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Distributive Consequences of Neoliberalism in Russia

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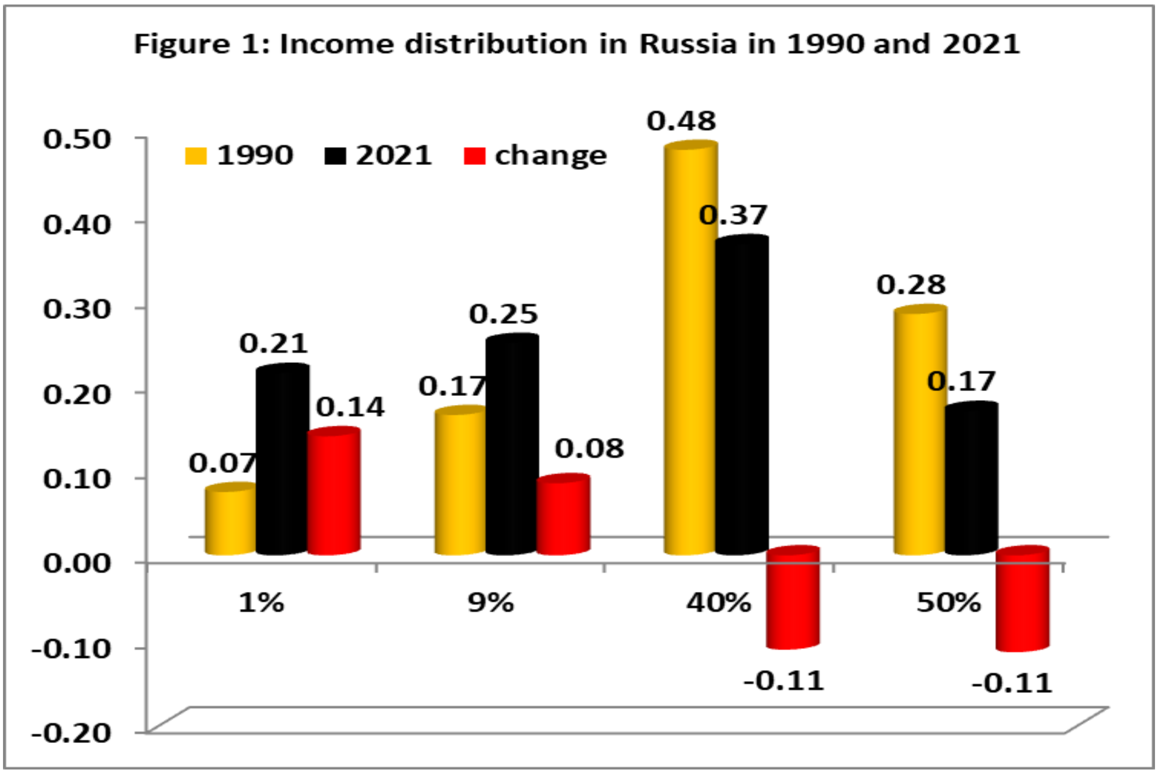
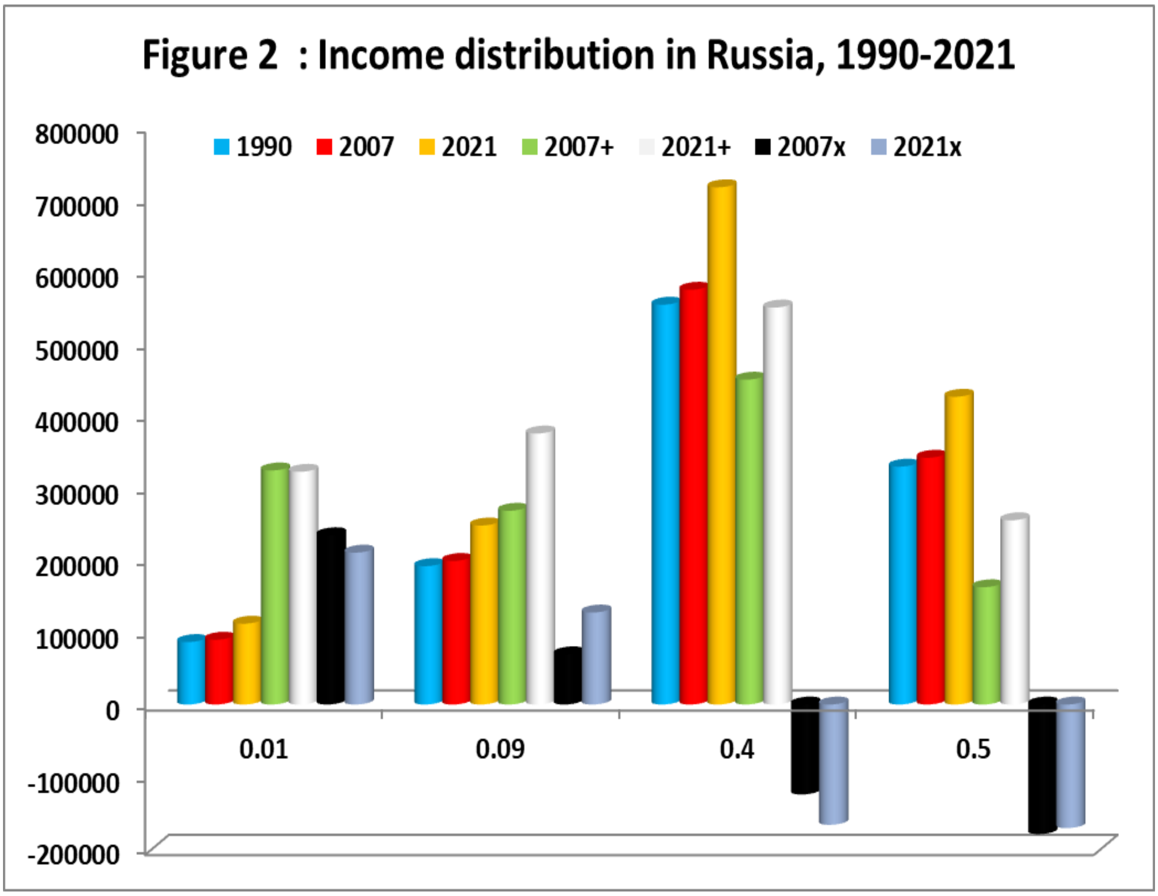
In whatever attractive guise it is presented, neoliberalism consists of a set of policies that seek to impose the rules of the market on human life. In other words, what I mean by the rules of the market is in fact the commodification of all that is necessary and required to meet human needs. By relying too much on the possible benefits of market performance, the defenders of these policies do not pay enough attention to the fact that the result of the implementation of these policies is the consolidation of the absolute tyranny of money over all aspects of human life. That is, it is not clear what those who have no money or not enough money should do to meet their needs in such a system? Because the reality is that what exists and is promoted in this system is the belief that you can eat as much as you pay for, or in other words, under the capitalist system, no one gets a free lunch. Assessing all these issues is not a practical category in a short note, and I do not intend to do so. What I intend to do here is to look briefly at the situation in the former Soviet Union as they implemented the neo-liberal economic model after the collapse of the previous economic model, and to discuss some of the economic consequences of this approach to the economy. The reality is that what we have now in Russia is actually the result of the implementation of these policies over the last three decades. Whatever the general coordinates and shortcomings of the Soviet Union's dominant economic system, signs of political and economic crisis began to appear in the country from 1985 onwards. Mikhail Gorbachev, the leader of the Central Committee of the Communist Party, attempted to reform the economy and politics of the Soviet Union under the title of *Golesnost* and *Prostroika*. In March 1991, the majority of the electorate voted in a referendum to end the Soviet system, and in June 1991 Boris Yeltsin became president in the first western-style elections held in Russia. In August 1991 there was an unsuccessful coup against the new government, effectively ending the Communist Party and the Soviet system. By October 1991, the collapse of the old regime was almost complete.

The economic policies that were implemented were mainly neo-liberal economic policies, which took the form of extensive privatisation and deregulation, and a reduction in the economic role of the state. Contrary to the promises made, the implementation of these policies was not very successful in promoting economic growth in Russia, because as far as economic growth is concerned, the Russian economy grew by less than 30% during these 30 years, from $1160 billion in 1990 to $1502 billion in 2021. But the main problem of the neoliberal economy is its impact on income distribution. First, Figure 1 shows the distribution of income in Russia at the beginning and end of this period.



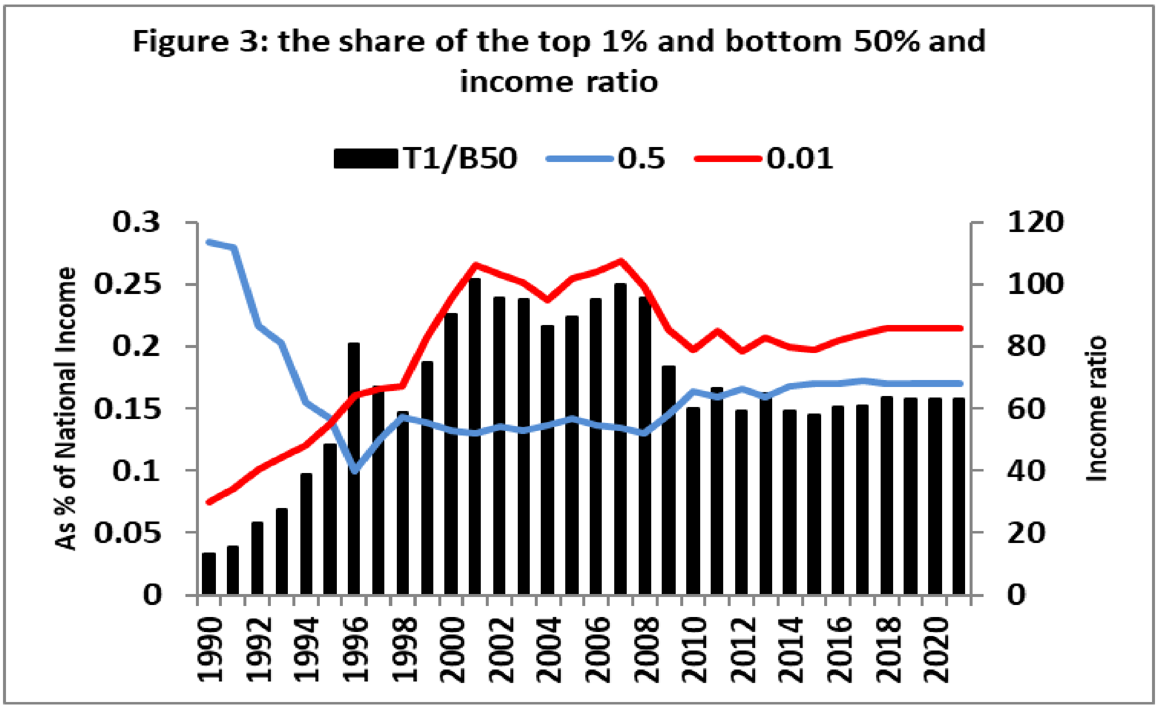
The share of the bottom 50% was only 28% of the national income in 1990, and of course the rich 50% took the rest of the national income, i.e. the remaining 72%, and it can be roughly estimated that the average income of the rich 50% was about three times the average income of the bottom 50%. On the other hand, the 10% took 24% of the national income, the top 1% 7% and the 9% 17%, and the 90% of the rest of the population took 76% of the national income. In 2021, however, the situation of income distribution changes. First of all, let me explain a little about these changes in the distribution of income in Russia. The share of the one per cent, which was only 7 per cent of the national income in 1990, has tripled to 21 per cent in 2021. The share of the bottom 50 per cent, which was 28 per cent of the national income in 1990, fell by 11 per cent to 17 per cent, as did the share of the 40 per cent. In general, the share of the top 10% in national income almost doubled during this period, from 24% to 46%. On the other hand, it is clear that what remained for 90% of the population decreased from 76% of national income in 1990 to 54% in 2021. Expressing these changes in dollars, in 1990 the top 10% of the population received $278 billion of Russia's total national income and the rest, $883 billion, was distributed among the 90% of the population. If we divide the period between 1990 and 2021 into two sub-periods, 1990-2007 and 2007-2021, an interesting picture emerges. In the first period, i.e. in 2007, Russia's national income grew by more than $43 billion, but in the same period the share of the top 10 per cent of the national income increased by more than $314 billion, of which $43 billion is the additional income generated by economic growth in these years, and the rest, almost $271 billion, was the transfer of income from the bottom 90 per cent to the top 10 per cent. In all these three decades, the national income increased by more than $341 billion, but the take of the top 10 per cent was up by almost $420 billion, which means that the income transferred from the poor to the rich in Russia for the whole period was more than $78 billion. In the next section we asked a simple question. If the percentage distribution of income in Russia did not change and remained at the 1990 level, what kind of income distribution would we have? Figure 2 compares the results.



The first three bars show the distribution of income in Russia if the percentage distribution of 1990 had remained unchanged. We can see that the share of each group has improved as the economy has grown. The next two bars, green and light grey, show the situation as it was. The percentage distribution has changed and this has affected the total share of each group. For example, if we look at the share of the top 1 per cent, the red bar shows what they would have had if their share had remained at 1990 levels, but the green bar shows what the top 1 per cent actually had. The difference between these two measures is shown by the black bar above. The same basic rule applies here to the other income groups. What is fascinating about the above is that when we come to the share of the bottom 90 per cent of the population, their position is the reverse of that of the first two groups. In both cases we see that a transfer has taken place.

In Russia, the share of 90% of the population in the national income in 2021 should have been more than 1 trillion and 50 billion dollars, but in reality, due to changes in the percentage distribution of income, it has decreased to 741 billion dollars. In a sense, it can be said that the total income taken from the 90% of the population, actual and potential, was actually 311 billion dollars, which is more than twice what the official data suggests.

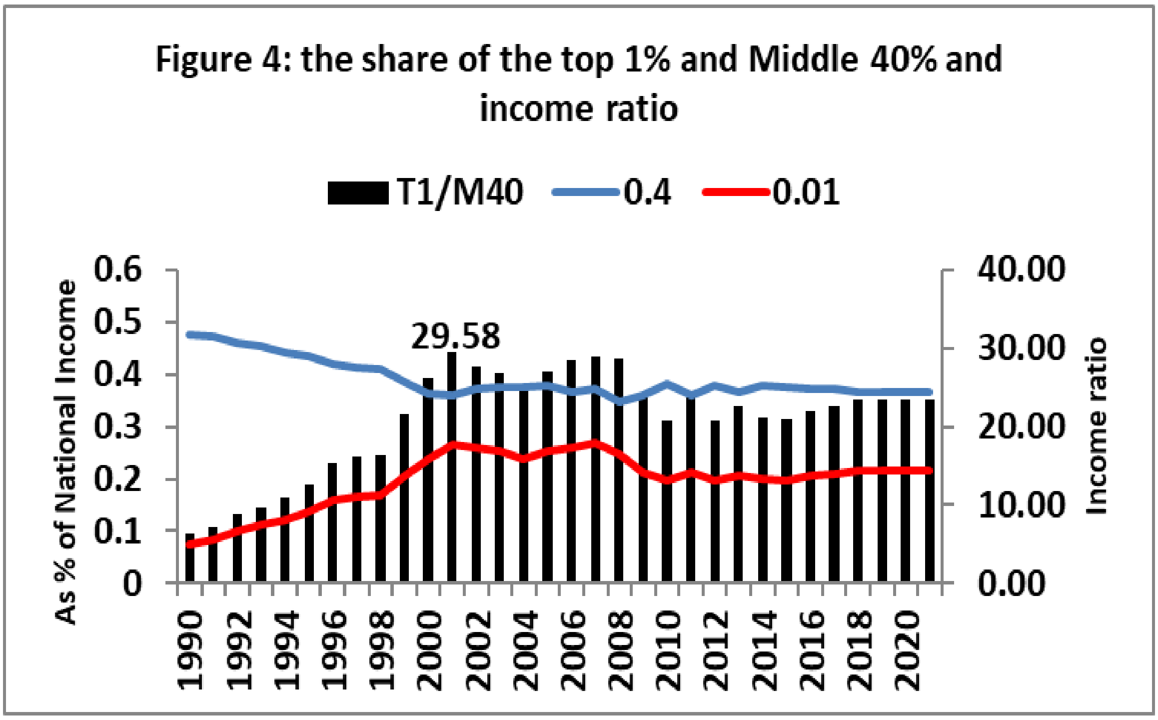
Let us examine the situation of different income groups in this volatile and changing situation in Russia. We examine the share of the top 1% and the bottom 50% and the income ratio between the average incomes of these two groups in Figure 3.



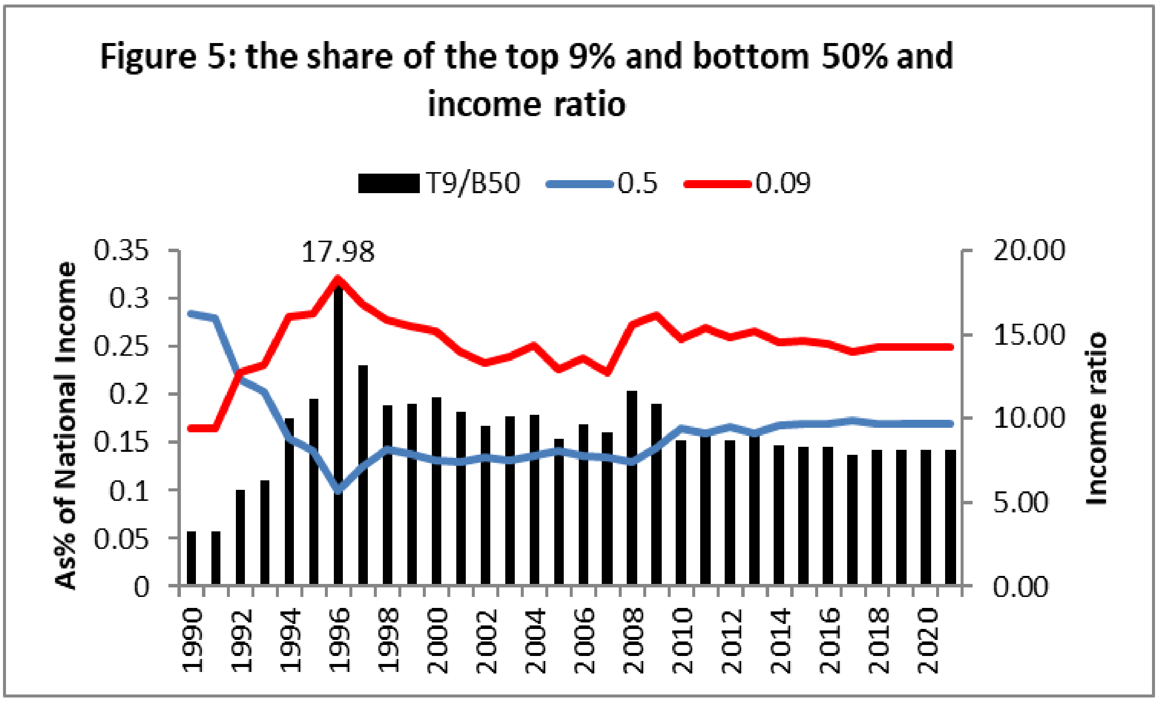
First of all, what I mean by "income ratio" is the ratio of the average income of the top one per cent to the average income of the bottom 50 per cent. This ratio is measured on the right-hand axis, and the highest figure we have here is that in 2001 the average income of the top 1% in Russia was 102 times the average income of the bottom 50%. The lowest income ratio in these 30 years was in 1990, when the average income of the top 1 per cent was only 13 times the average income of the poorest 50 per cent. As we can see in the graph, since the beginning of the neoliberal reforms in Russia, this ratio has been increasing and, as I said, it went from 13 times in 1990 to 102 times in 2001. Then, until 2021, this ratio experiences a declining trend, but in 2021 it will still be 63 times the average income of the bottom 50% in Russia. It is true that compared to 2001 there is some improvement, but compared to 1990 this ratio or this income gap is about 5 times larger. The second point is that, as we can see in the graph, in 1990 the share of the top one per cent in the national income was significantly lower than the share of the bottom 50 per cent, i.e. under the conditions that 28 per cent of the national income was the share of the bottom 50 per cent in Russia, the share of the top 1 per cent was only 7 per cent. What happens after that is that the share of the bottom 50 per cent shows a declining trend and the share of the top 1 per cent experiences a significant increase, and in the 1990s, until around the time of the great global financial crisis, a large gap is created between the shares of these two groups.

It should be noted that, unlike the previous situation, here the share of the 1% is much higher than the share of the poor 50%, and it goes without saying that such a change in the percentage distribution of national income affects the income ratio. The fact is that the slice of the national cake - the national income - that goes to the top 1% is getting bigger every year, but the share that should be divided among 50 times more Russian citizens is getting smaller every year.

It will be useful to examine the situation of the middle 40% in the next chart. The general orientation is very similar to what we have said so far. Of course, there are differences, which we will discuss. Contrary to the situation we saw in the previous graph, here, at the beginning and at the end of the period, the share of the middle 40% in national income is higher than that of the top 1%, but the notable point is that the share of the 40% has been on a declining trend for several years. It fell from around 48% of national income in 1990 to 36% in 2001 and then remained at that level for the rest of the period. The share of the top one per cent increased significantly until 2007, rising from 7% of national income in 1990 to 27% in 2007. After the global financial crisis it seems to level off and remains at 21% in 2021, a tripling in three decades. As can be seen in Figure 3, the income ratio has also risen sharply, and although the average income of the top 1% was only 6 times the average income of the 40% at the beginning of the period, this ratio reached 30 times in 2001, but after the crisis it finally falls to 23 times in 2021.

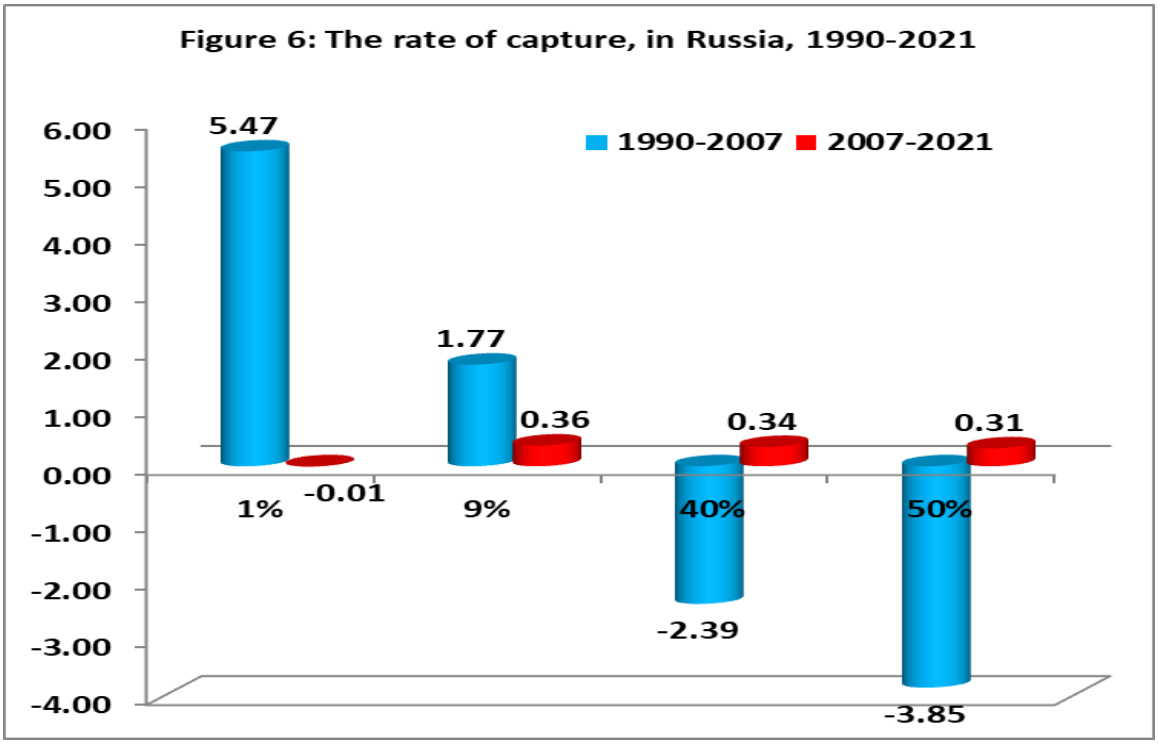


Although the top one per cent has an exceptional and unique situation in the current capitalist system, they are not the only group to benefit from this economic model. The top 9% of the population, i.e. the 91-99% of the population of a country, are also in a situation where this economic model works to their direct benefit.



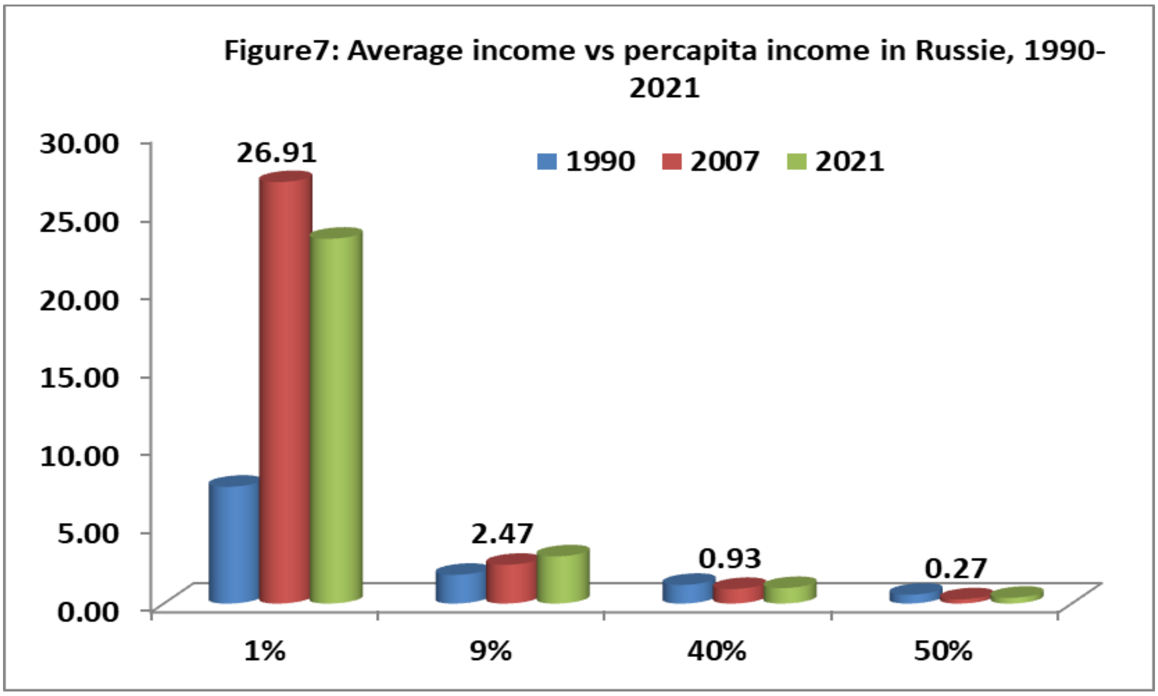
Another group of wealthy people to be studied is the 9 per cent, i.e. those in the 91-99 per cent bracket. The situation of this group is very similar to that of the 1 per cent, except that the increase in their share of national income is slightly lower. At the beginning of the period, in 1990, the share of the bottom 50 per cent is greater than that of the top 9 per cent, but shortly after the start of the neoliberal reforms, in 1992, the share of the 9 per cent is greater than that of the bottom 50 per cent, and this gap widens over time.

Whereas in 1990 the share of national income of the bottom 50 per cent was about 12 per cent higher than that of the 9 per cent, in 2021 the situation is exactly reversed and the share of the top 9 per cent is 12 per cent higher than that of the bottom 50 per cent. The largest gap was in 1996, when the share of national income received by the top 9% was 23% higher than that received by the bottom 50%. In the same year, the income ratio is also at its maximum and the average income of the 9% is 18 times that of the bottom 50%. It should be noted that in 1990 the ratio was only three times higher. I would add that the upward trend in the income ratio will stop in 1996, but the downward trend that has started will not return to 1990 levels. In 2021 the ratio will still be more than eight times higher, although it will have fallen sharply. In these final pages we will provide further evidence to explain some of the changes we have briefly reviewed. This brings me to the concept of the 'capture rate'. What this 'rate' would 'capture' is how the extra income generated in an economy is shared between the citizens of that country. In other words, how much goes to the top 1 per cent or how much is left for the bottom 50 per cent. Using World Bank statistics, I have tried to calculate the capture rate. Figure 6 shows a striking chain of events in Russia.



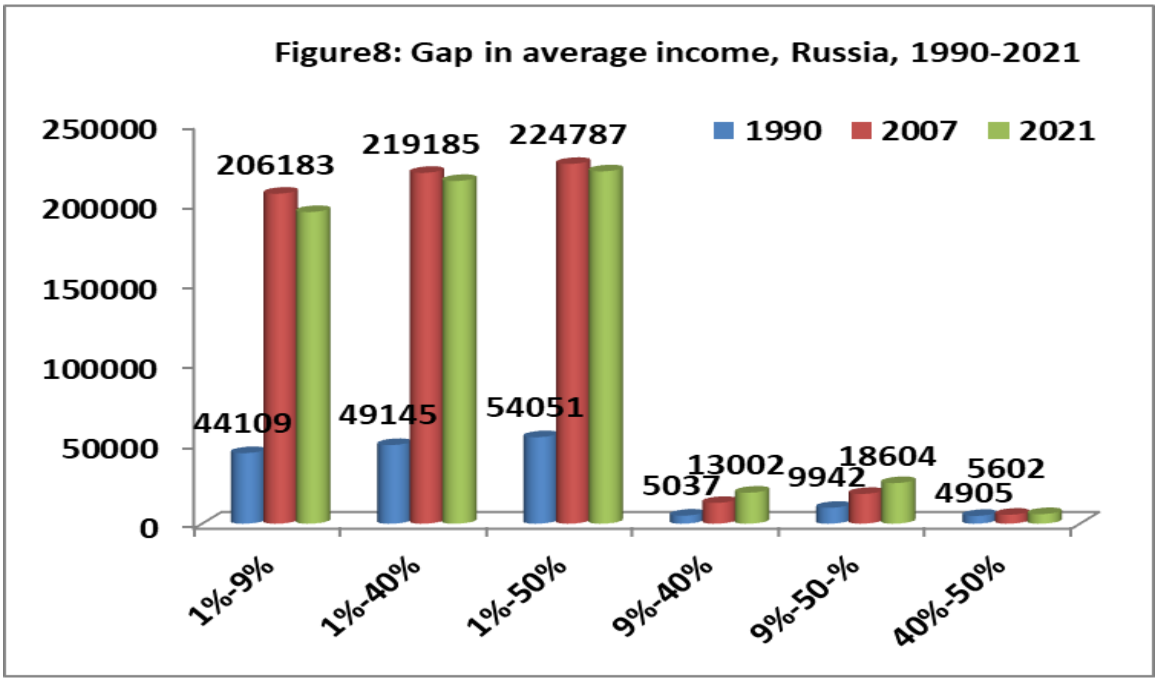
To explore these developments in more detail, I have chosen three dates: 1990, the start of economic reforms in Russia; 2007, a year before the global financial crisis; and finally 2021, the last year for which data are available. Moreover, Russia's national income was $1161 billion in 1990, $1205 billion in 2007 and $1502 billion in 2021. In other words, about $44 billion more value was produced in 2007, and similarly, $297 billion more value will be produced in 2021 than in 2007. The question is how these extra dollars will be distributed among Russian citizens. Using the percentage distribution of income, I have shown the share of different groups in Figure 6. These statistics show in a truly alarming way the drain of income from one group to another in this country. Between 1990 and 2007, the extra money made from economic growth was $44 billion. But the extra money that went to the top one per cent was more than five times this amount. If I report in dollars, the national income of Russia in 2007 was about $44 billion more than the national income in 1990, but in the same year what the top one per cent received from the national income was $238 million more than their share in 1990. As we have said elsewhere, not only did not a single dollar of this $44 billion increase due to growth go to other groups, but the share of other groups would have had to fall by $194 billion for the top 1 per cent to have their $238 billion improvement. We see that the top 9 per cent also increased their share, and by 2007 they enjoyed almost $77 billion more than they did in 1990. There was nothing left of the benefits of economic growth as it all went to the top 1 per cent, so this sum is also a simple transfer of value from the bottom 90 per cent; in total they were more than $271 billion worse off in 2007. I should immediately add that this additional income for the 1% and 9% was not really a sign of an improvement in the economic situation in Russia, but a sign of a transfer of income from one group of citizens to another group of citizens. At the other end of this unequal distribution scale, what the 40% received in 2007 was more than $104 billion less than what they received in 1990, and the share of the bottom 50% was also about $167 billion less. In other words, the income of the top 10% increased by $270 billion over this period, while the national economy grew by only $44 billion. It is clear here that the reason for this increase in the wealth of the top 10 per cent in Russia is not that the Russian economy has become more productive over this period, but that this amount actually represents the extraction of value from the 90 per cent of the population. In the next step, I used World Bank statistics to calculate not only the average income of different percentage groups, but also the per capita income of Russia.

Comparing these average incomes and per capita incomes gives an interesting picture that does indeed shed some light on growing income inequality. I have presented these results in chart 7.



On the one hand, I have calculated the per capita income for three different dates, and then for each of these dates I have also measured the average income of the percentage groups. For example, in 1990 the average income of the top one per cent was more than seven times the national per capita income in that year, in 2007 it was 27 times, and finally in 2021 it was more than 21 times. The second group whose average income was higher than Russia's per capita income was the 9% group. In 1990 this ratio was about 2 times the national per capita income, then in 2007 and in 2021 it varied between 2 and 3 times.

It is interesting to compare the average income of the 90% of the Russian population with the per capita income. In 1990 the average income of the 40% was about the same as the country's per capita income, but in 2007 and 2021 the average income of this group was lower than the per capita income. The situation for the bottom 50% was deplorable, with a significant gap between their average income and the country's per capita income over all these years. In 1990, the average income of the bottom 50% was about half of the country's per capita income, but by 2007 this ratio had fallen to about a quarter, and by 2021 it would be a third of the country's per capita income. What can be inferred from these results is that the level of poverty in human societies is much higher than what is reflected in official statistics. I would like to illustrate this with an example. According to my calculations, the per capita income in 2007 was 8438 dollars, but in the same year, based on these statistics, I believe that the average income of the bottom 50% was no more than 2278 dollars. To put it another way, based on the country's per capita income, the average daily income is about $23, but based on the calculations made on the above pages, the average daily income is only $6. There is no doubt that these changes will widen the income gap over the years. What we show in Figure 8 is that the income gap has widened for all groups.



Although in Russia, as in other countries, the economy that is regulated and implemented for the benefit of the top one per cent should be stopped as soon as possible, the problem is much wider than that. This chart shows that the income gap between the middle 40 per cent and the bottom 50 per cent has also widened.

The biggest income gap is between the average income of the top one per cent and the rest. In 1990, the average income of the 1 percent was only $44,000 more than the average income of the 9 percent, but this gap reached more than $206,000 in 2007 and just over $179,000 in 2021. The same was true between the average income of the 1 percent and the middle 40 percent, with the income gap rising from $49,000 in 1990 to more than $219,000 in 2007 and finally to $197,000 in 2021. The income gap between the average income of the top 1% and the average income of the bottom 50% also quadrupled over this period, from $54,000 in 1990 to $225,000 in 2007 and $203,000 in 2021. Interestingly, the income gap between the average income of the 9% and other lower income groups has multiplied in the same way. I have already pointed out that the results of this policy of stimulating economic growth have not been very successful, as the Russian economy has grown by less than 30% for more than 30 years, and we have examined the distributional results of this policy in the previous pages. What remains to be seen is the logic and reason for the application of this degenerate and highly undesirable policy, except that the top one per cent, who has taken control of the country's politics, use the instruments of their own control to devise and implement policies that produce these unfavourable results. They also implement the degenerate law, which is mainly written for and implemented by the one per cent.

Note: The statistics used have been downloaded from various statistical banks. The source for the percentage distribution of income in Russia is the World Inequality Lab. I have also used World Bank statistics for GDP and population.

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