

Poverty reduction strategy in countries with economies in transition

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Abstract. Economic inequality, rooted in the unequal distribution of material resources, creates a division in society between the "wealthy" and the "poor." The wealthy individuals possess high incomes and property, which not only contributes to their financial affluence but also grants them more power and influence. While their influence may not be absolute, it is significantly greater than that of the average citizen in any given country. Additionally, wealth provides easier access to other non-material goods, such as education and healthcare, which also suffer from significant social disparities.

1 Introduction

In his speeches to the nation in March and April 2020 regarding the pandemic, President Vladimir Putin of the Russian Federation emphasized the importance of unity and social responsibility in the face of the ongoing crisis. He urged significant businesses to recognize their increased social responsibility. The President announced substantial social support measures aimed at addressing the crisis. The themes of solidarity and collective efforts to combat the COVID-19 pandemic and the ensuing global socio-economic crisis were central in President Putin's address to the G20 leaders [1].

The prevailing trend of capitalist globalization over the past three decades has confronted a novel reality for which the world remains unprepared. Given the modern interconnected world, isolation from such adverse developments is impossible, necessitating proactive measures to mitigate the crisis's repercussions [2]. In this context, unconventional solutions are imperative, some of which may deviate from the longstanding neoliberal economic principles and governmental regulatory approaches. The goal is not to forsake the market system but to transition to a model where the market serves the interests of citizens rather than exploiting them, leaving them with no prospects for a better life.

The objective is to eradicate unethical enrichment of a minority at the expense of the majority and to redirect the capital generated within Russia to work in the country's best interest and for its citizens. The current situation, wherein 18 million fellow citizens are compelled to survive on incomes below the subsistence level, is untenable. Even the subsistence level itself can no longer be seen as a poverty threshold but rather a poverty line

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[3]. Furthermore, in just one year, the combined wealth of the 23 wealthiest Russian entrepreneurs increased by a substantial 2.5 trillion rubles (\$38.4 billion). Amid the ongoing challenges posed by the COVID-19 pandemic, it is tempting to attribute all economic policy difficulties and failures to extraordinary circumstances. However, this attribution should not be accepted. Russia must not become a country characterized by entrenched poverty, a reliance on low-cost labor, feeble social protections, grossly unfair wealth distribution, and perpetual mobilization demands on the majority of its population, whose resilience is not boundless [5]. The most acute manifestations of these adversities include a challenging demographic situation, a significant number of suicides, and widespread health issues stemming from social stress.

2 Research methodology

Currently, two distinct societal poles are emerging in Russia, each vastly different from the other. In one pole, regions enjoy access to top-tier education, healthcare, cultural amenities, and cutting-edge technologies. In the other pole, regions have significantly fewer opportunities and chances for quality education, maintaining good health, or benefiting from "social elevators [6]." Life in or near poverty is the daily reality for people in these regions. This division creates a stark contrast in living conditions, income, and various life quality indicators. The more advantageous regions are those influenced by major cities, large industrial centers, and critical transportation routes of regional or national significance. On the other side, poverty has constrained territorial mobility, effectively trapping many citizens in economically disadvantaged areas. A significant portion of the population seeks opportunities in megacities, particularly Moscow and St. Petersburg, where high budget security and economic stability prevail, largely due to corporate headquarters and a thriving financial sector.

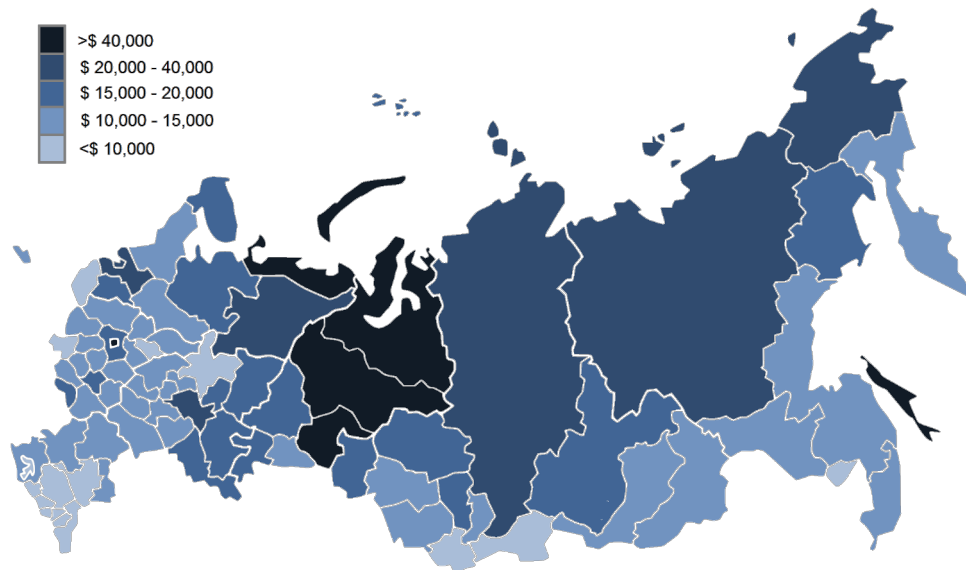


Fig. 1. Regional GDP per capita map of Russia.

3 Results and Discussions

According to the Gini index, Russia is ranked 79th among 162 countries, positioning it ahead of the majority of developed nations [4]. Furthermore, when considering the overestimation of incomes of the wealthiest top decile based on wealth and tax statistics, Russia becomes one of the global leaders in income inequality. Reducing inequality has several positive effects, including lowering social tensions, increasing interpersonal trust, reducing corruption, boosting demand for domestic goods, and promoting long-term economic growth. Countries with low levels of inequality, such as the rapidly developing nations in Southeast Asia, have benefited from this trend.

As a result, the country has developed several zones with fundamentally different ways of life and dominant social cultures, and these zones understand each other less and less, both in daily life and in politics [7]. The disparity in per capita GDP between the wealthiest and most economically challenged regions in Russia exceeds that of countries known for their regional disparities, such as China. In fact, the poorest regions in Russia fall behind the poorest areas in China and Brazil, slightly exceeding some regions in Indonesia. Meanwhile, the wealthiest regions in Russia surpass even those in the United States and Japan. This comparison focuses on a single yet significant indicator, but it illustrates the extent of regional economic inequality.

While slums akin to Brazilian favelas may be hard to envision in Russia, the persistence of vast pockets of poverty is a concerning trend [8]. Today, regional differentiation in Russia surpasses that of the European Union, which includes both wealthy megacities and economically weaker countries like Bulgaria and Romania. In the EU, the difference in per capita GDP between Luxembourg and the poorest northeastern part of Bulgaria is 17.8 times, and 7 times when adjusted for purchasing power parity. The gap between the "average poor" and "average rich" regions (areas that are respectively better or worse off than a quarter of EU regions) is 2 and 1.6 times. In Russia, the leaders are the capital cities and their surrounding areas, sparsely populated regions specializing in the extraction of exportable raw materials, and areas that have managed to successfully integrate into the modern economy and meet domestic and international market demand. The rest of the country faces challenges of poverty and destitution. Roughly 70% of Russians reside in the three poorest groups of regions, while the remaining 30% live in the three most prosperous groups. Over half of the population lives in regions with a GDP per capita characteristic of third-world nations with limited prospects at present.

The magnitude of regional inequality's influence on poverty underscores the importance of developing and applying a comprehensive methodology for measuring poverty [9]. The official method of measuring poverty in Russia allows for the assessment of absolute monetary poverty, utilizing the subsistence minimum as the poverty line. This minimum represents the official standard for income and consumption, ensuring a basic quality and standard of living. In addition to the official methodology, alternative poverty lines can be employed, a common practice in both foreign and Russian research, although not yet fully embraced for state social policy purposes in Russia. Incorporating assessments based on alternative poverty lines provides a more holistic understanding of the scale and severity of poverty, laying the necessary foundation for effective public policy to reduce poverty and inequality (fig.2).

A survey analyzed in a recent study found that more than 87% of respondents do not believe that income differences in Russia are generally fair. They attribute the responsibility for this inequality to the authorities and believe that it's the state's duty to reduce income differentiation. In this context, it's essential to take note of a guidance note on the analysis of a flat income tax scale published in January 2023 by a reputable American think tank. The authors conclude that most common arguments in favor of flat taxation are unfounded

and that flat taxation is inconsistent with public concerns about inequality, rendering a fair tax system virtually impossible. Until Russia implements a progressive personal income tax, it cannot be considered a welfare state, and the chances of achieving rapid economic growth are slim.

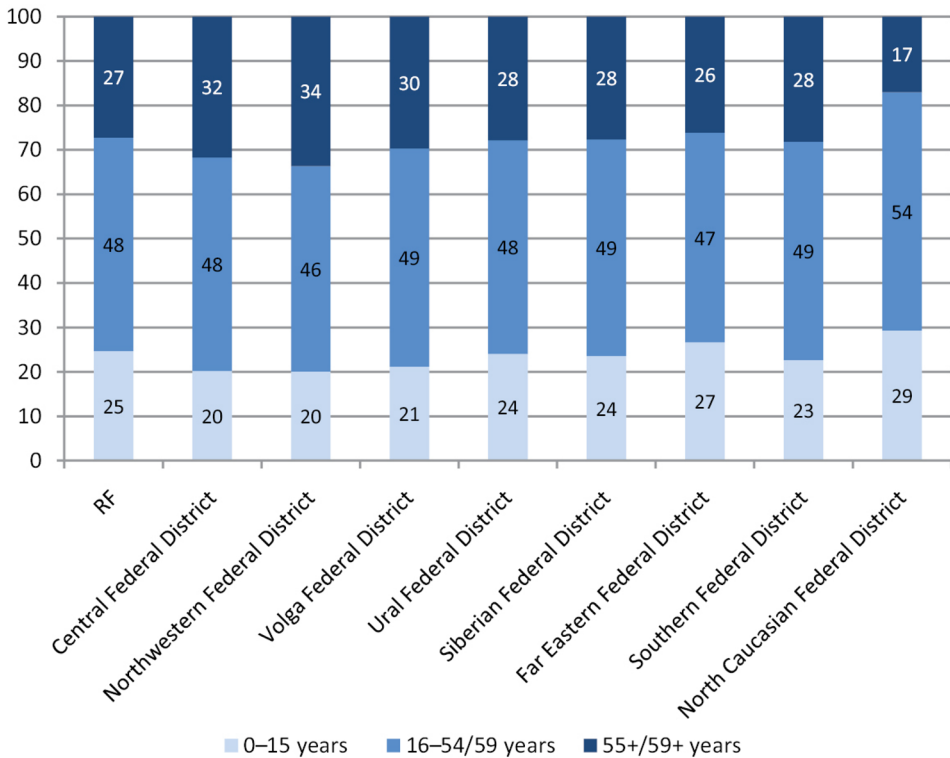


Fig. 2. Poverty in the Russian Federation.

Another approach to reducing actual inequality involves banning the creation of private clinics and hospitals while maintaining the option to establish paid departments within public medical institutions [10]. Each doctor would be required to work in free departments for a significant portion of their time. Wealthier citizens could access relatively better treatment conditions, but all patients would have access to the most qualified specialists.

4 Conclusions

The text outlines a package of measures aimed at addressing inflationary income losses for the population and reducing income imbalances among various groups and regions. These measures include:

1. Increased indexation of pensions in 2024 and 2025 based on the growth rate of average wages. Indexation for working pensioners would be aligned with non-working pensioners.
2. Indexation of the cost of living at a rate exceeding inflation by 1.5% annually from January 1, 2024 to 2025.
3. Changing the approach to maternity capital assessment, increasing its size to the average cost of 6 square meters of housing and equating the size for the 1st and 2nd child. Indexation would follow the Consumer Price Index (CPI). Additionally, standard tax deductions for children up to the subsistence level should be increased from 2024.

4. Indexation of the minimum wage by 18.5% in 2024 and subsequent indexation above the cost of living by 3.5% from 2025.

5. Gradual increase in unemployment benefits to reach the upper limit for all unemployed citizens by 2026, followed by annual indexation based on the minimum wage growth rate.

6. Indexation of wages for specific categories of public sector workers from 2024 to address imbalances and restore relations established in previous decrees. A policy of reducing regional differentiation is proposed through the introduction of an all-Russian standard, leading to an effective redistribution system of qualified personnel.

7. Indexation of wages for other categories of public sector workers in January 2024 by 10% and from January 2025 based on the average non-monthly wages in the economy.

8. Gradual increase in scholarship amounts for all students from 2024 to 2026, with the goal of reaching at least the subsistence level. Additionally, assistantships for university students should not fall below the minimum wage.

These measures aim to address income inequalities and mitigate the impact of inflation on various segments of the population, including pensioners, families with children, low-wage workers, and students. The text highlights the importance of indexation, increasing benefits, and aligning wages with economic conditions to improve living standards and promote social well-being.

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