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Understanding Inequality and Poverty Trends in Russia

The distribution of income in the Russian Federation has changed significantly over the past 20 years. This has attracted the attention of many researchers around the world (Commander et al. (1999), Milanovic (1999), Flemming and Micklewright (2000), Jovanovic (2001) on the transition from planned to market economy; Gorodnichenko et al. (2010), Lukiyanova and Oschepkov (2012) on economic growth; Novokmet et al. (2018) on top income shares). This study contributes to the empirical analysis of Russian household inequality and its determinants. We document an overall decrease of inequality, poverty, different ratios of income percentiles, on one hand, and an increase in levels of income, on the other hand. Therefore, we address the question of what factors were responsible for the fall in inequality and poverty during the last decade in the Russian Federation. The main source of data is the Russia Longitudinal Monitoring Survey - Higher School of Economics. This is the most suitable source of data as it provides sufficiently rich information on individual and household income and its different sources along with a wide range of individual and household characteristics. We apply a semi-parametric reweighting method introduced by DiNardo, Fortin and Lemieux (1996) to assess the role of the changed dispersion of socio-demographic characteristics, labour market outcomes and labour market returns on inequality and poverty. The idea of the method is to build counterfactual distributions of the world where a given influence factor remained fixed in time. Thus, the explanation of overall distributional change is accomplished by doing a “what if” exercise. We conduct this exercise to check whether changes in households’ structure, individual characteristics and labour market outcomes are responsible for changes in distribution of income. We find that the evolution of socio-demographic characteristics that changed most during the decade (size of families, educational qualification and age structure) alone would have resulted in a rise in inequality and poverty. Inequality and poverty would have decreased even more if the socio-demographic characteristics and labour market outcomes (employment and unemployment) had not changed since 2000. The lowest percentile would have won the most. Falling inequality and poverty is the result of decreasing inequality in market returns, (pensions and wages) since 2000. We find no effects of changes in social assistance (unemployment benefits and benefits for children). Additionally, we investigate the fall in inequality and poverty further by eliminating effects of inequality in income levels, inequality in relative importance of different income sources and inequality in returns to individual characteristics. The evidence shows that neither changes in relative importance of income sources nor changes in returns to different individual characteristics are

responsible for the decline in inequality and poverty. However, levels of pensions and wages were increasing tremendously every year, which allowed inequality and poverty to fall.