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Measuring Income Inequality in Russia: A Note on Data Sources

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Abstract

Income inequality in Russia is increasingly discussed in academic circles and society at large. However, different data sources produce different estimates of inequality. According to household surveys, income inequality in Russia corresponds to that of European countries. Official Rosstat figures indicate a higher level of inequality closer to that of the United States. Finally, various attempts at augmenting survey data with tax records produce even higher estimates, placing Russia among the world's most unequal nations, such as Brazil and South Africa. Due to the dramatic underrepresentation of the top incomes in the survey data, it is likely that tax-based estimates are the closest to the truth. While it is safe to say that income inequality in Russia is very high, the direction of its change in the last 20 years remains unclear. This issue cannot be resolved without more detailed statistics from the Federal Tax Office over a longer period of time.

Public Debate on Inequality in Russia

For several years, economic inequality has been at the forefront of public debate across the world, and Russia has been no exception.

Inequality was widely discussed in the 1990s in the context of the traumatic transition to capitalism. During the next decade, however, the debate on this issue was somewhat muted. The Kremlin preferred to talk about poverty, not about inequality: it was easy to sidestep the issue of inequality by focusing on the remarkable achievements in poverty reduction of the 2000s. The opposition, in turn, was predominantly liberal and preferred to talk about the threats to property rights emanating from the all-powerful *siloviki*, not about inequality—a topic many liberals thought reeked of populism. However, the situation began to change in the mid-2010s. Unlike other liberal opponents of the Kremlin, anti-corruption campaigner Alexei Navalny was not afraid of populist language. He began to criticize the owners of Russia's largest businesses—the so-called oligarchs—and not just the top government officials, as he had done before. This new populist line culminated in the slogan used prominently during Navalny's 2018 presidential campaign: "Prosperity for all, not affluence for the 0.1%." Navalny's campaigning brought the rhetoric of Occupy Wall Street to Russia—and Vladimir Putin was forced to respond. During his annual press conference in 2018, he noted: "Speaking about the [income] gap. First, unfortunately, it does exist. Second, which is also unfortunate, as a rule, this is a global trend. In any case, this is what is happening in large economies." However, Putin quickly went back to the issue of poverty: "Of course we must take this into consideration. At the very least we must decrease the number of poor people." Nevertheless, the topic of inequality was now firmly on the agenda.

Income Inequality in Russia: Comparing Data Sources

Still, to have a serious discussion about inequality, one needs a reliable estimate of it, and in the Russian case, such an estimate is hard to come by. A common measure of income inequality is the Gini coefficient. The latest figure from Rosstat, Russia's statistical agency, is 0.411 for 2018—a rather high number by international standards and comparable to that of the United States. However, in an article published in 2018, Philip Novokmet, Thomas Piketty, and Gabriel Zucman presented a much higher estimate: 0.545 in 2015. This number places Russia among the world's most unequal nations, such as Brazil and South Africa. Yet if we calculate the Gini coefficient directly from household surveys, without any additional transformations (more on this below), the number is around 0.31—lower, not higher, than the official estimate. This corresponds to the level of inequality in developed European countries with strong welfare states, such as Germany and France.

Apart from the level of inequality at any specific point in time (which allows one to make international comparisons), there is also the question of trend estimation. A dynamic picture of inequality allows for a better understanding of the economic, social, and political factors behind it. However, in the Russian case, different data sources produce trend estimates that are not just different, but diametrically opposed. For example, relying on the Russian Longitudinal Monitoring Survey, a group of World Bank researchers found a significant decrease in inequality in the 2000s driven by strong economic growth. By contrast, Thomas Remington identified "a secular trend of rising inequality since the early 1990s, interrupted only by periods of recession"; this trend is confirmed by official Rosstat data. So who is right? What is the actual level of inequality in Russia and how has it changed over time?

There are three sources of empirical information that allow us to estimate income inequality: household surveys, fiscal data, and macroeconomic data. Currently, household surveys are the gold standard; however, they have the well-known weakness of underrepresenting top income earners, as the latter are largely inaccessible to survey conductors. This weakness can be partially rectified by augmenting survey data with macroeconomic data (which reveal the general level of economic activity) and especially with fiscal data, which capture top income earners much better than household surveys. However, publicly available fiscal data are often limited, limiting the reliability of the final inequality estimates produced by researchers. In the remainder of the article, I will examine all three sources of data on inequality available in Russia and compare the results.

There are three household surveys in Russia that gather information on incomes. Two of them are administered by Rosstat: the Household Budget Survey (HBS) is conducted quarterly and the Survey on Incomes and the Participation in Social Programs (SIPSP) is conducted annually. In addition, the Higher School of Economics administers the Russian Longitudinal Monitoring Survey (RLMS) annually. All three surveys have different methodologies. HBS and SIPSP have large samples (50,000–60,000 households). They are conducted in all Russian regions. However, whereas SIPSP includes a direct question about the household's monetary income, HBS calculates income indirectly by adding up the household's consumption, loans, and savings. RLMS is a much smaller survey, with a sample of 4,000–5,000 households. It differs from both HBS and SIPSP in that it has a panel component: the same households are surveyed multiple times. Microdata for all three surveys are available online. Figure 1 presents Gini calculations based on these microdata. RLMS has been administered since 1994, with the exception of 1997 and 1999. HBS has been conducted since the Soviet period, though the microdata are only available from 2003 onwards. Finally, SIPSP has been administered since 2011, with the exception of 2012.

Remarkably, despite important differences in methodology, all three surveys show quite similar results in terms of both trend and actual numbers. All three demonstrate a significant decline in inequality since 2000. In order to investigate the nature of this decrease, I calculated the change in the share of total income for each decile group based on HBS and RLMS figures for the period 2003–2018 (2003 is the first year for which the HBS microdata are available; SIPSP was omitted because it was launched quite recently and thus the period for comparison is too short). The calculations are presented in Figures 2 and 3.

Again, both surveys show remarkably similar results: the decline in inequality since 2003 is largely explained by the declining share of income of the top 10%. However, this result is still problematic due to the underrepresentation of the top incomes in the survey data. In order to reveal the extent of this problem, I calculated average and median incomes for the whole population as well as average incomes for the top 10%, 1%, and 0.1% of the population for the year 2018 using the three surveys. The numbers are in rubles and euros (Table 1) and represent individual monthly income (household income divided by the number of people in it).

These results demonstrate that even the very top of the distribution in the surveys represents the successful middle class rather than the truly rich. Overall, the survey data can be interpreted as data on low-to-middle income groups, with the top earners not represented at all. Recognizing this, Rosstat adjusts the HBS survey data using the average income calculated from the macroeconomic statistics. Not only is the resulting Gini coefficient higher than the one based on survey data, but the long-term trend is indeed, as Remington claims, toward higher inequality, particularly during periods of strong economic growth.

What Do Tax Records Tell Us about Income Inequality?

Finally, several researchers have attempted to augment survey data with tax records. The most famous recent attempt was made by Novokmet, Piketty, and Zucman. However, they were criticized by Rostislav Kapelyushnikov, a prominent Russian economist, for making certain problematic assumptions when adjusting the available fiscal data (which are indeed very limited). Nevertheless, another attempt by Kristina Butaeva resulted in an estimate similar to that of Novokmet et al.: a Gini coefficient of 0.53 for 2014. Finally, in 2006 Sergei Guriev and Andrei Rachinsky analyzed the leaked tax records of Moscow citizens and arrived at an even higher estimate: a Gini coefficient of 0.63 in 2004. These estimates are added to the survey data in Figure 4.

Figure 4 demonstrates that the official Rosstat figures—and especially the tax-based estimates—are much higher than the purely survey-based estimates. However, the direction of the trend is unclear. While the survey data shows a gradual decline in inequality, Rosstat data finds gradual growth. Among the tax-based estimates, only the research of Novokmet et al. contains data for multiple years. However, the Federal Tax Office started to publish statistics on tax declarations only in 2008 and the source of Novokmet et al.'s estimates before that date is uncertain. The Gini coefficients they computed for the period after 2008 show a decline in inequality, but what happened before 2008 remains a mystery.

Conclusion

Based on all the available data, we can draw two conclusions. First of all, the current level of income inequality in Russia is higher than the surveys show and probably higher than the official Rosstat figure. All tax-based research indicates that inequality in Russia is closer to that in its fellow BRICS countries Brazil and South Africa than that in the developed world (the Chinese data appear to be even more problematic than the Russian data in this regard). However, the dynamics of inequality in the post-Soviet period are unclear. It is safe to say that there was a dramatic spike in inequality in the early 1990s compared to the late Soviet period. However, whether the strong economic performance of the 2000s helped to reduce inequality or made it worse remains an open question. Survey data and Rosstat figures point in opposite directions. This issue could be resolved only if the authorities were to publish more detailed information on tax records for a longer period of time.

In any case, all evidence points to the fact that current income inequality in Russia is very high. Research shows that Russian citizens take this issue to heart: according to a survey conducted by the Russian Academy of Sciences in 2018, 69% of the population felt strongly about income inequality—more than about any other type of inequality. In tacit recognition of this, Putin announced in June 2020 that the flat income tax rate of 13%, a signature liberal policy of the early 2000s, will be replaced by a slightly progressive scale: a yearly income of over 5 million rubles will be taxed at a rate of 15%. All extra revenue, amounting to some 60 billion rubles, will be spent on the medical treatment of children with rare and serious conditions. The superficial nature of this 2% tax increase is readily apparent. In a country with some 250,000 dollar millionaires and 21 million people living below the poverty line (which is a monthly income of about 11,000 rubles), such a reform will not quench the thirst for social justice.

About the Author

Ilya Matveev is an associate professor at the North-West Institute of Management, Russian Academy of National Economy and Public Administration (RANEPA). This publication was produced within the research project “Comparing Protest Actions in Soviet and Post-Soviet Spaces,” which is organized by the Research Centre for East European Studies at the University of Bremen with financial support from the Volkswagen Foundation.

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Data Sources

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- Microdata for the Household Budget Survey (HBS) is available at <https://obdx.gks.ru/>
- Microdata for the Russian Longitudinal Monitoring Survey (RLMS) is available at <https://www.hse.ru/en/rlms/>