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POPULATION INCOME AND SOCIAL INEQUALITY: MODERN
VIEW ON OLD PROBLEM

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Abstract

Since the 18th century, scientists have been interested in the issues related to wealth accumulation and distribution, increasing incomes and inequality, while they tried to pay more attention to empirical assessments from the standpoint of various ideologies. The Industrial Revolution, classical political economy and the “Manifesto of the Communist Party” gave particular importance to the problem of social inequality. During the twentieth century, rich countries, on average, developed more rapidly than poor ones. In both developed and developing countries, the gap between rich and poor social groups was growing. According to E. Atkinson, a prominent scientist studying the problems of inequality, general economic growth does not provide a significant increase in the living standards of the lower groups of society. The solution to this problem is not to increase taxes for the rich but to comprehensively address structural problems related to technology, social stability, capital allocation and taxation processes. If in the coming years Russia manages to form effective institutions for the development of human capital, it will give the country the opportunity to effectively solve the problem of reducing the economic lag behind the developed countries of the world. The development of human capital requires solving both financial and structural problems, since Russia lags significantly behind the OECD countries. The problem of human capital development requires the support for social workers and population groups through additional budgetary funds as well as appropriate structural reforms.

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1. Introduction

Building a welfare state is the most important task in many countries of the world with market economies. Achieving this goal requires a high level of well-being for all citizens of society. Population income is seen as the best tool for measuring social welfare. In his work “The Economic Theory of Welfare”, Pigou (1985) notes that money is a natural and obvious instrument used for measurements in the sphere of public life, and then he introduces the concept of “economic welfare”, which is measured in money.

At the same time, the very concept of income in economic science can be classified as one of the most complex categories, which has undergone significant changes during the 20th century only. Thus, in the work of I. Fischer, published in 1930, income is reduced to final consumption (as cited in Ivanova, 2002). In 1989, in his work “Systematic Review in National Accounts”, the famous Dutch economist F. Bose presents income in the form of the combination of final consumption and the net increase in capital assets (as cited in Ivanova, 2002).

In his work “Value and Capital”, the English economist J. Hicks, who is considered to be well-known authority in this field of economics, pointed out that many serious scientists confused themselves and each other giving different and sometimes contradictory and not very satisfactory definitions to the categories of savings and income (as cited in Ivanova, 2002). It should be noted that until the 14th century, the very term of income was not known, which at the same time did not interfere with the analysis of personal income (Schumpeter, 2001).

2. Problem Statement

To explore scientific approaches to such a problem as social inequality and determine its relevance for modern society.

3. Research Questions

Within the framework of this article, various views and approaches to solving such a problem as social inequality were analyzed. The important measures that would enable Russia to effectively solve the problem of reducing the economic lag behind the developed countries of the world were also noted.

4. Purpose of the Study

The purpose of this study is to study various scientific views and approaches to solving such an important problem for modern society as the problem of social inequality as well as to develop measures aimed to increase the level of social welfare and assisting in overcoming Russia’s economic lag behind the developed countries of the world.

5. Research Methods

In the course of this research, the following scientific methods were used: statistical analysis, functional analysis, comparative analysis. Positive and normative analysis was also applied. This scientific work was compiled in accordance with the principles of consistency and scientific objectivity.

6. Findings

The issues related to wealth accumulation and distribution, income growth and inequality with the focus on empirical assessments and examining the processes based on various ideologies have been considered by scholars since the 18th century. Modern research in this area is carried out on the basis of analyzing a large amount of data using complex models. At all times for researchers the most important issues concerning the problems of inequality were the answers to the following questions: “Is the observed inequality significant?”, “Does it decrease over time?” and “Does it hinder the economic development of the country?”.

The problem of social inequality became especially urgent with the Industrial Revolution, the formation of classical political economy and the publication of the “Manifesto of the Communist Party”. David Ricardo and Karl Marx, studying the principles of wealth distribution, came to the conclusion that over time it would be concentrated in the hands of representatives of one class being the capitalists according to Marx and being landowners according to Ricardo.

In the 20th century, the research covering the distribution of income and wealth in society continued. S. Kuznets in his work “Economic Growth and Income Inequality” in the framework of the relationship between economic growth and inequality examines changes in the long-term income distribution, divides countries into two groups and suggests that in the states located on early stages of economic development there is the first tendency of increasing income inequality, which then decreases with the economy development. The higher inequality rates for developing countries are explained by Kuznets by the fact that significant savings in a country with low average incomes can be found only in the part of the population with high incomes, which leads to even greater stratification. Additionally, inequality arises in connection with the low growth rates of the country’s GDP, and, accordingly, of the per capita income. Regarding the Anglo-Saxon states, Kuznets noted the presence of high income inequality but at the same time pointed out the possibilities of economic instruments, whose application would lead to significant success in achieving social equality (as cited in Grigoriev & Pavlyushina, 2018).

In the early 1950s, such countries as India and Sri Lanka experienced very high levels of postcolonial inequality, which is similar to some extent to the situation in modern South Africa. For example, in the USA and Great Britain a great advantage remained for the 4th – 5th quintiles for 65 years, while in India and Sri Lanka there was a noticeable reduction in the share of the 5th quintile with a slight increase in the share of the 4th one (Grigoriev & Pavlyushina, 2018).

In the modern world, inequality between countries is growing even more significantly. Countries like the United States, European countries and Japan are 100 times richer than Ethiopia, Haiti and Nepal. This is primarily due to the fact that the former have developed over the past 100 years, while the latter

have not. At the beginning of the twentieth century, the corresponding gap between these states was 9:1 (Birdsall, 2006).

It should be noted that although the rapid economic development of the countries such as India and China classified as the largest and the poorest countries contributes to the reduction of overall inequality in the world, its level which has already been achieved is very high. Thus, the per capita incomes of the richest 10 % of US residents are more than 10 thousand times higher than the incomes of the poorest 10 % of Ethiopians (Birdsall, 2006). Over the past 42 years, Americans have become 2.5 times richer. The gap in income levels between the 20 % of the poor and the 20 % of the richest population groups in European countries ranges from 5 times in Denmark to 14 times in Portugal (Bashmakov, 2004).

Conducting a general analysis of the twentieth century, it can be noted that the rich states, on average, developed faster than the poor ones, the gap between the rich and poor social layers of the population in both developed and developing countries increased. GDP per capita income for the richest quarter of the world's population increased by 6 times, while this indicator for the poorest quarter increased less than by 3 times (Mitsek, 2002).

It is worth stating that, as some models indicate, in a developed country moderate inequality often has a positive effect on economic growth. The significant redistribution of incomes carried out in the course of the social policy implementation makes it possible to stabilize the dynamics of consumption, the poor layer of society in conditions of serious support from the state receive the necessary funds. Since the poorest people do not save most of their income but use it for consumption, it increases a short term demand and, accordingly, stimulates the economy.

E. Atkinson, one of the prominent scholars studying the problem of inequality, noted that the main problem of our time is not a solution to the problem of poverty. General economic growth does not lead to a significant increase in the standard of living of the lower social classes. According to the scientist, the solution to this problem lies not in increasing taxes on the rich but in an integrated approach to solving structural problems in the field of technology, social stability, capital allocation and taxation. In reducing inequality, Atkinson, not supporting the widespread opinion that globalization will solve all problems, and the measures necessary for this are too costly, proposes to implement active measures. Noting that income inequality is primarily an inequality of opportunity, he suggests that the governments of the countries focus all efforts on guaranteeing employment and establishing strict control over wages (as cited in Grigoriev & Pavlyushina, 2018).

According to P. Krugman, there is no reason to talk about injustice in the distribution of income and capital, while he does not deny the growth of inequality in society. Inequality, according to the scientist, is the reason not only for the disorder in the economies of different countries but also for the fact that it cannot be eliminated. Krugman notes an increase in inequality in the years after the Great Recession, leading to an increase in household debt and hindering economic growth (as cited in Grigoriev & Pavlyushina, 2018).

For Russian economists, the problem of inequality is also very urgent. As Kapelyushnikov (2017) notes, inequality from a normative point of view is a pseudo-problem while it has never been a problem in itself. According to the scientist, it may definitely be a manifestation of some other serious problems but this is quite a different story. Since the disease cannot be cured through the elimination of symptoms, then

reducing income differentiation cannot be a goal in itself. Thus, society should focus its efforts on solving the underlying problems that can lead to it.

For modern society, inequality can be viewed not only as a factor of socio-political tension but also as an obstacle on economic growth. The real incomes of a significant part of the working people in many developed countries have practically not increased over the past 50 years (Medvedev 2018). The problem of inequality for Russia has become especially urgent in connection with the sharp changes during the period of market transformation.

According to P. Lindert, being one of the prominent contemporary researchers on the problem of inequality, Russia ranked 18th among 53 countries surveyed in terms of the scale of inequality in market incomes with an indicator equal to 0.49. About a third of all countries in the sample, including Argentina, Brazil, Georgia, Greece, Ireland, Mexico, Portugal, Chile, South Africa, are located above Russia, almost at the same level with Spain and the United States. Russia, having an indicator of 0.32 is ranked 32nd in terms of inequality in disposable income and is behind Brazil, Great Britain, Greece, Georgia, Israel, Spain, Italy, Latvia, Mexico, Canada, New Zealand, Portugal, USA, Turkey, Chile, Estonia, South Africa, etc. Australia, Argentina, Germany, Ireland, Poland, France and Japan are almost on a par with it. Thus, Russia had average indicators in terms of the market incomes distribution, while it belonged to the group of countries with low indicators of inequality in terms of the distribution of disposable incomes (as cited in Kapelyushnikov, 2019).

In the future, Russia will face competition and rivalry between countries for markets, investments and human capital, and will continue to face trade and financial prohibitions, the volatility of the value of goods related to its traditional exports. There is no point in expecting a return of favorable commodity conditions. For our country, such a strategy is disastrous, as it will lead to lagging behind, lower living standards, and will cut off access to the leading positions in the economic and social spheres. It is not necessary to assume that the problems of economic development are largely solved by state funds. For the state, the priority should be security, investment in people, assistance to the most vulnerable segments of the population, infrastructure, which, in turn, will lead to changes in the structure of the state budget (Medvedev, 2016).

It should be noted that the economic achievements of countries such as China and India are determined not by the availability of minerals, which have not very high indicators per capita but by long-term investments in the development of human capital, most of which were directed to the development of the higher education system. The consequence of this was that first-class China universities, which 0.5 million scientists and engineers graduate from every year, in the USA this number is equal to 60 thousand. The number of young financiers and professional accountants in India is 2.4 million, while in the United States it is equal to 1.8 million. The number of young engineers in China reaches 1.7 million, while in the United States it is equal to 700 thousand. As a consequence, these countries are experiencing the highest growth rates of the middle class in the world, which have increased the welfare of hundreds of millions of their citizens. If in 1980 the part of the population living on less than \$1 per day in China was 2/3 of the population and over 1/2 in India, then in 2001 it had already decreased to 17 and 35 %, respectively (Suetin, 2006).

It is worth noting as well, that the availability of natural resources is not always a good from an economic viewpoint. Thus, with an increase in resource exports and investment opportunities, the so-called “Dutch disease” may arise. It is characterized by the situation when an increase in the exchange rate of the national currency as a result of natural resources exporting may cause a decrease in competitiveness in manufacturing industries. The abundance of natural resources for some states has become an obstacle to the creation of political and economic institutions aimed at developing a market economy. Also, the production and service sectors in resource-dependent countries are often less dynamic, which also results in the loss of certain economic advantages (Prazdnichnykh, 2011).

The current situation with human capital in Russia must be assessed taking into account two factors. The first factor is that during the 20th century the country experienced two historical breakdowns, specifically, the revolution of 1917 and the collapse of the Soviet system in the 1990s. The quality of the country’s human capital is still affected by the consequences of both the second and the first breakdown. According to the Russian monitoring of the economic situation and health, in 2010 1.4 % of the population could freely communicate in foreign languages in the country, and among young age groups from 20 to 29 years old this figure was 2 %. Only 21 % of the respondents being managers noted that they spoke a foreign language at any level (including “tourist” language) (Koval, 2013).

If Russia is able to form the most effective institutions for the development of human capital, it will lead to significant success in solving the problem of reducing the economic lag behind the most developed countries. This applies to the development of those industries that directly affect the development of human capital such as health care, education, science, etc. The formation of new economic and political structures corresponding to market conditions and modernization of the functioning ones is of the foremost necessity. However, a modern effective system aimed at human development is primarily in demand for a post-industrial economy. This requires a deep transformation of the social sphere, which is important not only for the countries of the overtaking development but also for all developed countries in the context of the crisis of the traditional welfare state (May, 2012).

In order to stimulate human capital, both financial and structural problems need to be addressed. Analysts predict that at least 50 years will be necessary for Russia to catch up with developed countries in terms of human capital.

For example, in America in 2020–2022, 10.1 % of GDP will be spent on healthcare every year, 8 % of GDP will be allocated to healthcare in France in 2020, and 4.7 % of GDP will be allocated to education. Although the human capital per capita indicator in Russia has grown by 80 % since 2000, it is only one fifth of the indicator for OECD countries. This is due to the low share of the country’s budget expenditures on education, which will decrease in 2020 from 3.8 % of GDP to 3.6 % by 2022, as well as on healthcare, which in relation to GDP will amount to 3.6 % in 2020 and 3.4 % in 2022.

In order to solve the problem of human capital development, it is necessary to provide additional budgetary funds to support workers in the corresponding industries and population groups, as well as to introduce structural reforms in these sectors.

7. Conclusion

It is impossible to resolve one problem without solving another one. Thus, an increase in the salaries of doctors and teachers, investments in equipment and other corresponding financial costs are necessary. However, the quality of the provided educational and medical services is determined not only by the level of workers remuneration in these sectors but also by an increased efficiency of the activities implemented in the relevant structures. Without structural reforms, increased funding can even lead to negative consequences. As a result of an increase in wages, it is possible to obtain not a renewal of personnel but the conservation of personnel who have lost their qualifications long ago. More equipment costs often lead to purchasing it at higher prices rather than purchasing what is more needed for hospitals.

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