

Smoothing Social Inequality as a Factor in Ensuring Sustainable Development in Russia

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Abstract In March 2018, Russian authorities set the task of bringing Russia to an average global GDP growth rate by the end of 2024 (3.5-4% of GDP growth per year) and to firmly establish itself in the world's top five economies. However, the accumulated challenges and threats in Russia may make the head of state's plans unattainable. In Russia today there is stagnation in both the economic and social spheres. Over the past 36 years, Russia has experienced a large-scale increase in the uneven distribution of national income, which exacerbates social and economic dysfunctions of the state, worsens demographic indicators and, in general, does not ensure the political stability of the state. Although there is no common understanding of the causes, nature and consequences of social inequality in society, recently there has been an increase in publications with diametrically opposed conclusions about the dynamics of global social inequality indicators. In order to reduce social inequality in Russia, it is necessary to restore the progressive scale of income taxation, which was abolished in 2000. The process of de-offshorization of the economy should smooth out polarization in society and ensure economic growth in the country: according to various estimates, 80-95% of Russia's large property is under foreign jurisdiction. The state should reconsider its policy of reducing the free sector in education and medicine, and these social infrastructure facilities do not create distorted incentives for the "lower classes" but help them to be pulled up. It is necessary to improve the social policy of supporting families, especially young ones, with two children, as the most vulnerable and at the same time the most significant category of the population in modern Russia. The country should revive socially oriented approaches to housing policy and socially responsible business models.

Keywords: *social inequality, sustainable development, leadership, Russia*

1 Introduction

In Russia today there is stagnation in both the economic and social spheres. It is obvious that the model of the raw material economy has exhausted itself: in recent years, even with the growth of oil prices, there has been a negative or insignificant increase in GDP. Oil production in Russia is also recognized as one of the most expensive in the world (\$42 per barrel on land and \$44 per barrel at sea). Experts claim that Russia has about 7 years to the critical point when the stock of existing fields will stop coping with the load and the volume of oil production may fall almost twice - from the current 553 million tons per year (11.4 million barrels per day), to 310 million tons (6.3 million barrels per day) (Novye Izvestia 2019). Old Soviet deposits are being rapidly depleted, and new deposits with light and cheap oil for extraction have not been found, and geological exploration activities in Russia in recent decades have been virtually non-existent. This means that there will be

no oil for export (5.2 million barrels per day at present) and, consequently, the main source of revenue for the Russian budget will disappear.

The Russian economic and management model has caused a sharp contrast between economic indicators and those characterizing the standard of living of its population. Thus, in terms of GDP (in terms of purchasing power parity), Russia ranks 6th in the rating of the world's countries in 2018 with \$4,227 billion. Russia's place in the global ranking of GDP per capita for 2018 is noticeably lower (50th place), but at the level of countries with average indicators.

With such relatively good economic indicators, Russia is characterized by extreme inequality in the distribution of wealth in society. Over the past 36 years, Russia has experienced a large-scale increase in the uneven distribution of national income, although this is not only a Russian feature (Table 1).

Table 1. Economies with Large and Moderate Changes in the Distribution of National Income (Percentage)

Country	Proportion of population, % of the population							
	1		10		50		40	
	1980	2016	1980	2016	1980	2016	1980	2016
Russia	4	20	21	46	31	17	48	37
USA	11	20	35	47	20	13	45	40
China	7	14	28	41	27	15	45	44
India	6	22	31	55	24	15	45	30
Western Europe	10	12	32	37	24	20	44	43
World	16	21	47	50	8	10	45	40

Source: Klinov and Sidorov (2018)

Table 1 allows us to draw a conclusion about the intensive growth of incomes of high-income strata of the population (1% and 10%), and about the reduction or stabilization of incomes of low income (50%) and middle income (40%) strata of the population of the surveyed countries. Overall, these tables suggest that conditions are currently developing in both the West and the East, with the rich getting richer, the poor getting poorer and the middle-class blurring.

On the issue of uneven distribution of wealth in society is of interest to the report of scientists of the Swiss Federal Institute of Technology (SFTI) in Zurich in 2011. In this report, Swiss scientists concluded that 147 of the largest transnational companies (TNCs) control 60% of the world's GDP. Moreover, 147 TNCs are closely linked through mutual participation in capital, and most of them are banks, insurance companies and financial companies (Katasonov 2013).

Between 1990 and 2017, Russia saw a significant increase in the Gini coefficient (revenue concentration) from 0.24 to 0.41, and in the funds-in-trust coefficient (social stratification) from 8 to 15.6 (including shadow capitals, it could be significantly higher). According to a study by the Faculty of Sociology of St. Petersburg State University, the fund ratio in Tsarist Russia was 6, and in the USSR it was 3-4 (Kastukhin 2015). According to the recommendations of the World Bank, the level of income inequality in the country should not exceed 5-6 times, if the country is to strive to develop, not to stagnate.

Also, according to a study by Bloomberg (2018), which assesses the health of the world's residents, Russia ranked 95th out of 169 countries. The rating takes into account such criteria as life expectancy, access to clean water, additional risks (smoking, obesity, risk of death from drug overdose), access to medical care and others (RBC 2019).

The low standard of living of the majority of Russia's population is associated with a low level of wages in the GDP structure: since the 1990s, the share of wages, without taxes, has averaged about 30% of GDP, with taxes on the wage fund about 45% of GDP, which indicates a high level of exploitation of labor by capital. The share of wages in the GDP structure of the European Union countries is about 70% of GDP, in the U.S. - 72% of GDP, Japan - 75% of GDP, but in these countries there is a downward trend in the share of wages in the GDP structure. It was only in April 2019 that the Prime Minister of the Russian Federation, Dmitry Medvedev, was quite cautiously discussing with MPs the possibility of increasing the share of wages in GDP to 60% (Kommersant 2019).

As for the estimates of poverty in Russia, according to official statistics, in 2017, about 20 million people (13.2% of the total number of residents of the country) had less than the subsistence minimum in Russia. However, if the methodology of the Common Economic Space and Development (OECD) methodology is used to classify Russia as poor (the poor include those who have an income below 60% of the median income in the country), then at least 25% of the country's population will be poor in Russia.

On the issue of poverty in Russia, the 2016 study by the Higher School of Economics is of interest, according to which 41.4% of Russian citizens do not have enough money to buy clothes and even food. At the same time,

young families with children and families with many children are the poorest in Russia (Rossiyskaya Gazeta 2019).

All of the above characteristics of Russia's development will not allow Russia to become one of the top five countries. Anti-crisis measures are needed to smooth out socio-economic disproportions.

2. Diversity of views on the causes, nature and consequences of social inequality

At present, there is no consensus among scientists on the causes, nature and consequences of social inequality. On the one hand, inequality is seen as an incentive for people to achieve more, and on the other hand, as an obstacle to a more just society. Most of the teachings about the human being affirm the inequality of people. In traditional society (especially in societies with monotheistic religions), the idea of equality of all people before the Creator is recognized, but at the same time, social inequality remains the norm, which is legally recognized.

The idea of equality of people arises in Europe in religious sects formed under the ideas of the medieval Italian philosopher de Flora (1132-1202). Later, the idea of the equality of people shifted to heretical movements in Europe, from Albigensians to Czech Hussites, and during the Protestant Reformation it was taken by the preacher Münzer (1489-1525) as the basis of his teachings.

Later, the theory of equality was borrowed by the utopians Fourier (1772-1837), Saint Simon (1760-1825), etc.) and from them Marx and Marxism. At the same time, the equality of people was understood not as a fact, but as a task of social reorganization, as a goal of revolutionary transformations and educational work.

Locke (1988) proved that man has a natural freedom: "Everyone who has the same nature, mental and physical abilities, is equal in nature and should enjoy the same common rights and privileges" (Locke 1988). In so doing, he put forward the principle of "natural, God-given human rights", such as the right to life, liberty and property.

Inequality was inevitably a topic of political doctrine and programmes. Representatives of "individualist conceptions" of the origins of inequality argued that *de facto* inequality of people had purely personal causes.

Proponents of "social concepts" of the origin of inequality assumed that the source of social problems should be sought in the political and economic system of society (Ritzer 2000).

In our opinion, one of the most convincing sociological explanations for the emergence of social inequality belongs to Sorokin. The scientist linked the origin of inequality with the presence of social stratification in the community and, consequently, the uneven distribution of rights, privileges and public goods, responsibility and duty, power and influence among members of a community (Sorokin 1992).

In liberal theory, the view of inequality and its essence is quite broad, but in general social inequality is not perceived as a moral problem or injustice. Thus, according to Bentham (1748-1832), the welfare of everyone has the same value for the whole society (Natrobina 2016). On this basis, inequality is not a consequence of injustice, provided that the total utility of all members of society is maximized, which can be expressed in GNP, per capita income, etc.

According to Nash (1928-2015), the unit of welfare of the poor is assessed in society as higher than the unit of welfare of the rich (Natrobina 2016). Excessive polarization of the population was considered by Nash as a negative phenomenon, i.e. the welfare of the society is not achievable with a significant stratification into poor and rich.

According to Rawls (1921-2002), public welfare is determined by the welfare of poor individuals, and any large increase in the welfare of the rich cannot compensate for any small decline in the welfare of the poor. According to Rawls, inequality is acceptable only if there is reason to believe that practices that are characterized by inequality or that lead to inequality will function for the benefit of each of the parties involved (Rawls 2006). Similarly, in Rawls' view, in a completely leveled environment, there would be no incentives to work and the well-being of all members of society would be equally low.

In our opinion, the most correct point of view is the notion of Nash's welfare and inequality which is capable of ensuring stability and order in the society while maintaining incentives for economic activity.

The awarding of the Nobel Prize for Labor to Dieton in 2015 "Analysis of the Problems of Consumption, Poverty and Social Security" is the recognition by the international community of such a problem as the increase in inequality. Deaton believes that the global inequality that exists today is a product of the Modern era, a reflection of the current stage of development of capitalism, and not its inevitable regularity. Deaton notes that progress in modern Western society has increased the gap between the poor and everyone else (Bobkov et al. 2015).

Deaton warns that the excessive concentration of power and wealth in the elite often results in the rich trying to disconnect the poor from education, blocking their access to the institutions of improving living standards. He argues that the material assistance provided by developed countries to developing countries does not reduce social and economic inequalities, but rather allows governments in developing countries to live "on dependence" without investing in the economy and infrastructure.

In general, Deaton's conclusions are optimistic: a modern person is much healthier and more educated than ever before; people have enough opportunities, they are less exploited and oppressed. Nevertheless, Deaton warns that the development of the global financial and economic system can prepare humanity for new forms of inequality and overcoming them is the future task of the world community (Bobkov et al. 2015).

On the issue of inequality regulation, Deaton stands on the right liberal positions, calling for equalizing not incomes but opportunities, following the ideas of Friedman. It is economic freedom and competition, according to Friedman, that allow reducing social inequality: "Those who are at the very bottom of the social ladder today always have the prospect of climbing to the very top of it tomorrow" (Friedman 1990).

However, Deaton shows that in the modern USA the coefficient of intergenerational income elasticity is 0.5, the same coefficient is in China (a country with a traditional way of life). The coefficient of 0.5 indicates a high correlation between the socio-economic status of fathers and children, and a relatively low level of opportunities in society (Bobkov et al. 2015).

In our view, both Friedman and Deaton are right in that society should have equal opportunities for personal development, but not the market and free competition will create these conditions. We are close to Krugman's point of view, who wrote that "the middle-class society does not appear automatically as the economy develops; it must be created by political means" (Krugman 2009). By political means, Krugman understood the state's intervention in the economy in favor of the poor.

A huge number of works are devoted to the issues of inequality in modern Russia as well. Thus, according to Shevyakov's research, "with the reduction of excess inequality by 1%, the rate of economic growth increases by about 5%, and the rate of investment growth by 6.2% (Shevyakov 2008). In addition, the decrease in income differentiation has a positive effect on the demographic situation.

In general, according to the assessment of the impact of social inequality on the socio-economic development of society, we adhere to the opinion of Stiglitz, who writes that "we pay an excessively high price for inequality, which in turn destroys our economy, reducing productivity, efficiency, growth, while increasing instability» (Stiglitz 2015). Stiglitz's opinion is confirmed by the realities of Russian inequality.

3. Consequences of social inequality in modern Russia

One can identify several factors that have a devastating impact on the uneven distribution of wealth on the development of society, as exemplified by Russia:

1. Compression of domestic demand. In an ultra-polarized society, the consumption of the upper strata of society is oriented towards imports, and the underdeveloped middle class, whose real incomes have been declining in the seventh year, even with a slight increase in GDP in recent years, is unable to become an investor for the real sector of the economy. In 2018, real incomes of the Russian population are 11% lower than in 2013 (Table 2).

Table 2. Dynamics of income of the population of the Russian Federation (in annual terms), %

Income of the population	2014	2015	2016	2017	2018
Nominal	+7,1	+10,6	+0,9	+2,4	-
Real	-0,7	-3,2	-5,8	-1,7	-0,2
GDP dynamics	+0,6	-3,7	+0,2	+1,5	+2,3

Source: Analytical Centre of the Government of the RF (2018)

In the short run, a reduction in the cost of labour may ensure business competitiveness, but in the long run it will be a factor in the stagnation of the economy.

2. Public distrust of big business. The attitude of big business to Russia's national interests can be assessed through capital flight, a short planning horizon and focus on external development strategies. In 2017, 199 large Russian companies registered offshore accounted for 70% of gross national income. Russia is among the world's leaders in terms of offshore wealth: in total, Russians stored the equivalent of 60% of the country's GDP or almost \$1 trillion at the current exchange rate in offshore locations in 2016. A number of Russian billionaires have also ceased to be tax residents of Russia in recent years (CPRF 2017). To a large extent, such characteristics of the "business culture" of large companies are due to external factors: Russian large resource-oriented companies operating in the oil and gas, metallurgical and timber industries, occupy only the lower floors of international value chains and will remain so for a long time to come. For the population, business representatives are becoming more and more, if not a social enemy, then at least people from another world with whom there can be no common interests.

3. Degradation of human potential. Super concentration of income and a clear tendency to inherit social statuses mean that a significant proportion of active and talented people are doomed to relative degradation or emigration. Thus, according to the Russian Academy of Sciences, the number of highly qualified emigrants increased from 20,000 in 2013 to 44,000 in 2016 (RBC 2018).

Income inequality lays the foundation for inequality and access to culture and education, and the transition of these spheres to commercial basis can lead to the formation of a class of people not only poor, but also cut off from cultural and educational values, which will be a factor in the loss of cultural unity of the nation.

4. Degradation of attitudes towards work. In a situation when creative labour activity is not a guarantee of fair remuneration and deserved social status, labour values and labour ethics in the society inevitably decrease labour incentives, interest in obtaining non-working income increases, and corruption and all types of crime flourish accordingly.

Table 3. Labour productivity in Russia and the European Union in the main sectors of the economy (2017, in euros per person per hour)

Economic sectors	Russia*	European union	European Union in relation to the EU RF	European Union in relation to the EU RF (in terms of purchasing power parity of the rouble)
Agriculture and fishing	1,8	9,5	5,3	2,5
Industry	14,1	38,9	2,8	1,3
Trade	8,5	24,5	2,9	1,4
Finance and insurance	24,6	55,7	2,1	1,0

Note: * Conversion of rubles into euros at the official exchange rate

Source: Katasonov (2019)

Table 3 above shows that in terms of labour productivity in Russia, calculated not on the basis of the official (market) exchange rate of the ruble, but on the basis of purchasing power parity (PPP), Russia is not so far behind Europe, but wages in these sectors differ much more significantly.

In Russia today, among the lowest paid professions, along with loaders, security guards, and couriers, are doctors, education workers, especially pre-school workers, and scientists (the average monthly salary of a teacher in a public institution is \$300 per month, and of a kindergarten teacher is \$250 per month; half of all medical workers in Russia receive no more than \$350 per month, even taking into account part-time jobs) (Remizov and Vaskanyan 2016).

5. Disparities in territorial development. Russia is characterized by extremely uneven development of regions in terms of economic and social development. Regional differentiation per capita GRP is 15 times in 2016 (26 times in 2000) and 5 times in terms of average per capita income (15 times in 2000). Overall, Russia is witnessing a process of smoothing out interregional social and economic disproportions, however, it is still quite high. Large regional disparities lead to the migration of young people from poor regions to more promising and further degradation of underdeveloped regions. The population of modern Russia is concentrated in several large agglomerations, and poverty thrives in rural areas and small towns.

6. Poor quality of basic institutions. Quality schools, hospitals, courts, police stations, administrations, roads, housing and communal systems require many well-paid teachers, doctors, judges, police officers, officials and engineers. In conditions when high-income categories of citizens purchase social services, such as education, medicine, abroad, funding for the maintenance of basic social institutions and infrastructure is reduced, the burden on workers in these spheres is increasing (Table 4).

Table 4. Dynamics of education and health care indicators in Russia over the period 2005-2018

Indicators	2005/2006	2010/2011	2017/2018
number of faculty members, persons	356827	348160	245078
Population per hospital bed, person	90,2	106,2	124,2
Population per doctor, person	205	200	211
Consolidated budget expenditure on health care, million rubles	464/ 2,2% GDP	1193/ 2,6% GDP	847/ 0,8 % GDP

Source: Rosstat (2018)

4. Conclusions

Nowadays, when Russia and its citizens are faced with the negative consequences of market reforms: economic stagnation, growing social inequality and concentration of wealth, there is a need for effective anti-crisis measures that would not only contribute to the mechanical smoothing of socio-economic inequality in society.

One of the main ethical demands of Russian society is justice, understood as a mechanism that should consider the contribution, knowledge and talent of those people who create a public product. Lack of justice in Russian society is the most important source of demotivation and social depression. Let us list the main directions of anti-crisis measures that will ensure the smoothing of socio-economic imbalances in modern Russia and the growth of its economy:

1. Progressive taxation. In Russia, it is necessary to return the progressive scale of personal income tax, which is used in most countries of the world. In addition, the personal income tax scale should provide for taxation of more than 13% only for income that is significantly higher than the middle class (which is only 10% of the Russian population). Today in Russia, 10% of employees with the highest wages account for 32.2% of the total annual salary fund in the country. It is also necessary to exempt poor groups of people from personal income tax.

It is necessary to use progressive scales of taxes on property, real estate, inheritance, etc., but so that high rates of these taxes are not applied to citizens with low and medium incomes. Moreover, it is necessary to adjust the taxation of dividends: the most favourable rates of taxation of dividends are applied to foreign legal entities (5-15%), simplifying the procedure for the withdrawal of funds to offshore companies.

2. Real deoffshorization. According to various estimates, 80-95% of Russia's major property is under foreign jurisdiction (including most of the list of Russia's strategic enterprises). Offshorization of the economy deprives the Russian economy of investment funds, which are not compensated neither by bank loans, nor by the growth of purchasing power of the population, let alone its decline.

In 2014, the law on the de-offshorization of the Russian economy was adopted, and at the same time about a third of Russia's 500 richest businessmen left the country along with their capitals. Starting from 2016, the law on controlled foreign companies came into force in Russia, however, at the end of 2016, only 3-4% of controlled foreign companies filed their declarations. In practice, Russian entrepreneurs prefer to become non-residents of the Russian Federation (this requires less than 183 days in Russia a year). World experience in solving the problem with offshore companies: i) all taxes must be paid in the territory where the goods or services are produced; ii) introduction of a special tax on the export of any capital abroad (in 1997, Malaysia imposed a 30% tax on the export of capital, which ensured its economic growth in the era of the so-called "Asian crisis").

3. Improvement and development of accessible social infrastructure. There are a few examples where individual programmes of socially oriented states stimulate dependent behaviour. Therefore, recently there has been a tendency to reduce the participation of the state in the implementation of social support to the population. However, the state support of education and health care does not form a dependency mood, but, on the contrary, helps a person to develop. The experience of the USSR proves it very convincingly. Minimizing the role of the state in these sectors, especially education, contributes to the deepening of social segregation of society, the impossibility of talented children to realize themselves, and ultimately - is an obstacle to the development of the country.

4. Social support for families. As noted above, a young family with two or more children is today the most socially vulnerable category of the population. However, except for the "maternity capital", measures of state support for this category of people are very insignificant. There is a need for a significant increase in government spending to support young families. It may be necessary to revise the tax policy in the interests of families with children: to move from taxation of individual income to taxation of household income. This measure will make it possible to consider the average per capita income of a family more accurately when determining the tax burden.

It is necessary to revise certain provisions of the housing policy; up to 40% of families in Russia would like to improve their living conditions. The spread of mortgage in Russia and its conditions do not allow many citizens to purchase housing even in accordance with the norms of the metric area per person. An alternative to mortgages for young families could be social rent, i.e. a multi-year lease agreement. In the world practice, the share of the state and municipal housing stock rented out for rent reaches 30% of the housing stock (today in Russia it is 15% for the poor). The state should either take additional measures to encourage developers to build such facilities because of their low payback period, or it should finance them directly.

5. Formation of a socially responsible business model by way of:

- encouraging the creation of collective ownership enterprises, in which labour collectives take an active part in the company's activities and redistribution of its profits;
- development of forms and mechanisms of social entrepreneurship that allow people to become involved in the process taking place in Russia (projects to develop the territory, support socially vulnerable groups of the population, etc.);
- development of corporate social support systems and social infrastructure (own kindergartens, polyclinics, targeted support for retired employees of the enterprise, preferential loans to employees, implementation of own housing programs for personnel retention and stimulation, etc.).

The implementation of the above measures will make it possible to smooth out social and economic disproportions of modern Russia. Gradual implementation of the request for justice in Russia is capable of ensuring that Russia achieves the goals set by the Russian Federation President Putin's goals, namely to enter the world's top five economies, are to make economic and administrative processes more efficient.

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