**Abstract**

**RS-220**

Title: "**The impact of inequality on consumer demand"**

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1. **Goal of the project:** A comprehensive analysis of inequality in Russian society, including analysis through the prism of the population’s expenditures and living standards, as well as the possibilities of addressing inequality through socio-economic policies.
2. **Methodology:** desk research, theoretical and methodological analysis of scientific literature and analytical materials, analysis of data of international organizations, analysis of Russian and international statistics, analysis of microdata of sample population surveys, microsimulation.
3. **Empirical base of the project:** relevant scientific literature; data from international databases (World Bank, Luxembourg Income Study, World Inequality Database, etc.); operational statistical data from the Federal State Statistics Service of Russian Federation (Rosstat), published monthly on the official website of the agency; microdata from a sample survey of the population “Household Budget Survey”; microdata from a sample survey of the population “Survey of Population Income and Participation in Social Programs”; data from the the Russia Longitudinal Monitoring Survey - Higher School of Economics (RLMS HSE).
4. **Results of the project:** In the course of the project, the dynamics of inequality in Russia over the last decade was characterized, and the country's position on inequality in the global context was analyzed. Russia traditionally ranks quite high in cross-country studies of inequality. While income inequality among the mass strata of the population can be characterized as medium-high, Russia is one of the world leaders in terms of wealth inequality. Over the past decade, inequality indicators in the country have shown some decline, accompanied by a decrease in poverty rate, but also by an increase in the wealth of the super-rich.

The structure of the population's expenditures also undergoes some changes, although they occur rather slowly. The most noticeable change between 2004 and 2021 is the reduction in the share of household expenditure on food for all income groups. Nevertheless, it remains the largest for all but the 10% of population with the highest income. The other largest shares of consumption expenditure are transport (which increased over the period 2004-2021 and is the largest for the tenth decile group) and payments for housing and utilities. The shares of expenditures on clothing and footwear, furniture and household appliances have decreased in dynamics, although they also remain among the main areas of expenditures of Russian households. In terms of expenditures, there is a significant differentiation of households belonging to different decile groups, reflecting the impact of inequality on consumer demand, and the top decile group differs most from the rest in terms of the structure of expenditures.

The degree of expenditure differentiation can vary considerably depending on its specific direction. Therefore, the assessment of inequality is significantly influenced not only by the methods of accounting for certain expenditures, but also by the very fact of inclusion/exclusion of certain types of expenditures from the overall indicator. Taking into account such differentiation of the expenditure structure, the study proposed a methodology for assessing inequality for different levels of well-being, measured through differences in consumer expenditures in satisfying needs of different levels - from basic to free choice needs. The validation of the developed methodology on the RLMS HSE data allowed to show that the degree of consumption inequality depends on the type of needs on which the household budget is spent. The lowest level of inequality is recorded when the households satisfy the minimum necessary basic needs (food, housing, clothing), and the inequality increases when higher-order needs are included in the consideration.. The largest increase in inequality is observed at the stage of formation of consumer expenditures of the highest order, which include expenditures on movable and immovable property, as well as expenditures on financial transactions of households. In 2021, the level of inequality for the minimum necessary basic consumer expenditures, which on average account for two thirds of family expenditures, was almost twice lower than for all consumer expenditures. In terms of dynamics, the consumption inequality of Russian families decreases in 2013-2021.

The project also considered the issue of consumer living standards of the population and their differentiation in different groups of the Russian society. For the purpose of analysis, taking into account the possibilities of the RLMS HSE, four spheres in which the living standards of Russians are formed were identified: housing conditions, availability of additional real estate and cars, availability of durable goods, and the possibility of using paid consumer services. It has been shown that the standards in these spheres are quite modest, and the dynamics are different: the housing standard is characterized by a high inertia, while the standard of provision with durable goods changes more actively, expanding over time. It is significant that the formula "apartment, car and country house (dacha)" does not act as a standard for the population today - this set is not very affordable for Russians, and in 2021 only one adult in ten would live in households with such a set.

The results of the classification of living standards in the three considered areas (housing conditions, durable goods, and paid services) allow to see that only one third of Russians meet the housing standard (without taking into account the size of the meter), the standard for a set of durable goods, and the standard for the consumption of services simultaneously; at the same time, half of them (i.e. 17.8% of the total population) are characterized by the presence of additional real estate. The other two thirds of the population are characterized by reduced consumption in various areas, i.e. they "fall short" of the national standard, either in terms of durable goods, consumption of services or housing standard. The influence of income is noticeable, but it is not the only significant one; among the other main factors differentiating consumption patterns are age, type of settlement and human capital of an individual that allows to occupy highly qualified jobs.

As for the standard of living of doctors and teachers as professional groups directly involved in the process of formation of the country's human potential, the situation of doctors in 2021 was better than that of teachers. In general, the situation of teachers in terms of living standards requires attention in order to at least reduce their "lag" in this respect in comparison with other highly qualified specialists, which is evident in the data.

Another focus of the project was to model the effects of income and inequality policies. The first policy that was modeled is an increase in the minimum wage (in 3 different scenarios). Based on the results of the microsimulation, it was shown that raising the minimum wage affects wage inequality by reducing it. For steeper increases in the minimum wage, differentiation at the edges of the distribution decreases the most. This shows that inequality is reduced precisely at the expense of the lower part of the distribution, but also at the expense of reducing the employment of some of the lowest-paid workers. Only in the radical scenario does the increase in the minimum wage have a noticeable effect on the situation of workers from the middle groups.

In Russian society today, there are still significant interregional differences in the wages of public sector employees. The second policy measure modeled was the introduction of a minimum wage guarantee for doctors and teachers. The idea is to "lift" the lower part of the wage distribution by setting its level in relation to the minimum subsistence level of the working population in Russia as a whole, rather than to the regional level, thereby reducing both the overall degree of inequality and its regional component, without limiting the upper part of the distribution, which should be formed, inter alia, by qualification differences between subgroups of workers and taking into account differences in the cost of living. The results of the micromodelling show that a special minimum wage for doctors and teachers, set at a level higher than the federal minimum wage, does indeed significantly reduce wage inequality for these groups, including its interregional component. It is the introduction of the guaranteed minimums themselves, rather than the accompanying "spillovers" to those not directly affected by them, that has the greatest impact on reducing inequality. The introduction of such a measure could potentially benefit more those workers from regions with lower wages for these occupational groups compared to the country as a whole.

Although the policies themselves are hypothetical and are intended to show the direction and magnitude of possible effects of moving in one direction or another, the results allow for further discussion of the possibilities of public policy to address inequality and can be used to develop proposals for expanding and refining specific policies to address inequality, including a focus on specific population groups.

In general, the results of the project once again emphasize the need to take into account different aspects of inequality in its assessment, including inequality in consumption and living standards, which show its different scales and highlight the specificity of its burden on certain social groups; the irreducibility of measures to reduce inequality to monetary ones only; the need to pay attention to certain social groups, taking into account the specificity of their situation and the degree of intra- and inter-group inequality resulting from various factors (including regional).

1. **Level of implementation, recommendations on implementation or outcomes of the implementation of the results:** the results of the research have been used in the preparation of analytical notes and expert opinions, as well as presented at scientific and practical events. The results of this work can be used to advise public authorities, as well as to develop social and economic policies aimed at managing inequality in its various dimensions, including in specific social groups.