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### **Income Stratification in Modern Russia: Specifics and Dynamics**

Income stratification commonly operates with three broad categories: poor, middle class and wealthy (high-income, affluent) and different subgroups within or between them. Income stratification scales are used to obtain and compare quantitative estimates of well-off and poor groups, to gauge the risks of vulnerability to poverty and low income, to assess the degree of inequality. This type of stratification is widely used for international cross-country comparisons, as it is based on income level, which is a relatively universal indicator. It is also important for social policies, being used to set thresholds that define the poor and needy among the population who may be eligible for welfare – thus, different approaches to income stratification might mean different groups of the poor supported by social policy. However, choosing a scale for income stratification is not a trivial methodological exercise. The methods used to define groups based on their positions in the income distribution can be summed up in two broad approaches – absolute and relative, conceptually similar to definition of absolute and relative poverty or absolute and relative inequality. Most of these approaches (and the resulting income thresholds) have been developed for different purposes and countries at different stages of social and economic development, so they are only to a certain extent applicable to Russia. Moreover, methods in use mostly focus on defining certain groups among population, but not on devising the income stratification scale for the society as whole. Therefore, the paper aims to contribute to existing literature by defining suitable method of capturing income stratification in contemporary Russia at its current level of development and characterizing its general configuration and dynamics in recent years.

Absolute approach to income stratification is more familiar to Russian researchers since it is used for official measure of poverty based on the regionally set value of subsistence level. However, the most widely used thresholds of the absolute approach cannot be efficiently applied to contemporary Russian society, as they fail to define the subgroups within the population: e.g., the application of WB methodology shows an extremely low share of the poor in Russia (just 1–2% even during the economic crisis) while those at high risk of poverty are about 10%. The overwhelming majority of the population falls within the middle class. Russia has undergone fundamental changes over the last two decades regarding income, rendering the absolute income bounds, set mostly for the group of developing countries, irrelevant. Relative approach, based on the median income as the social standard of living, appears more effective for income stratification in Russia. Based on the literature review and statistical procedures, we suggest defining a total of five income groups. The poverty threshold is set at 0.5x median income. The vulnerable population consists of those with income lower than 0.75x median (the typical lower demarcation for the middle class). The median income group

demonstrates a typical standard of living for the whole population (0.75–1.25x). The middle class (1.25–2x median income) can be considered to be relatively well-off. Those with income higher than 2x median income fall into the high-income stratum.

To account for household size and economy of scale, we chose to apply a well-cited, OECD-modified equivalence scale currently used by Eurostat, according to which a weighting of 1 is assigned to the first adult, 0.5 to the second and to each subsequent person aged 14 and over, and 0.3 to each child aged under 14.

The results of applying the proposed scale to the RLMS-HSE data, representative for Russia, show that most Russians are currently characterized by a close-to-median income. In 2016, more than one-third of population belonged to the median income group that represented the typical standard of living for the country as a whole, since it comprised that part of the population with income around the national median. The proportion of poor and vulnerable people comprised about quarter of the population, with the vulnerable having the larger share. The overwhelming majority of the poor also belonged in the zone of absolute poverty, according to the official subsistence level set regionally in Russia. Among the vulnerable, half of the group had incomes below regional subsistence levels, which proves the correctness of identifying them as vulnerable to poverty and balancing on its edge.

Other income groups can be considered as being relatively well off – about one-quarter belonged to the ‘middle class’, and the high-income group comprised 13% of the population. However, as the median income, even taking account of the equivalence scale, is only 2 times higher than the official subsistence level (or less than 1.5 times higher in absolute terms), the standard of living for the vast majority of the median income group is quite modest, while the position of the ‘middle class’ is more favorable. In general, it is the demarcation between these two income groups that allows us to divide the Russian population into two major subgroups – the not well-off (around 60%) and the well-off (around 40%).

The relative scale that we propose is based on the country’s median income; however, it can be modified to account for the various living standards across regions as well as in the urban and rural areas. With the use of regional or settlement values of median income, the share of the median and middle-income groups increases, while the share of groups with the lowest and highest income declines.

The dynamics of income stratification in the period 1994–2016 demonstrate a gradual decline in income differentiation among the general population. Both poor and high-income groups have declined in share over the past twenty years, while the share of median group has increased quite significantly – from a quarter to more than a third of the population. These trends (equalization of incomes and increasing proportion of the population with incomes close to median value) complement the picture which can be obtained from official statistics (e.g., dynamics of Gini coefficient); however, they can have both positive and negative socio-economic consequences and call for a separate discussion.