2003). The second figure roughly equals average tuition fees in the elitist (top twenty) universities. The market for educational services offers nearly as wide a range of opportunities to obtain a university diploma. In such situation a large number of families make a forced choice for cheap low quality education schemes obtaining formal certificate poorly backed up with real knowledge and skills.

Conclusion

The Russian reforms were aimed at a dual goal of market transition and adaptation to competitive demands of the global economy. The selected strategy based upon standard neo-liberal approach institutionalized in the Washington Consensus hardly took into account the competitive advantages Russia possessed at the start of transition. The result was a prolonged economic decline during which a disproportionably high share of economic loss was borne by rank-and-file wage-earners.

During the period of decline (1991-1998) at least two trends contributing to inequality growth could be outlined. First is rapid growth of inequitable and inefficient wage differentiation. It is inequitable since it is highly dependent on belonging to either globalizing or stagnating sector of economy almost irrespective of education, skill and performance level of workers. It is strategically inefficient since is weakly linked to technology transfer and innovation and by no means can be regarded as a consequence of skill biased technological change. The second trend is towards recommodification of labour leading to increasing scale of deprivation and undermining equality of opportunity.

During the period of recovery (from 1999) material well-being has increased for all population groups but it has been the most affluent who gained most both in monetary and non-monetary terms. Assessing the wage and income outcomes of economic growth of the last decade it is safe to conclude that the poverty problem is stepping aside while the inequality problem persists. All the more gradual decrease in wage inequality is to a large extent counteracted by a pronounced extension of its non-monetary dimensions for a large part associated with unequal access to social goods.

To sum up Russia globalization processes have contributed to exacerbating inequality at least in three ways.

Firstly with the lift of “iron curtain” neo-liberal economic concept gained popularity with policy-makers and was adopted as theoretical background for economic reforms. As a result excessive reliance on market forces and curtailment of state social guarantees led not only to a rise of wealth and income differentiation but to a substantial increase in inequality of opportunity and hence to reproduction of inequality patterns.

Secondly, liberalization of foreign trade and global competition gave impetus to rapid development of a limited number of globally competitive industries, thus not only exacerbating the structural bias in economy but also adding to inter-industry and interregional wage differentiation.

Thirdly, globalization diversified employment opportunities providing for certain categories of workers access to international labour market which offered much better terms of employment as compared to Russian standards. In the context of low population and labour mobility and highly segmented labour market access to the privileged segments of employment is conditioned not only upon meeting skill demands but also upon factors to a large extent outside of individual control among which place of living plays the key role.

It is safe to conclude that on the one hand becoming a part of global economy provides new opportunities for development and individual economic success. On the other hand in the absence of strong state commitment to equitable provision of social goods and promoting equality of opportunity globalization is bound to lead to exacerbation of inequality problem.

Endnotes

¹ For the most thorough discussion of inequality dimensions from capability approach see Sen (1999). The dimensions of inequality associated with socio-economic security are discussed in Standing (1999 and 2004).

² A critical review of this discussion is given by Shishkov (2006) siding with Bhalla and Sala-i-Martin, and by Aisbett (2005) giving a more balanced account. In the latter paper the problem of widening non-monetary dimensions of inequality is also being raised.

³ Actually collectivistic mentality of Russian people has rather deep historical roots. As one of the greatest Russian philosophers Nikolai Berdyaev in his famous pamphlet "The Soul of Russia" puts it "The Russian people has always loved to live in the warmth of the collective, a sort of dissolving back into the element of earth, into the bosom of the mother» (1990: 7). During the Soviet period limitations of economic freedom and paternalistic behavior of the state formed a favourable milieu for sustaining and developing the traditional mentality pattern.

⁴ Rosstat is the chief official body providing statistical data for Russia. Here and further on when not mentioned otherwise we refer to the regular Rosstat data.

⁵ In the theoretical discourse at least three main viewpoints on the nature of social policy in Russia can be outlined. According to the first one, social policy is defined as incoherent, unreasoned and thus inefficient policy of "stopping holes" (Shevyakov 2007). The second one states that the reformers deliberately rejected the alternative of elaborating special policies to alleviate poverty and empower the vulnerable because of their firm belief in the omnipotence of the free market. It was argued that after a tough period of shock reforms the play of market forces will lead to increase in efficiency, growth rates and the personal incomes. Thus the inevitable social problems of transition will be naturally solved (Yasin 2002). According to the third viewpoint the social policy in Russia is indeed a coherent well-thought-out efficient policy pursued in the interests of the elitist groups in possession of economic and political power and able to lobby their interests (Tihonova and Shkaratan 2001).

⁶ Population security survey (PSS) was conducted in 2002 by Institute of Economy in three regions of Russia as a part of ILO Socio-Economic Security Program.

⁷ From 2005 Rosstat has switched from employment classification by industry to new classification by economic activity type. Thus the latest data on wages by type of activity is hardly comparable with the data of the 1990s by industry. Fortunately the wage data for the 2000s has been rearranged according to the new classification.

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Table 1

Structure of Money Incomes of Russian Population

Year	Share in the gross monetary income, %				
	Labour remuneration*	Income from entrepreneurial activities	Social transfers	Property incomes	Other incomes
1990	76.4	3.7	14.7	2.5	2.7
1992	73.6	8.4	14.3	1.0	2.7
1995	62.8	1.4	13.1	6.5	1.2
1996	66.5	1.1	14.0	5.3	1.1
1997	66.4	1.5	14.8	5.7	0.6
1998	64.8	1.5	13.4	5.5	1.8
1999	65.8	1.6	13.4	7.3	0.9
2000	62.8	1.4	13.8	6.8	1.2
2001	64.6	12.6	15.2	5.7	1.9
2002	65.8	11.9	15.2	5.2	1.9
2003	63.9	12.0	14.1	7.8	2.2
2004	64.9	11.7	12.8	8.3	2.2
2005	63.4	11.6	12.8	10.3	1.9
2006	66.4	11.2	13.2	7.2	2.0

Source: Rosstat

* Including hidden (not registered officially) wages and salaries

Table 2

Employment Distribution by Sector of Economy

Sector of economy	Employment (year average)						
	1992	1995	2000	2001	2002	2003	2004
Agriculture (thousand persons)	10336	10003	8609	8200	7947	7480	7054
Share %	14.3	15.1	13.4	12.7	12.2	11.4	10.7
Manufacturing, mining & construction (thousand persons)	29211	23369	19545	19707	19516	19425	19270
Share %	40.6	35.2	30.4	30.5	29.8	29.6	29.2
Services (thousand persons)	30210	31604	34135	34676	35704	36440	37054
Share %	41.9	46.8	53.1	53.5	54.8	55.5	56.3

Source: Rosstat

Table 3

Relative Wage Levels by Branch of Economy

Branch of Economy	Wage rate as a percent of economic average (%)				
	1990	1992	1995	1998	2000
Agriculture	95	66	50	45	40
Manufacturing & mining	103	118	112	115	123
Energy	121	221	209	203	181
Fuel	148	290	256	237	298
Ferrous metals	117	170	136	136	158
Non-ferrous metals	145	250	224	220	278
Engineering	101	87	85	89	95
Light	82	85	56	51	54
Food	103	127	118	116	108
Construction	124	134	126	127	126
Trade & catering	85	81	76	82	71
Housing & communal services	74	82	102	105	88
Health & social security	67	66	73	69	62
Education	67	61	65	63	56
Culture	62	52	61	62	55
R&D	113	64	77	99	122
Finances	135	204	163	199	244

Source: Rosstat

Table 4

Dynamics of GDP, Wages, Taxes and Profits during the Recovery Stage in Russia

Indicator	Growth Index (1998 = 100)				
	2000	2002	2004	2005	2006
GDP	278.8	411.9	648.3	822.1	1018.4
Wages	232.6	401.0	621.1	750.3	935.6
Taxes	271.1	391.4	594.0	850.9	1066.1
Gross profit and mixed incomes	329.6	414.0	668.7	835.3	1014.8

Source: calculated upon Rosstat National Accounts data

Table 5

Relative Dynamics of Net Profits, Taxes and Wages during the Recovery Stage in Russia

Indicator	2002	2004	2005
Net profits (billion rubles)	1890.7	3696.9	4585.2
Taxes (billion rubles)	2027.0	3076.3	4406.9
Wages (billion rubles)	5065.1	7845.0	9467.7
Net profit/wage ratio	37.3	47.1	48.4
Tax/wage ratio	40.0	39.2	46.5

Source: calculated upon Rosstat National Accounts data

Income and Wage Inequality during the Recovery Stage in Russia

Indicator	1999	2000	2001	2002	2003	2004	2005	2006
Income								
Gini	0.394	0.395	0.397	0.397	0.403	0.409	0.406	0.410
Coefficient of funds	13.9	13.9	13.9	14.0	14.5	15.2	14.9	15.3
Decile coefficient	-	-	6.5	6.6	6.7	7.0	6.8	-
Wage								
Gini	0.475	0.483	0.508	0.477	0.481	0.467	0,456	-
Coefficient of funds	32.1	34.0	39.6	30.5	30.0	26.4	24.9	25.3
Decile coefficient	12.1	12.2	13.2	10.6	11.1	10.3	10.6	-

Source: Rosstat

Table 7

Relative Dynamics of Median Wage, Average Wage and Subsistence Minimum during the Period of Reforms

Indicator	1991	1997	1999	2000	2001	2002	2003	2004	2005	2006
median wage (rubles)	464	631.4	947.1	1361.3	1899.8	2750.3	3483.7	4409.4	5687.1	7106
median wage to average wage ratio	84.7	66.4	62.2	61.2	58.6	63.1	63.4	65.5	66.5	66.2
average wage to subsistence minimum ratio	3.7	1/9	1.5	1.7	2.0	2.2	2.4	2.6	2.8	3.1
median wage to subsistence minimum ratio	3.1	1.4	0.9	1.0	1.2	1.4	1.5	1.7	1.7	1.9

Source: calculated upon Rosstat data and data supplied by Ministry of Health and Social Development

Relative Wage Levels by Economic Activity Type

Type of Activity	Wage rate as a percent of economic average (%)							
	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture	44	44	43	43	45	43	43	42
Mining	267	281	254	253	250	231	217	200
Fuel	314	337	300	293	295	274	258	240
Other	180	166	161	171	161	154	145	133
Manufacturing	106	106	102	102	102	98	96	96
Food	98	96	93	91	90	85	81	82
Textiles	55	54	51	51	50	47	45	47
Machine-Building	89	95	93	94	97	98	98	102
Finances	235	274	304	283	258	263	259	270
Education	56	57	67	62	62	63	65	67
Health & social security	60	60	72	67	68	69	75	76

Source: Rosstat

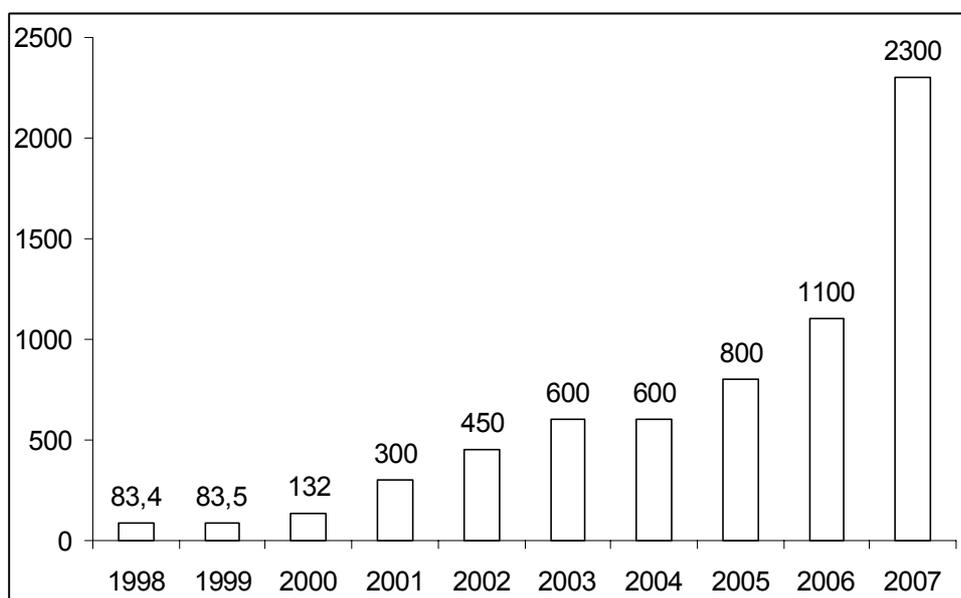
Table 9

Nominal Monthly Wage Growth Index by Economic Activity Type (2000=100)

Type of Activity	Wage Growth Index					
	2001	2002	2003	2004	2005	2006
Agriculture	146	190	238	306	370	465
Mining	153	187	234	284	332	391
Fuel	156	187	231	285	336	396
Other	135	176	235	272	329	388
Manufacturing	146	188	237	290	356	433
Food	143	186	230	278	335	399
Textiles	145	185	231	276	328	400
Machine-Building	156	206	262	330	424	533
Finances	170	253	297	332	429	531
Education	148	236	273	339	438	563
Health & social security	147	236	275	346	443	607
Average by all types	146	196	247	303	385	482

Source: calculated upon Rosstat data

The Official Minimum Wage Dynamics in 1998-2007 (end of year, rubles)



Source: Ministry of Health and Social Development