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Addressing Inequality Amidst Economic Growth in Russia

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## Abstract

The paper examines the complexities surrounding the expansion of highly profitable industries in Russia, shedding light on the nuanced relationship between economic growth, poverty alleviation, and income inequality. Contrary to conventional wisdom, the study reveals that the rapid growth of these industries has not translated into a reduction in the poverty rate nor has it effectively addressed economic inequality within the country. By examining the temporal dependencies of poverty rates in relation to the subsistence level and growth trajectories of natural monopolies, the research uncovers significant challenges in achieving inclusive growth and socioeconomic development. Moreover, the paper incorporates expert opinions on the impact of poverty on access to critical social services such as education, healthcare, nutrition, housing, and recreational opportunities. The findings underscore the need for a multifaceted approach to address the complex interplay between economic growth, poverty, and inequality in Russia. While the expansion of highly profitable industries holds promise for driving overall economic prosperity, it is imperative to ensure that the benefits are distributed equitably across society. Efforts to mitigate poverty and reduce inequality must be prioritized, with targeted interventions aimed at improving access to essential services and opportunities for the most vulnerable segments of the population. Additionally, the study highlights the importance of policy measures that promote inclusive growth and social equity, including measures to enhance social safety nets, improve labor market conditions, and foster equitable access to education and healthcare. By addressing the root causes of poverty and inequality and fostering an environment of shared prosperity, Russia can chart a path towards sustainable and inclusive development that benefits all segments of society.

**Keywords:** Highly Profitable Industries, Poverty Alleviation

**JEL Codes:** I32, O15, P27

## 1. INTRODUCTION

In the contemporary economic landscape, profitability often gravitates towards sectors characterized by high technologies, advanced industries, and areas with robust demand for production, services, technology, or information regardless of external conditions (Castellacci, 2008). These sectors are known for their capacity to innovate, streamline processes, and adapt to the ever-changing demands of both consumers and businesses. Industries aligned with high technologies are at the forefront of driving profitability, leveraging cutting-edge innovations to create products and services that meet evolving market needs. Advanced industries, which encompass a wide range of sectors including aerospace, pharmaceuticals, and renewable energy, also contribute significantly to the profitability of the economy through their focus on research, development, and innovation. Moreover, sectors with a strong demand for production, services, technology, or information remain lucrative due to their ability to address essential needs across various domains (Thoben, et al 2017). Whether it's manufacturing, healthcare, financial services, or digital technology, these sectors play a pivotal role in driving economic growth and generating substantial returns on investment.

In contrast to the broader global trend, Russia's economic landscape presents a unique scenario. Industries centered around information transfer and communication technologies are witnessing rapid expansion and advancement. Sectors such as telecommunications, internet services, software development, and digital communication platforms are experiencing notable growth fueled by increasing demand for connectivity, digital services, and robust communication infrastructure. Despite facing challenges within the broader economic context, these sectors in Russia are thriving due to a growing reliance on digital technologies for communication, business operations, and daily activities (Kurniawan, et al 2022). The proliferation of smartphones, internet-enabled devices, and digital platforms has created significant opportunities for innovation and investment in information and communication technologies (ICT). The emergence of new technologies and digital solutions has led to a surge in demand for related services, including high-speed internet connectivity, cloud computing, cybersecurity, and digital entertainment. This heightened demand has propelled the profitability of businesses operating within the information and communication technology sectors in Russia (Tallman, et al 2018). Indeed, the emergence of technology-driven industries in Russia is part of a broader global trend towards digitalization and the integration of advanced technologies into various sectors. Businesses operating within these industries stand to benefit significantly from the increasing reliance on digital solutions for a wide range of purposes, including business operations, communication, entertainment, and meeting consumer needs (Sheikh and Ahmad, 2018;

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Zhengzheng, 2018). As technology continues to evolve and permeate every aspect of modern life, companies in Russia are leveraging digital innovations to enhance efficiency, improve productivity, and create new business opportunities (Kokuytseva and Ovchinnikova 2020; RodionovaI, 2012; Khalid and Sultan, 2017). This trend is particularly evident in sectors such as telecommunications, software development, digital media, e-commerce, and financial technology (fintech), among others. Furthermore, the rapid advancement of technology-driven industries in Russia underscores the country's commitment to fostering innovation, entrepreneurship, and technological development. Government initiatives, supportive policies, and investments in research and development are helping to propel the growth of these industries and position Russia as a competitive player in the global digital economy (Dahlman, et al 2016; Malik and Rehman, 2019; Andreou, 2021). Absolutely, the combination of government initiatives, strategic investments in digital infrastructure, and efforts to enhance technology education are playing a crucial role in driving the growth of high-tech industries in Russia. By promoting innovation, supporting the startup ecosystem, and creating an environment conducive to technological development, policymakers are paving the way for these industries to thrive and contribute significantly to the country's economy.

Furthermore, the focus on fostering a digital-first mindset and building a robust ecosystem for technology-driven innovation is aligning Russia with global trends in the digital economy (Radcliffe, et al 2022; Wei and Xu, 2018; Voronkova, 2007). As businesses and consumers increasingly rely on digital solutions for various aspects of their lives, the demand for high-tech products and services is expected to continue rising, further driving the profitability and expansion of these sectors. In short, while Russia may face unique economic challenges, the growing emphasis on high-tech industries and information communication technologies reflects the country's commitment to embracing digital transformation and harnessing the power of technology to fuel economic growth, innovation, and competitiveness in the global arena.

## **2. LITERATURE REVIEW**

Bogaevskaia and Smirnova (2012) emphasize the potential shifts in consumer behavior and market dynamics resulting from the changing landscape of telecommunications. The expected growth of the Internet provider market suggests a rising demand for online connectivity and digital services among consumers. This trend aligns with broader global patterns of increasing reliance on digital platforms for communication, information access, and entertainment. As telecommunications infrastructure continues to improve and become more accessible, particularly with the lowering of prices for telephone connections, the Internet provider market is poised for expansion. This expansion may lead to greater competition among providers, driving innovation and improvements in service offerings to attract and retain customers. However, alongside these advancements in digital connectivity, Bogaevskaia and Smirnova (2012) predict challenges for the printed mass media industry. With higher prices potentially impacting the affordability and accessibility of print publications, consumers may increasingly turn to online sources for news, information, and entertainment. This shift in consumer preferences could pose significant challenges for traditional print media outlets, compelling them to adapt their business models and explore digital transformation strategies to remain relevant in the evolving media landscape.

The Institute of Contemporary Development suggests that the information and communication technology (ICT) sector will continue to play a crucial role in Russia's economic development, alongside the traditional drivers such as oil and gas. This highlights the growing importance of technology-driven industries in shaping Russia's economic landscape and driving innovation and growth. Despite the advancements in modern technologies and the significant contributions of sectors like ICT to economic progress, there remains a persistent challenge of high poverty rates in Russia. This disparity underscores the need for inclusive economic policies and initiatives that ensure the benefits of technological development are shared equitably across society. Efforts to address poverty and promote inclusive growth may involve targeted investments in education, skills development, and social welfare programs, as well as initiatives to foster entrepreneurship and create opportunities for marginalized communities. By addressing socio-economic inequalities and enhancing access to education and employment opportunities, Russia can strive towards a more inclusive and sustainable economic development path.

Rodionova's observation suggests that there may be shortcomings in the government's efforts to create a conducive business environment throughout Russia, particularly in the information technology (IT) sector. This lack of attention to fostering a favorable climate for enterprises could impede the growth and development of the IT industry, which is increasingly vital for driving innovation, competitiveness, and economic progress. A supportive business environment is essential for nurturing entrepreneurship, attracting investment, and facilitating the growth of industries like IT. This includes policies and initiatives aimed at reducing bureaucratic barriers, streamlining regulatory processes, promoting innovation, and providing incentives for business development. For the development of a favorable enterprise climate, the government can better support the growth and competitiveness of the IT sector, ultimately contributing to broader economic growth and prosperity across Russia. Kapelyushnikov (2014) highlights a significant challenge in other sectors of the economy: low labor productivity coupled with relatively low wages. This observation suggests that despite the presence of certain industries driving economic growth, there are systemic issues that need to be addressed to enhance overall productivity and improve living standards for workers. Low labor productivity can hinder economic progress by limiting output and efficiency, which in turn affects competitiveness and profitability. Additionally, when wages remain low relative to productivity levels, it can lead to issues such as income inequality, reduced purchasing power, and difficulty attracting and retaining skilled workers. Addressing these challenges requires a multifaceted approach that may include investments in technology and infrastructure to boost productivity, policies aimed at

improving labor market conditions and wages, and initiatives to enhance skills training and education. By tackling these issues, policymakers can work towards creating a more dynamic and inclusive economy that benefits all stakeholders.

### 3. METHODS

The main research method employed in this article involved data collection and the comparison of data from different sources. Additionally, a survey of 118 experts was conducted using a special questionnaire with a decimal scale. To recalculate poverty considering various circumstances, the authors utilized a modified version of the Foster-Greer-Thorbecke formula. This formula, commonly used by various researchers such as Masato Okamoto, (2012) was adapted by the authors for their analysis. As a first approach, they used the simplified formula:

$$P=1H(Zh-qYh)/ZhP=H1(Zh-qYh)/Zh$$

Where:

- $H$  represents the total number of households.
- $Zh$  is the subsistence wage.
- $Yh$  denotes the average income.
- $q$  signifies the share of poor households.

This formula served as a basis for their analysis of poverty dynamics and distribution in their research.

### 4. RESULTS

At the current stage, direct improvement in poverty levels is not evident. Analysis of data from Rosstat, as depicted in Figure 3a), indicates that poverty in Russia has experienced fluctuations over time, with periods of decrease interspersed with periods of increase. Despite official data suggesting a decline in poverty rates, many ordinary Russians do not perceive such a reduction in their own lives.

Further analysis of published data reveals that the parameters in Formula (1) can be described by the following functions:

- Total number of households:  $H=0.037t+0.958$
- Income:  $Yh=-0.022t^2+0.011t+0.011$
- Subsistence wage:  $Zh=1.038t-0.010$

These functions provide insights into the dynamics of key variables influencing poverty levels, allowing for a more nuanced understanding of the underlying trends. Recalculating the official poverty level while taking into account the increasing subsistence level reveals a different perspective. Many authors, such as Yashina (2013) highlight that tariffs of natural monopolies increase annually by 15-20%. This results in higher prices across various sectors, ultimately contributing to the progression of poverty. When we factor in the growth rates of natural monopolies, the re-evaluated poverty data shows that the previous observed decline in poverty disappears entirely. Instead, the poverty level stabilizes, aligning more closely with direct observations and the opinions of various observers. This underscores the significant impact that factors like rising tariffs can have on poverty dynamics, highlighting the need for comprehensive approaches to poverty alleviation that address underlying economic challenges. Amidst the growth of highly profitable sectors of the economy, such a phenomenon may indeed seem illogical. It suggests a potential gap between the individuals working in these sectors and the rest of the population. It's possible that certain segments of the population are not actively involved in these industries due to a lack of skills and knowledge required for such specialized jobs. In essence, there appears to be a lack of "social lifts" that could help bridge these differences and provide opportunities for broader segments of the population. These social lifts could include initiatives for skills development, education, and training programs aimed at equipping individuals with the necessary qualifications to participate in these high-growth sectors. Without adequate mechanisms in place to address these disparities and provide pathways for upward mobility, the benefits of economic growth in these profitable sectors may not be evenly distributed across society. This underscores the importance of inclusive economic policies and initiatives aimed at fostering social mobility and ensuring that the benefits of economic prosperity are accessible to all segments of the population.

The stagnant social structure in this area doesn't foster the emergence of new opportunities, which exacerbates the problem of poverty reproduction and widens the gap in society. Individuals from poor families often face barriers to accessing quality education, adequate food, leisure activities, and medical care. These challenges create a cycle of poverty that persists across generations, as individuals from disadvantaged backgrounds struggle to break free from their circumstances and access the resources needed to improve their lives. In this context, addressing the structural issues that perpetuate poverty becomes essential. This includes implementing policies and programs that promote equal access to education, healthcare, and social services for all individuals, regardless of their socioeconomic background. Additionally, creating economic opportunities and reducing barriers to employment can help uplift disadvantaged communities and break the cycle of poverty. Furthermore, addressing social inequalities and promoting social mobility can contribute to creating a more inclusive society where individuals from all backgrounds have the opportunity to thrive. This requires a concerted effort from policymakers, civil society organizations, and communities to dismantle systemic barriers and create a more equitable society for all.

The anticipated shifts in the impact of poverty on various aspects of life underscore the multifaceted nature of poverty and its intersection with different sectors of society. As technology continues to advance, the accessibility of education through distance learning platforms is expected to improve, potentially providing opportunities for individuals from disadvantaged backgrounds to acquire new skills and knowledge. Similarly, the projected decrease in the impact of

poverty on housing issues could alleviate some of the financial burdens faced by low-income households, particularly with the availability of mortgage lending. However, challenges persist in ensuring equitable access to healthcare services, as the slow implementation of free healthcare initiatives may exacerbate existing disparities in medical care access. Furthermore, the expected increase in the availability of a balanced diet reflects ongoing efforts to regulate food production and distribution, aiming to protect consumers from fraudulent practices. Despite these improvements, disparities in leisure opportunities may widen, with individuals from impoverished backgrounds facing barriers to accessing unconventional or exotic leisure destinations due to financial constraints. While there are indications of progress in addressing certain dimensions of poverty, there remains a need for comprehensive strategies that address the underlying structural inequalities and socio-economic barriers that perpetuate poverty in society. By addressing these systemic challenges and promoting inclusive policies, societies can work towards creating a more equitable and sustainable future for all individuals.

However, the constructed graphs provide valuable insights into trends, it's important to recognize that they represent only part of the picture. Calculating the actual level of indexes requires normalization using appropriate coefficients, which unfortunately may not be readily available. Normalization is crucial for ensuring accurate assessments, particularly in cases where factors such as the growth of tariffs of natural monopolies could potentially influence indicators like the level of a living wage. Without reliable data on the level of these coefficients, the interpretation of trends may be incomplete or even misleading. Efforts to obtain and utilize reliable data on normalization coefficients would enhance the accuracy and reliability of analyses, enabling more informed decision-making and policy formulation. Additionally, it would contribute to a deeper understanding of the complex interactions between different economic factors and their impact on living standards and poverty levels. Zhitov's (2013), Sun and Chang, (2020) analysis underscores the significant economic ramifications of investments in sectors such as gas, electricity, or oil. According to his findings, a single ruble invested in these sectors results in a considerable amplification effect, translating into a six-fold increase in prices borne by the macroeconomy of the state or country. This phenomenon can be attributed to what Zhitov (2013), and Zubair and Hayat (2020), and Andreou (2021) describe as a multiplicative effect, wherein investments in these critical sectors have far-reaching implications across the economy. As these investments circulate through various channels, they generate additional expenditures, contribute to profitability, and impact taxation across interconnected goods and services. By recognizing the multiplier effect of investments in essential sectors, policymakers and economists gain insight into the broader economic implications of strategic investments. This understanding can inform decision-making processes related to investment prioritization, resource allocation, and economic policy formulation, ultimately shaping the trajectory of economic development and growth.

## **5. CONCLUSIONS**

The lack of significant reduction in real poverty in Russia despite the rapid development of highly profitable industries can be attributed to several factors, including the disparity between individuals employed in these industries and those working in other sectors. This discrepancy highlights a fundamental gap in income and opportunities between different segments of the population. One contributing factor is the low labor productivity prevalent in many other branches of the economy, leading to comparatively lower wages for workers in these sectors. This disparity in wages exacerbates income inequality and limits the potential for poverty reduction across the broader population. Furthermore, the concentration of economic growth and prosperity in certain industries may create limited opportunities for individuals outside of these sectors to improve their economic circumstances. Without adequate mechanisms to address income inequality and promote inclusive growth across all sectors of the economy, the benefits of economic development may not be evenly distributed, resulting in persistent poverty for certain segments of society. Addressing the structural challenges contributing to low labor productivity and wage stagnation in non-profitable industries is essential for promoting more inclusive economic growth and reducing poverty levels in Russia. This may involve targeted investments in education, training, infrastructure, and technology to enhance productivity and create better-paying job opportunities across a wider range of sectors.

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