

# Income inequalities, productive structure and macroeconomic dynamics.

## A regional approach to the Russian case

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# Introduction: one hypothesis and two main questions

- Overarching hypothesis: «Growth models » matter for income vulnerability - and stability of the middle class
- 2 Questions :
- 1. How Russian middle class' wealth has been affected by the two recent macroeconomic shocks (2009 and 2014), compared to other BRIC countries?
- 2. What regional data tell us about the ability of the current growth model of Russia to absorb the current crisis?

# 1. A wealth-defined middle class? (1)

- Defining « global middle class » by its assets (*Global Wealth Report 2015*)
- United States as a benchmark country (50 – 500 th. US \$)
- International comparison using IMF PPP exchange rates

## Lower bounds of middle class wealth and % of all adults, by country

	Lower bound US \$	Middle class %	Above middle class %
BRAZIL	28321	8,1	0,6
<b>RUSSIA</b>	<b>18737</b>	<b>4,1</b>	<b>0,5</b>
INDIA	13662	3,0	0,2
CHINA	29245	10,7	0,6
<b>USA</b>	<b>50000</b>	<b>37,7</b>	<b>12,3</b>
FRANCE	46183	49,2	12,5

## 1. A wealth-defined middle class? (2)

- Comparative impacts of the two last crises on the « global middle class » (2008-2009 and 2014)

### **Comparative middle class dynamics, 2000-2015 (change in the population, Mns people)**

	<b>2000-2007</b>	<b>2007-2008</b>	<b>2008-2015</b>	<b>Total 2000-2015</b>	<b>..of which middle class</b>	<b>..of which beyond middle class</b>
<b>Russia</b>	11,1	-2,5	-9,2	-0,6	-0,7	0,1
<b>India</b>	12,5	-5,5	0,7	7,7	6,8	1
<b>China</b>	102	-67,3	8,5	43,3	38,5	4,8
<i>United States</i>	11,9	-6,8	17	22	12,9	9,1
<i>France</i>	6,2	-0,2	1,2	7,2	3,6	3,7

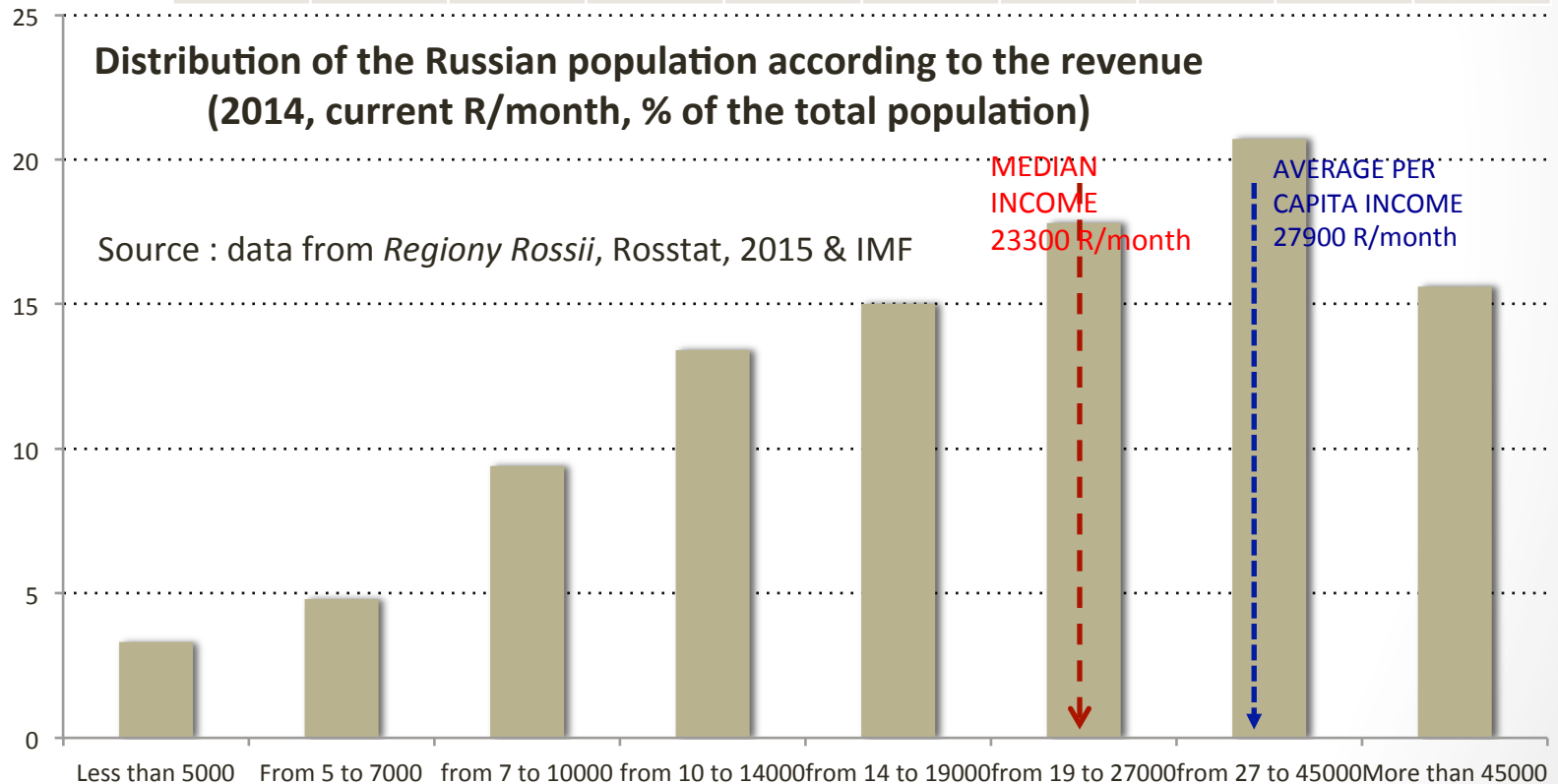
Source: Data from *Global Wealth Report 2015*, Crédit Suisse Research Institute

# 1. A Wealth defined middle class? (3)

- From assets to income: Russia's per capita income distribution

Long-term inequality dynamics:  
from unequal depression to unequal growth

	1992	2000	2005	2009	2010	2011	2012	2013	2014
Gini	0,289	0,395	0,409	0,421	0,421	0,417	0,420	0,419	0,416



PPP conversion: 1168 / 1256 / 1169 / 2094 US \$

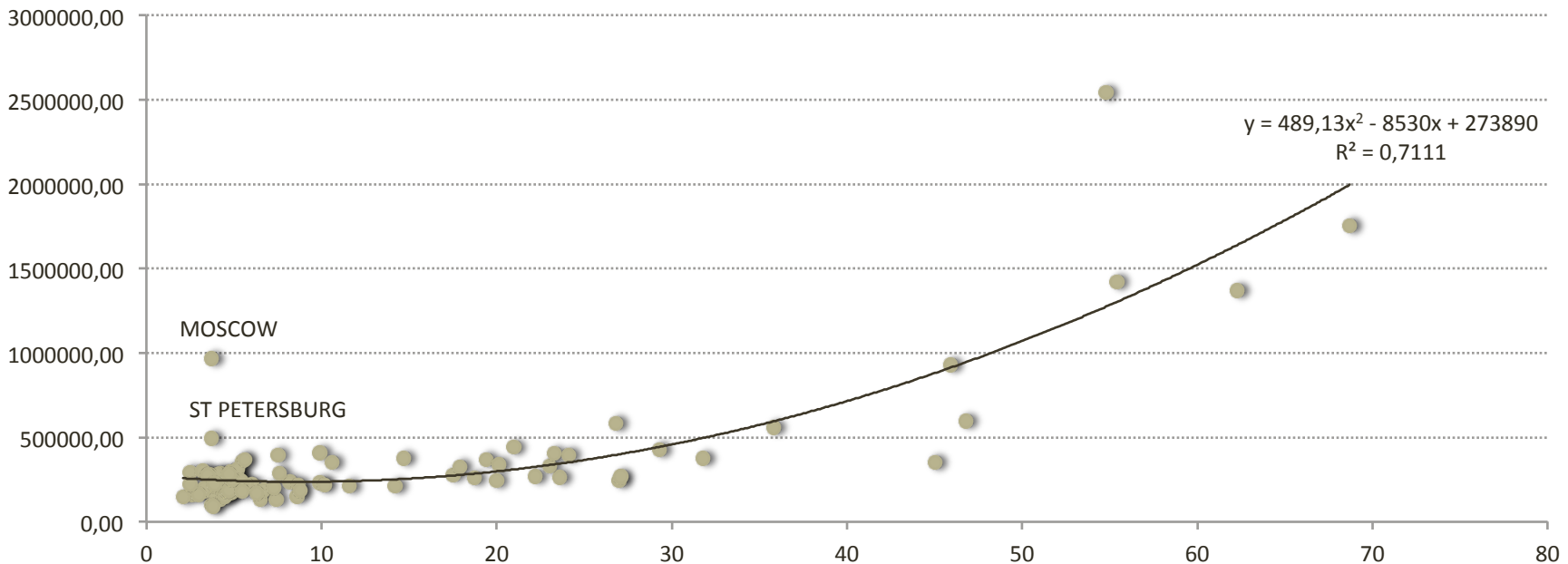
## 2. Inside Russia: inequality and regional developments (1)

- **A brief recall about the regional structure of the Russian territory**
- Old industrialized and urbanized country (73 % of the population in urban areas)
- 37 biggest cities (more than 500000 inhabitants) account for 30% of the population (24 situated in the west)
- Trend: ongoing urbanization. Since 2005 Moscow, St Petersburg and their regions' population grew 20 times faster than the rest of the country (18,3 % of the national population)

## 2. Inside Russia: inequality and regional developments (2)

- **The economic weight of natural resources: big cities are not the only wealthy territories**

Share of raw materials in regional value added and per capita regional GDP



Source : data from *Regiony Rossii*, Rosstat, 2015

### 3. A productive typology of regions (1)

#### 1. Regrouping productive sectors according to their relations with the rest of the world: rent providing, non tradable, and tradable

Extractive industries	Production and distribution of water, gas and power	Financial services
Rent-providing sectors		

Construction	Retail trade	Hostels and restaurants	Transports	Communication	Central administration	Health care	Education	Local administration
Non tradable sectors								

Manufacturing industry	Agriculture	Fishery
Tradable sectors		

*Source: author's elaboration*

National average : rent-providing sectors 15,2 %, non tradable 63%, tradable 21,8%



### 3. From (natural resources) wealth to incomes. A typology of regions

(2)

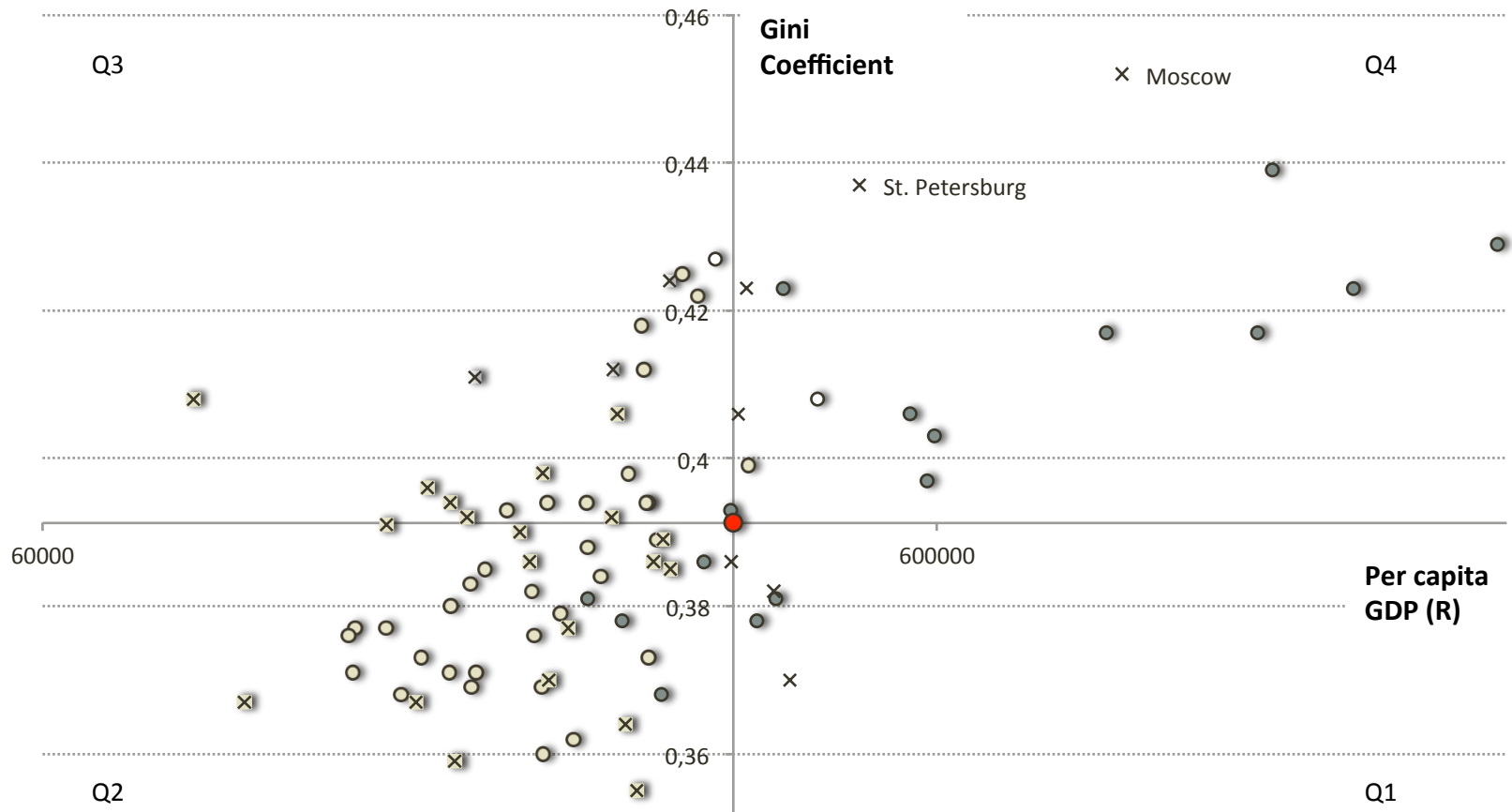
## 2. Regrouping regions according to the relative importance of each group

RENT PROVIDING REGIONS >25 % (16)	NON TRADABLES INTENSIVE >63 % REGIONS (36)	EXPOSED REGIONS (32) >25 %
ARKHANGELSK	ADYGUES	ALTAI KRAI
CHUKOTKA	ALTAI R.	BACHKORTOSTAN
IRKUTSK	AMUR	BELGOROD
KEMEROVO	ASTRAKHAN	CHELYABINSK
KHANTI MANSIISK	BRIANSK	CHUVACHIA
KOMI	BURIATIA	KABARDINO-BALKARIA
MAGADAN	CHECHNYA	KALMYKIA
MURMANSK	DAGHESTAN	KALOUGA
ORENBURG	EVREI	KARACHAEVO-TCHERKESSIA
SAKHA-YAKUTIA	INGOUCHETYA	KIROV
SAKHALINE	IVANOVO	KOSTROMA
TATARSTAN	KAKHASSIA	KOURGAN
TOMSK	KALININGRAD	KOURSK
TYUMEN	KAMTCHATKA	KRASNOĀRSK
UDMURTIA	KARELIA	LIPETSK
YAMALO-NENETS	KHABAROVSK	MARII-EL
	KRASNODAR	MORDOVIA
	LENINGRAD O	NIJEGOROD
	MAGADAN	NOVGOROD
	MOSCOW	OMSK
	MOSCOW O.	ORENBURG
	NORTH OSSETIA	ORLOV
	NOVOSIBIRSK	PENZA
	PRIMORIE	PERM
	PSKOV	RIAZAN
	ROSTOV	SAMARA
	SMOLENSK	SARATOV
	ST PETERSBURG	TAMBOV
	STAVROPOL	TOULA
	SVERDLOVSK	VLADIMIR
	TVER	VOLGOGRAD
	TYVA	VOLOGDA
	ULIANOVSK	
	VORONEJ	
	YAROSLAVL	
	ZABAIKALSKI	

Source : author's  
elaboration based on  
Rosstat statistics

# 3. From (natural resources) wealth to incomes. A typology of regions (3)

## 3. Analyzing Income inequalities by regions' groups



Source : author's elaboration based on...

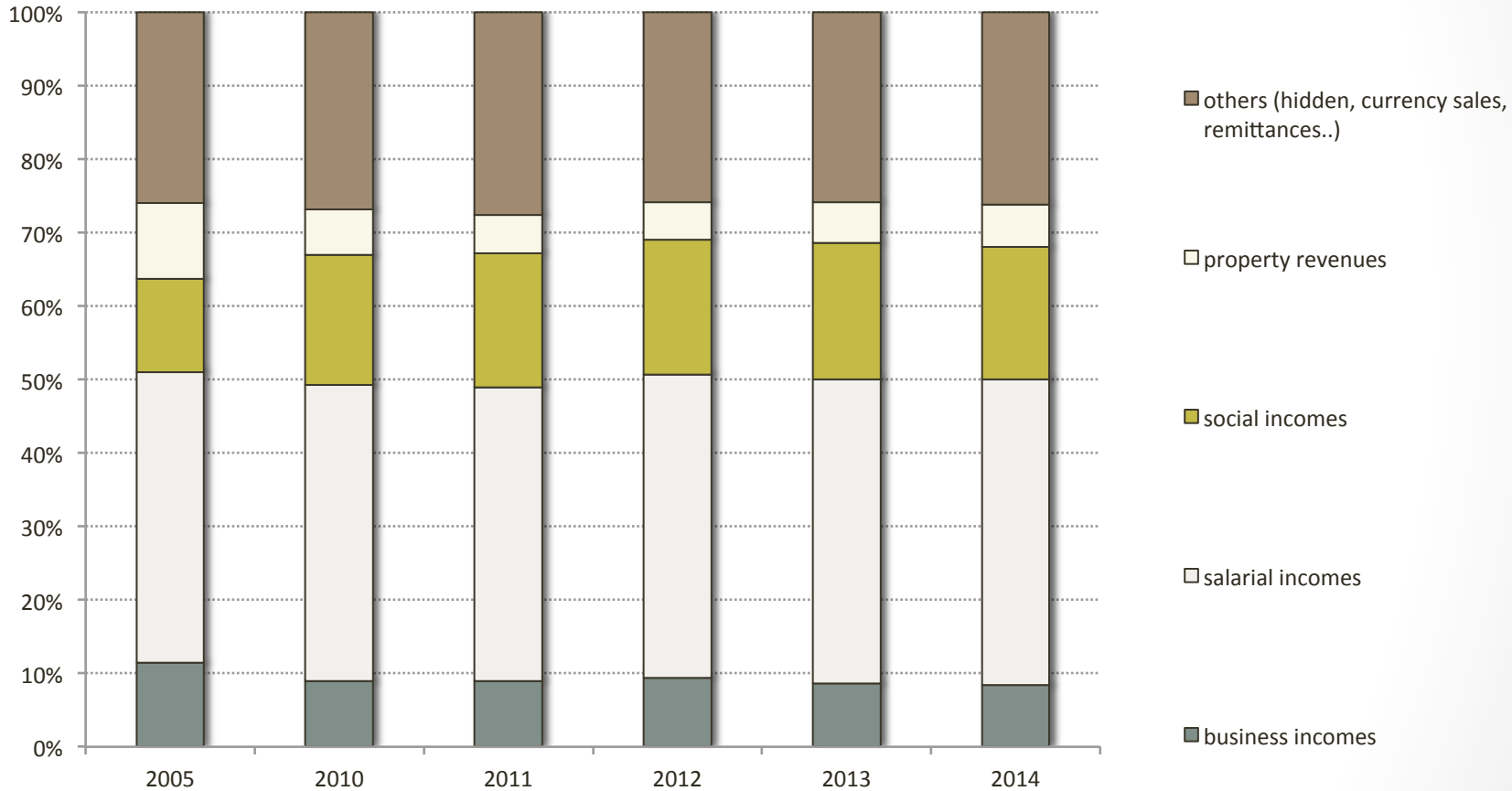
Rosstat statistics

- : rent-providing regions
- ✕ : non-tradable intensive regions
- : exposed regions

### 3. From (natural resources) wealth to incomes. A typology of regions

## 4. Sources of income: stable over the last decade

National structure of households' revenues, 2005-2014



Source : author's elaboration based on Rosstat statistics

# The uneven structure of income at the regional level:

## 1. Salary intensive regions

	<b>Rent-providing regions</b>	<b>Non-tradables intensive regions</b>	<b>Exposed regions</b>
<b>Salary (national average: 42 %)</b>	Chukotka (80%), Yamalo-N (79%), Khanti-M (72%), Magadan (71%), Tyumen (65%), Murmansk (61%), Komi (59%), Sakha (59%), Irkutsk (55%), Sakhalin (51%)	Kamtchatka (63%),  Khabarovsk (57%)  Moscow C. (52%) St. Petersburg (50%)	Krasnoïarsk (55%)

- **Salary intensive regions:** remote areas, low population, dominated by big extracting firms providing salaries => high average income, high level of salarization but high level of inequalities & polarized industrial base

# The uneven structure of income at the regional level:

## 2. transferts relatively intensive regions

	<b>Rent-providing regions</b>	<b>Non-tradables intensive regions</b>	<b>Exposed regions</b>
<b>Social transfers (national average: 18%)</b>	Kemerovo (25%)	Tyva (33%), Carelia (30%), Altai R. (27%),  Ingushetya (26%),  Pskov (25%)	Kalmykia (30%), Kurgan (27%) Marii-El (27%), Mordovia (26%) Kostroma (26%) Orlov (26%) Altai K. (25%)

**Transfers (not so) - intensive regions:** exposed regions and non-tradable intensive remote regions: low level of average income, higher than average level of transfers incomes that may buffer the level of inequality

# The uneven structure of income at the regional level: informal revenues – intensive regions

*Other revenues:*

*hidden revenues (24%), currency sales & remittances (2%)*

	<b>Rent-providing regions</b>	<b>Non-tradables intensive regions</b>	<b>Exposed regions</b>
<b>Other revenues (national average: 26%)</b>		Daghestan (51%) Adygues (50%) Chechnya (43%) Ingushetya (42%) Moscow R. (42%) Krasnodar (40%)	Kabardino-B. (41%), Bachkiria (36%) Omsk (36%) Karachaevo-C (36%) Nijni-Novg. (36%)

**Informal revenues-intensive regions:** exposed non-tradable and agricultural regions: low level of average income, high level of informal incomes

# Conclusion. Inequality and crisis in Russia

- Russian middle class: more affected by recent macro-economic crises in Russia than other BRIC Countries
- Explanation: combining external shocks and the productive structure of the economy
- Regional data seem to confirm the overall picture: vulnerability to an **oil-prices driven** recession => hysteresis of inequality while real incomes are falling?
- **Short term policy dilemmas:**
- monetary policy dilemma: exchange rate variations as a buffer for rent-providing regions but also a fuel for inflation
- fiscal stress on the Federal State and Regions budgets. Need for new sources of fiscal revenues
- 2016 and beyond: need to follow the national and regional policy responses to the current crisis

- Thank you !

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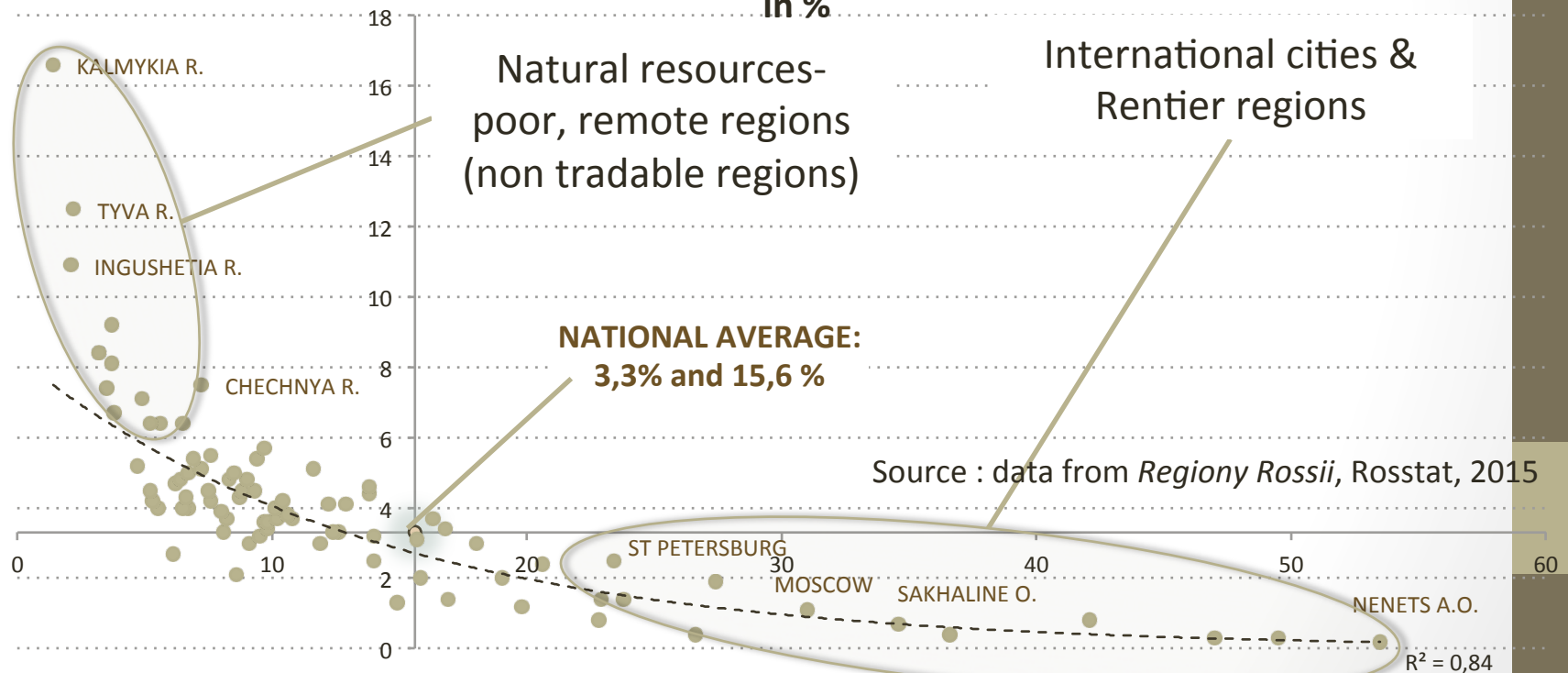




# 3. From (natural) wealth to incomes

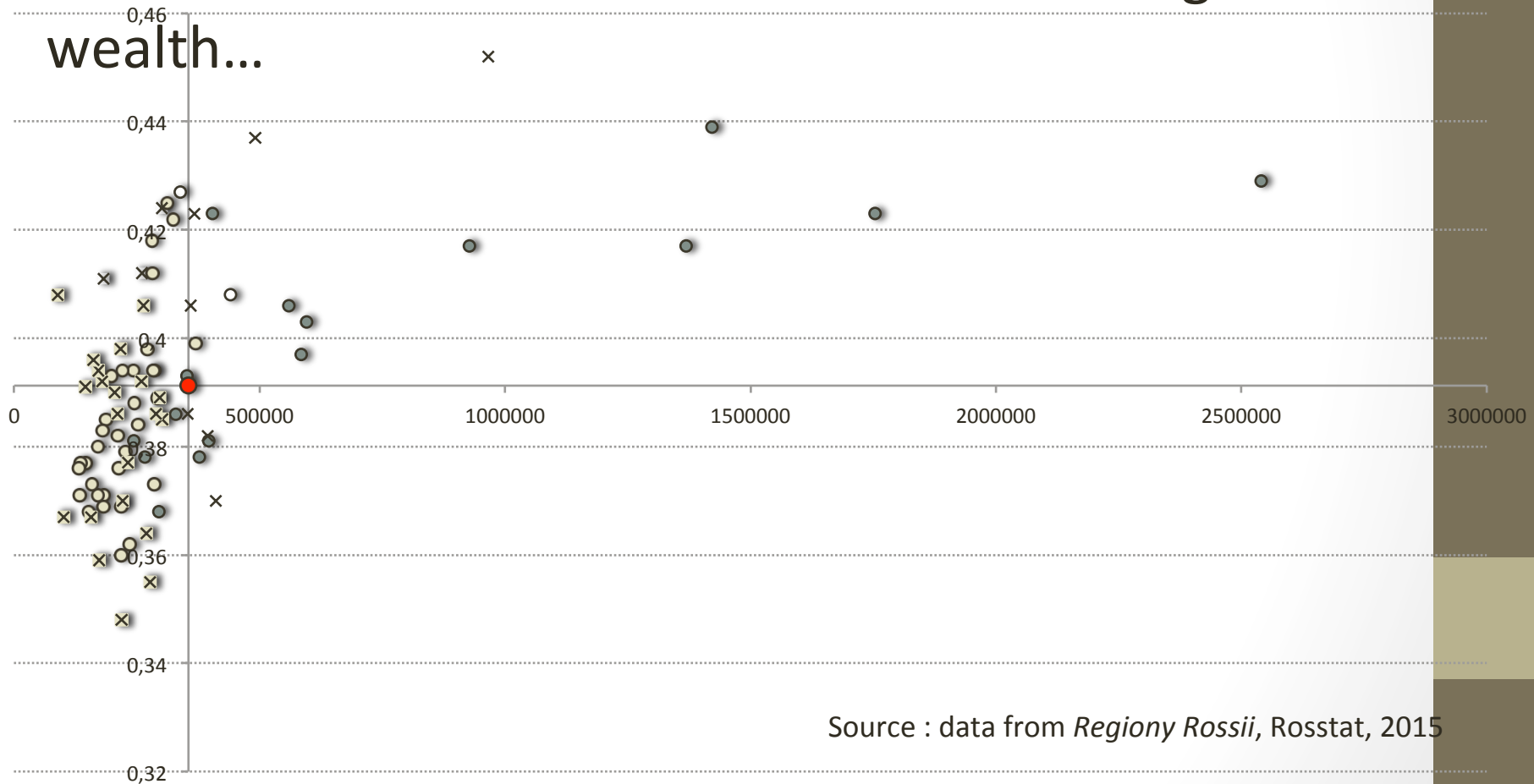
- Inequalities within Russian regions

Shares of regional population earning less than 5000 R (vertical axis, 232 US \$ PPP) and more than 45000 R (horizontal axis, 2094 US \$ PPP) per month, 2014, in %



# 3. From (natural) wealth to incomes

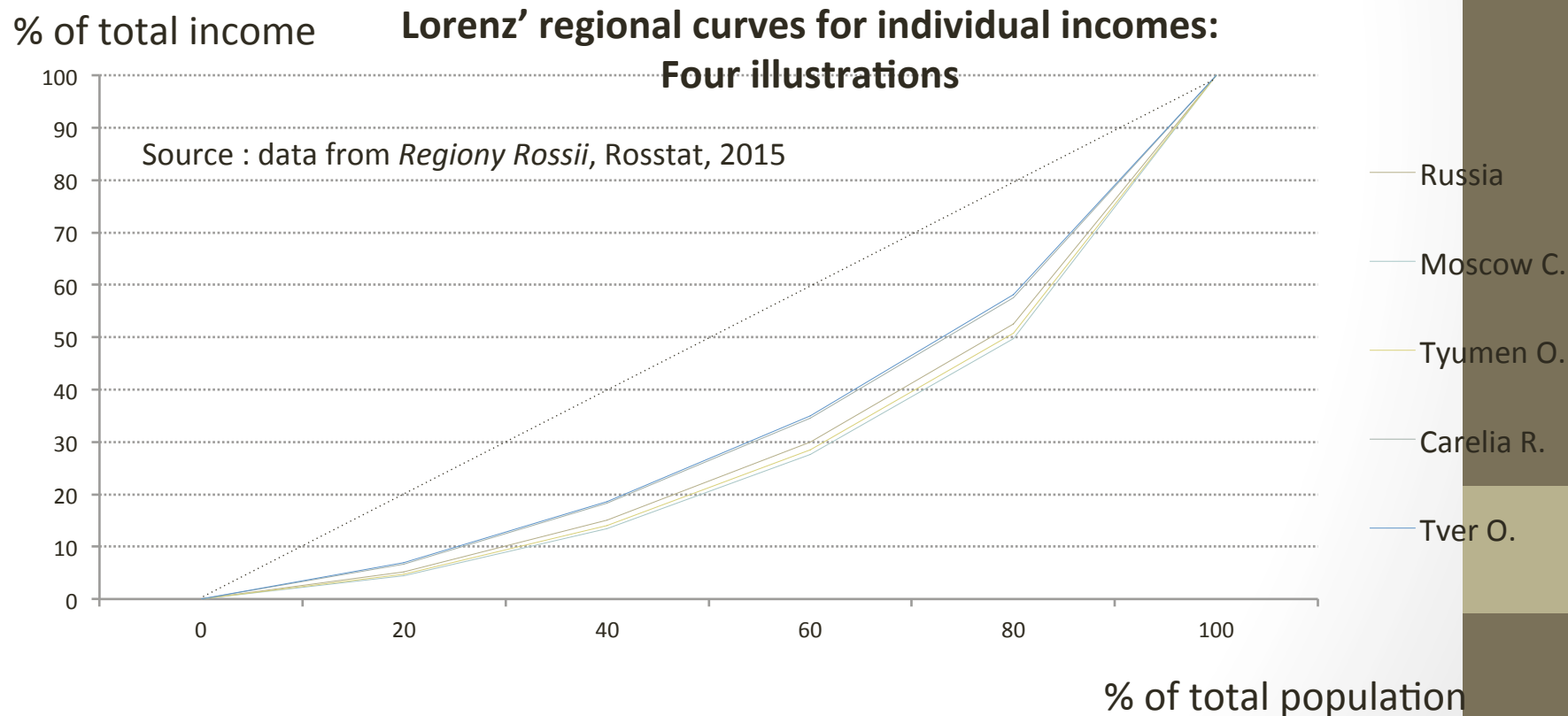
- Income distribution seems to be linked to regional wealth...



Source : data from *Regiony Rossii*, Rosstat, 2015

# 3. From (natural) wealth to incomes

- ... and to the structural types of regions



# 4. Sources of revenues and types of regions

## 4.1. Salaries (national average 42 %) :

Rentier	Non tradables	Tradables
<ul style="list-style-type: none"><li>• Chukotka 80 %</li><li>• Yamal 79 %</li><li>• Khanti-Mansiisk 72 %</li><li>• Magadan 71 %</li><li>• Tyumen 65 %</li><li>• Murmansk 61 %</li><li>• Komi 59 %</li><li>• Sakha 59%</li><li>• Irkutsk 55 %</li><li>• Sakhalin 51 %</li></ul>	<ul style="list-style-type: none"><li>• Kamtchatka 63 %</li><li>• Khabarovsk 57 %</li><li>• Moscow city 52 %</li><li>• St Petersburg 50 %</li></ul>	<ul style="list-style-type: none"><li>• Krasnoïarsk 55 %</li></ul>

# 4. Sources of revenues and types of regions

## 4.2. Social revenues (national average 18 %) :

Rentier	Non tradables	Tradables
<ul style="list-style-type: none"><li>• Kemerovo 25 %</li></ul>	<ul style="list-style-type: none"><li>• Tyva 33 %</li><li>• Carelia 30 %</li><li>• Altaï Rep. 27 %</li><li>• Ingushetya 26 %</li><li>• Pskov 25 %</li></ul>	<ul style="list-style-type: none"><li>• Kalmykia 30 %</li><li>• Kurgan 27 %</li><li>• Marii-El 27 %</li><li>• Mordovia 26 %</li><li>• Kostroma 26 %</li><li>• Orlov 26 %</li><li>• Altaï Kraï 25 %</li></ul>

# 4. Sources of revenues and types of regions

## 4.3. Other revenues (national average 26 %) :

Rentier

Non tradables

Tradables

- Daghestan 51 %
- Adygues 50 %
- Chechnya 43 %
- Ingushetia 42,4 %
- Moscow Reg. 42 %
- Krasnodar 40 %
- Kabardino-B. 41 %
- Bachkiria 36 %
- Omsk 36 %
- Karachaevo-C. 36 %
- Nijni-Novg. 36 %

