

Inequality and Economic Growth in the Russian Economy

Malaev V.V.

Nizamutdinov I.K.

Kazan Federal University, Institute of Management, Economics and Finance, Kazan, 420008, Russia
Email address: Irek.Nizamutdinov@gmail.com

Doi:10.5901/mjss.2014.v5n24p346

Abstract

During the transformation of the market economy in the last decade, its advantages, competition, price mechanism and efficiency in the allocation of society's resources could be combined with social policies. In a modern economy market mechanisms don't warrant themselves in a number of spheres. For increase of efficiency of functioning of the economy in general these spheres, as well as addressing the global challenges of poverty reduction and inequality are subject to the government regulation. Problems of inequality and poverty in the Russian economy are directly concerned with the problems of achieving positive economic growth. Economic growth forms the environment that provides reduction of excessive inequality.

Keywords: economy, economic growth, efficiency, competition, inequality, capitalism, poverty, social policy, industrial policy, society

1. Introduction

The modern model of market economy of the Western countries was formed in the framework of significant changes in the social policy over the last century. It is during these transformations the efficiency of the market economy and competition could be combined with a well thought out social policies, the realization of the necessity of expansion of effective demand. According to I.Schumpeter capitalist system as a mechanism for mass production is focused on production for the population. Thus progress in the development of capitalist society should raise the living standards of the population. S.Kuznets suggested that inequality has to increase by economic growth, striving for a certain level of saturation. However, statistical data confirm this thesis only for a number of countries. Moreover since the 60-ies of the XX century and by the beginning of 2000 in the world economy has seen a stable stratification of the countries themselves on countries with higher and lower levels of life (and these groups are sustainable today), in the context of social policy you can't talk about stable and optimal level of saturation that all must seek. You can actually say only the presence of various trends specific to certain groups of countries approaching each other on a number of parameters (including life terms). Thus inequality cant represent a homogeneous characteristics of the economic system. In different countries and even in different regions different dimensions of inequality are defined by the various mechanisms in accordance with the evolutionary way of development of a given economy.

2. Theory

The nature of modern capitalism is the recognition that there are areas where market mechanisms don't warrant itself sufficiently (the system of healthcare, science and education, social services). And these areas to increase the efficiency of the economy in general are subject to state regulation. Regulation can be held on the one hand in the fight against poverty. On the other hand - to encourage the development of "human capital". The importance of the second direction was especially increased in recent years with the transition to the information society. In this case we can talk about increasing returns to scale of production, when the main factors of production allow to the sum of the elasticity of production for factors of production to be greater than one what in the framework of formation of information society in many respects is provided by the intensive development of «human capital». By-turn, increase returns from production allows to solve many social problems (securing higher rates of economic growth), what is a proof that the long-term planning of economic development, on the one hand, and the processes of socialization and increasing the level of life of the poorest groups of the population, on the other hand, can develop only reciprocally.

Poverty and inequality in the economy are interconnected. Inequality can be seen as the uneven distribution of society resources among different population groups. In this case, the main indicator of inequality is amount of liquid

assets at specific individuals (that determine the social role of the individual). At the same time, poverty also means decrease (as a consequence of the reduction of liquid values) of a level of intellectual and moral development of a person. Therefore, poverty can be understood as the economic status of individuals, which requires a minimum amount of liquid values and limit access to social benefits. The concept of poverty is determined by the level of economic development in the country and wealth of society. More developed economic system allows to diversify the range of needs and increase the degree of satisfaction. However, the richer a country is, the wider the range of needs marked as required for the normal life of needs (satisfaction the requirements recognized optimal and formed of evolutionary development of this economic system). Accordingly, the criteria of poverty will vary depending on the development level of the economy within the country depending on the development of a particular region. And this question is not a theoretical but has practical importance, identifying the scope of social assistance from the government (and the scale of spending funds from the state budget for social programs).

Changes in patterns of poverty and normal inequality are rather stable and linked to the existing criteria for the assessment of the level of populations life (what involve the use of macroeconomic indicators). Almost every macroeconomic parameter that affects the standard of living has a strong dependence of inequality and poverty. Improving the quality of life may not reduce the overall inequality, but initiate substitution of normal inequality excessive inequality generated by poverty. In particular, concerning Russia can be argued that at present normal inequality has not yet reached its limit when the growth of the quality of life leads to a reduction in overall inequality (as a consequence of poverty reduction). When analyzing specifically macroeconomic parameters should be noted that foreign investments (in this case, both direct and portfolio), the level of production, the total value of domestic investment and savings, development of the financial system, the share of commodity export in the total volume of export are factors directly affecting quality of life and poverty. Analysis of the influence of these parameters on the economic growth we can trace in the example of instrumentation of general state industrial policy in the framework of all its components (structural, investment and innovation) [2].

3. Results

When considering the basic parameters of development of the national economic (table 1), we focus primarily on the rate of change in GDP (relating to economic growth) and the rate of change of unemployment rate (describing change of social tension in the society), that in moments of significant changes on the market have a reverse dependence (Figure 1), as well as on the parameters characterizing the change of the situation in the social sphere, provided by the official statistics (Table2).

Table 1. [12] Changes in GDP (prices of 2008) and unemployment of the population in an average one year in the Russian economy

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP (prices of 2008) bln rubles	26062,5	27312,3	29304,9	31407,8	33410,5	36134,6	39218,7	41276,8	38048,6	39762,2	41458,0	42878,5
The rate of change in GDP in %	5	4,8	7,3	7,2	6,4	8,2	8,5	5,2	-7,8	4,5	4,3	3,4
Unemployment rate in %	9	7,9	8,2	7,8	7,1	7,1	6	6,2	8,3	7,3	6,5	5,5
The rate of change of the level of unemployment in %	-15	-12	3,8	-4,9	-9	0	-16	3,3	33,9	-12	-11	-15

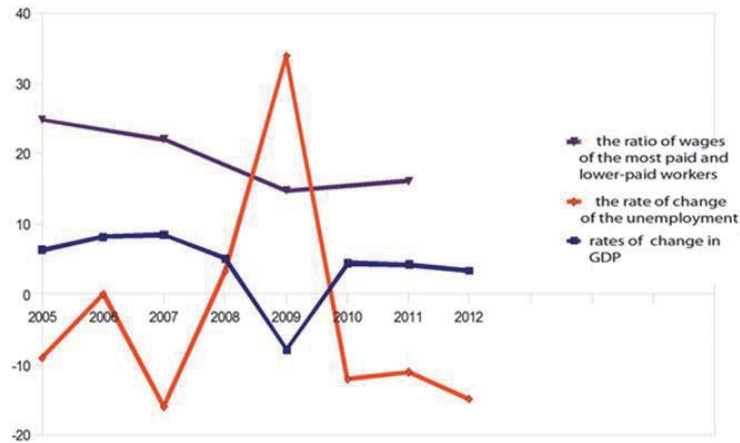
Table 2. [11] Indicators of inequality in the Russian economy

	2005	2007	2009	2011
Gini coefficient	0,456	0,447	0,418	0,425
The ratio of the average wage of 10% of the employees with higher and 10% of the employees with the lowest wages (the ratio of funds), times	24,9	22,1	14,7	16,1

As can we see from figure 1, the ratio of average wage of 10% of the employees with higher and 10% of the employees

with the lowest wages varies in accordance with the rate of change of GDP, what may indicate a decrease in this ratio during the crisis. In other words, the wages of workers with the lowest wages actually meets only the minimum requirements and cannot be reduced, and the salary of the more affluent workers really depends on the economic situation. Thus, since the change of the economic situation does not affect directly the position of the poorest population, the social policy becomes the most important tool of regulation of social tension in society.

Figure 1. Dynamics of parameters of development in the Russian economy

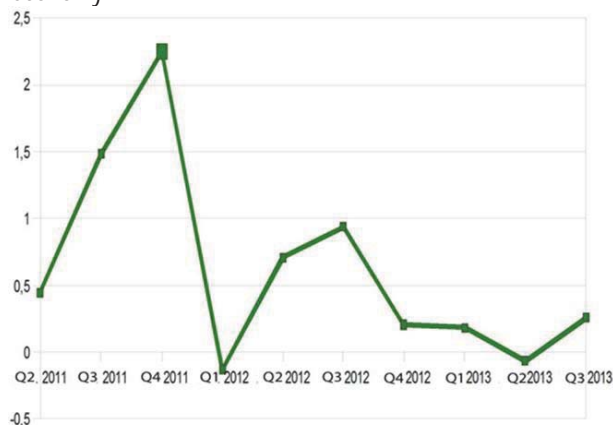


When considering the current situation with the rate of change in GDP in the Russian economy for the period 2011-2013 (table 3), we can assume that Russia's accession to the ITO negative impact on economic growth from the mid-2012 (figure2).

Table 3. [12] Dynamics of the ITO growth on a quarterly basis according to prices of 2008 (billion rubles) with the exception of the seasonal factor in the Russian economy

	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
ITO in prices of 2008, billion rubles, with the exception of the seasonal factor.	10215,3	10366,9	10600,6	10587,3	10662,5	10762,7	10784,2	10804	10796,8	10823,4
The rate of change in ITO in % to the previous quarter	0,45	1,48	2,25	-0,13	0,71	0,94	0,2	0,18	-0,07	0,25

Figure 2. Dynamics of growth of ITO on a quarterly basis in prices of 2008, billion rubles, with the exception of the seasonal factor in the Russian economy



The idea of social equality implies the use of a dependence criterion of the social benefits obtained by individual from its contribution to society. The society provides the equality of its citizens in a number of spheres. However, the economic freedom of the individual must assume the possibility of increasing their personal wealth. At the same time, the market mechanism for allocating resources, income, and the resulting product not include any demands and peculiarities of the economic agent, in addition to its solvency.

However, it can be argued that in terms of the evolutionary development of the capitalist system the market economy implies a social levelling. This is because, first, the market can be considered as some form of compromise between its participants, who are forced to increase their own efficiency to be able to coordinate their economic interests.

Secondly, at saturation of the market and increased competition, producers are interested in the growth of consumers' incomes (ensuring the growth of solvency).

Thus we can agree that the market creates conditions for social cohesion, but only within certain limits. In the conditions of fast economic growth employers and society can without significant losses in the achievement of their economic and social interests to solve the problems of distribution of income.

Considering the current situation in Russian economy and an indicator of the allocation total wage by five twenty-percent groups of workers in Russia, we see that if the first (least-paid group) 2005 received only 4.1 percent of the total wage, 2013 its share amounted to 5.4 percent. Accordingly, the fifth group (most paid workers) reduced its stake from 51.1% to 48.7% at the same time [11]. Thus there are minimum positive changes on the market, but they are unable to change the structure of solvent demand. Demand of the most and the lowest paid groups of the population differs quite considerably in its structure, what leads to serious changes in the structure of production aimed at gaining profit and accordingly adapt to the requests of the top segments of the population.

When considering the indicator of the average hourly wages of employees of organizations by types of economic activity we see that 2012 employees of agriculture and forestry receive only 99.8 rubles per hour, workers employed in branches of mining-related on average receive 359, 5 rubles per hour, and workers engaged in the production of fuel and energy minerals receive 409.9 rubles per hour[11]. But the stratification of workers on wages even on the types of activities can demonstrate geographical stratification of territories providing the population of the higher and lower level of consumption (depending on the dominance in the region enterprises in a particular industry). Thus, if the branch structure of production (through the average accrued wages) can affect the prosperity or poverty of regions and actions of government planning sectorial structure should take into account not only economic but also social efficiency [9, 10].

4. Conclusions

Considering the economic growth as a basic tool for creating the potential possibilities for reducing poverty and inequality will focus on the systematization of the industrial policy instruments. The instruments of industrial policy and its constituent parts (structural, investment and innovation), we analyze instruments of structural policy as one of the elements of a common social policy.

We identify the following blocks of industrial policy with the appropriate tools:

1. Fiscal unit of industrial policy, federal and regional target programs (including investments) and regulations affecting; budget investments (at the level of Federal and regional budgets); regulation of the contents of collected taxes and the main parameters (base and tax rates).
2. Social block of industrial policy, legal regulation of labour relations in the industry; the policy of the state authorities (both Federal and regional) in relation to trade unions; the regulation of the sphere of education and retraining of the staff, the formation of educational programs (this toolkit implemented at the Federal and at the regional level); activities of the state employment service.
3. Foreign economic block of industrial policy, the regulation of foreign investments; tariff and non-tariff incentives (or constraints) of exports and imports, customs policy; regulation of the functioning of foreign financial institutions on the territory of the state; the conclusion of bilateral and multilateral trade and economic agreements; immigration; membership in international organizations; special tax regimes.
4. Macroeconomics block of industrial policy, the regulation of financial markets; the regulation of the processes of restructuring industry through changes in interest rates, by changes in the quantity of money supply; implementation of public procurement and application of public order, regulation of intellectual property rights.
5. Regional unit of industrial policy formation and regulation of the functioning of organized commodity markets; licensing and certification of production of a number of goods and services (selected in accordance with the existing priorities of regional development); accommodation of productive forces, zoning; regulation of the real estate market; support of facilities and institutions of the information infrastructure; supporting development of

small and medium businesses within the targeted industrial clusters.

As you can see from our patterns of industrial policy tools, its second block, namely the social block of industrial policy is directly connected with the economic and social development of territories. At the same time choosing some social block, we don't believe that the remaining blocks don't affect social problems (their influence can rather be considered as indirect and forming the general conditions for economic growth).

As a whole in Russia decreased the share of population with income below the subsistence minimum. 2009 it amounted to 13%, 2012 it had decreased to 11 percent. The share of the population with per capita incomes is below \$ 10 a day decreased from 8.9 percent in 2009 to 8 percent in 2012 [6]. Considering poverty and inequality in the Russian economy, we consider the fact that according to the experts the poverty in Russia is deep, and most of the poor people are at the level slightly below the official poverty line. Thus we can conclude that the acceleration of economic growth should be seen as the most effective factor of reducing poverty and excess inequality.

References

- Gainova R.A., Shaidullin R.N., Safiullin L.N. and Maratkanova E.M. Infrastructural Component in Maintenance of Competitiveness of Region// *World Applied Sciences Journal*, 27(13), 2013, pp. 97-101.
- Safiullin M.R., Samigullin I.G. and Safiullin L.N. Model of Management of Competitiveness of a Machine-building Complex// *World Applied Sciences Journal*, 27(13), 2013, pp. 212-216.
- Kundakchyan, R.M., Zulfakarova, L.F. Econometric modeling of performance indicators of the companies // *World Applied Sciences Journal*, 27(13), 2013, 1307-1311.
- De la Dehesa, Guillermo. *Winners and Losers in Globalization*. Blackwell Publishing., 2006. – 252 p.
- Bagautdinova, N.G., Malakhov, V.P., Kundakchyan, R.M. Development of management system of manufacturing companies on the basis of management accounting elements // *World Applied Sciences Journal*, 27(13), 2013, 53-57.
- Alexander V. The Problem of Optimal Exchange Rate For Central European Countries /Volbert Alexander // *Postgraduate Research Program "Capital markets and Finance in Enlarged Europe", Working Paper Series.*, 1/2001. - pp.1-30.
- Irwin, Douglas A. *Free Trade Under Fire*. Princeton University Press, 2nd edition, 2005. - 257 p.
- Bodrov, O. Main causes of staff labor opportunism in organizations // *Life Science Journal*, 11(14), 2014, 400-408.
- Isaeva, T.N., Safiullin, L.N., Bagautdinova, N.G., Shaidullin, R.N. Aspects of a multi-level study of competitive performance of objects and subjects of economic management // *World Applied Sciences Journal*, 27(13), 2013, 116-119.
- Jacques Derrida. *La Mondialisation, la Paix et la Cosmopolitan*. A Speech at Headquarters of UNESCO in Paris on December, 1999., published in *Regards*, February 1, 2000.
- http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/poverty/#
- http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/