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AN ANALYSIS OF INCOME INEQUALITY IN CENTRAL ASIAN COUNTRIES

KAZAKHSTAN, KYRGYZSTAN, TAJIKISTAN

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AN ANALYSIS OF INCOME INEQUALITY IN CENTRAL ASIAN COUNTRIES

Kazakhstan, Kyrgyzstan, Tajikistan

Contents

Summary

The article presents an analysis on income inequality in Central Asian economies, and incomes in these economies were compared. Income inequality was an inevitable consequence of the transition to a market economy and the collapse of socialist countries. Internationally comparable data on household budget surveys was used.

This article analyzes the statistical indicators of monetary income of the population in Central Asian countries, particularly Kazakhstan, Kyrgyzstan and Tajikistan. Due to geographical proximity, similarity of socio-political and socio-economic backgrounds of the countries in the region, the cross-country analysis approach was chosen.

In this work, monetary income means the amount of money received and accumulated by the population. The main sources of monetary income of the population include remuneration, income from entrepreneurial activities, social payments (pensions, benefits, scholarships), income from private subsidiary plots of households, income from the financial system (payments of winnings, interest on deposits in banks, insurance rewards).

Introduction

The indicators that reflect the income level of the population including nominal and real incomes, employee wages, amount of pensions and scholarships are the main measures in a market economy. Indirect income sources may consist of saving amounts in national and foreign currencies in domestic commercial banks or abroad.

The importance of the analyzed indicator is explained by its relationship with other economic sectors and wellbeing of society. On the one hand, the amount of income allows to assess the capabilities of a person or family, to determine their degree of satisfaction. Income rises lead to an increase in the level of household consumption of various goods and services which fuels the secondary redistribution of financial resources between different sectors of the economy. This stimulates the further development of the economy.

On the other hand, income is a source of tax revenues to budgets of various levels. The object of taxation on the income of individuals is the income of the population. The main sources of income are salaries, property incomes, incomes from individual economic activities, social payments and other sources.

The research question of this study is to what extent the income is varied in selected Central Asian countries. As the analysis of the study revealed, the hypothesis that economies with relatively higher amount of GDP have a better life was not supported, since it was found that inequality coefficients in Kyrgyzstan and Kazakhstan are equal, where, it is comparably high in Tajikistan. At the same time, together with public relation convergence, inequality in terms of the lack of access to the sea, household income from labor migrants and a relatively lower level of dependence of the economy on hydrocarbons is similar in Kyrgyzstan and Tajikistan. The analysis of macroeconomic indicators and the application of existing theories related to inequality made it possible to determine the model of socio-economic structures in the countries under consideration.

Background and Relevance of the Issue

In countries with developed market economies, income differentiation is interpreted with high differentiation of property income, varieties in capital investments, and inheritances. In developing countries such as those in Central Asia, property incomes still make up only a small proportion of households' total income.

According to the findings of «World Employment and Social Outlook - Trends 2019» report of International Labor Organization (ILO), most of the 3.3 billion people who made up the world's workforce in 2018, were not supplied with adequate economic security, well-being, or equal opportunities. The report noted a number of factors leading to a decent work deficit. At the current pace of progress on this issue, the authors of the report pointed out the necessity of ensuring decent work for all, as considered in the Sustainable Development Goals (SDGs).

Studies by foreign researchers have shown that people's earnings and their natural abilities are distributed differently. Analysis of the labor market suggests that many factors, including both market and non-market, affect the level of earnings. Moreover, according to foreign economists, the difference in wages explains 80% of the differences in households' incomes. However, it has not been determined in which class - higher, middle or lower, the inequality is observed more. For that reason, in the studies related to income inequality, indicators of the income ratio of the extreme 10% (deciles) or 20% (quintiles) of the population are widely used. These differentiation coefficients show how large the gap is in the incomes of the most different groups of the population, which has the same share in total number population.

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In developing countries, ranging between 0.50 and 0.70, there are high indicators of income inequality, which have been observed. This is not only a consequence of the relatively less development level of the countries, but also of the specifics of the political system and power distribution, where power, finances and other resources are concentrated in the hands of a small layer of the population.

A quantitative description of this phenomenon was first given by

Picketti (2015) in his book "Capital", in the study of Atkinson (2016) "Inequality: What Can Be Done", and Bourguignon "Globalization of Inequality". In addition, Picketti (2015) carried out similar calculations for India, China and the countries of the Near and Middle East. Researchers were interested in three types of inequality:

1) the extent of inequality and their dynamics;
2) inequality due to poverty;
3) income of 1% of the most affluent people.

In the relevant literature, there are various approaches of inequality measurements and coefficient calculations including coefficients of variation, Gini, Theil, Atkinson, and others. However,

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according to a statement by Picketti, the general coefficients of income inequality do not definitely clarify the income inequality, presenting it in a certain generalized form, while the researchers are interested in the distribution of income among groups (Picketti 2015, 264-265) As discussed in previous findings, the income of the poor and the income of the upper decile or percentile (1%) deserve the most attention.

The Ginny coefficients of the Central Asian countries are almost the same. However, this does not characterize the similarity of socio-economic regimes, the level of access to resources, as well as the general problem of emerging markets of the region.
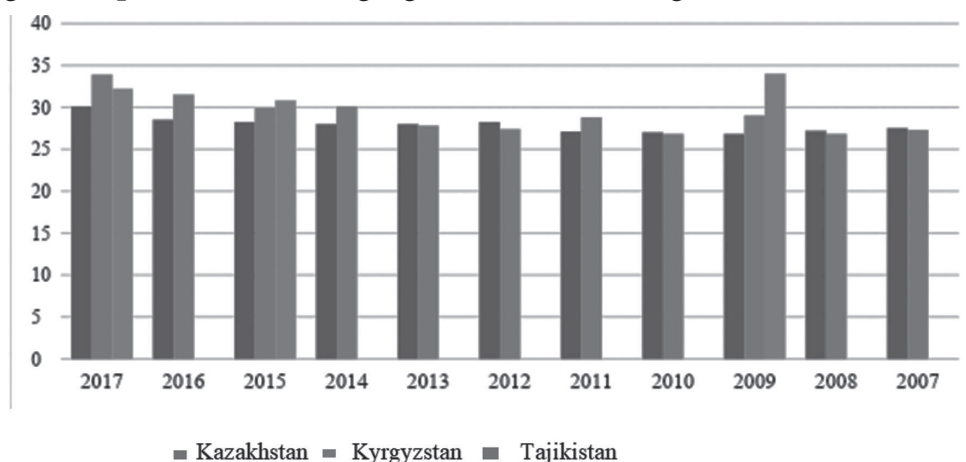

Fig 1. Gini coefficient
Source: Knoema Database, 2019. https://knoema.ru/atlas

Inequality has grown markedly over the past thirty years. The distribution of income among households including differences in profits and wages. Discussions about the causes of this growing inequality are still far from over, and debates on its consequences for achieving the efficiency and stability of economic systems are continuing.

Stiglitz (2012), in the book "The Price of Inequality", connected the growing inequality with the processes of rent seeking and redistribution of social wealth through the political process. The weakness of political institutions, the lack of political competition, the development of corruption was considered as the reasons for high inter-regional inequality in Russia and China (Remington 2015, 10), and the reason for the inequality, according to the author, is generally the weakness of social policy and its institutions in these countries. According Remington (2015) the weak institutions inherited from the command and administrative system pose as serious obstacles to the mobility of production factors including capital and labor.

There is no causal relationship between economic development and inequality, but the relationship between them are bi-lateral. Inequality, being the product of a complex of macroeconomic, institutional and other conditions, itself affects the socio-economic development of the country (Russo 2016).

Cash Income Analysis of the Countries

The overall goal of the development strategy of the country is to increase the level and quality of citizens' life by ensuring sustainable economic growth, creating conditions for full-time employment. As well as obtaining high and sustainable incomes, providing a wide range of social services, and maintaining high living standards in a healthy environment.

The most important indicator characterizing the living standards of the population and the labor market are wages. In 2017 the average monthly nominal wage in Kyrgyzstan amounted to 15670 soms (227 US dollars).
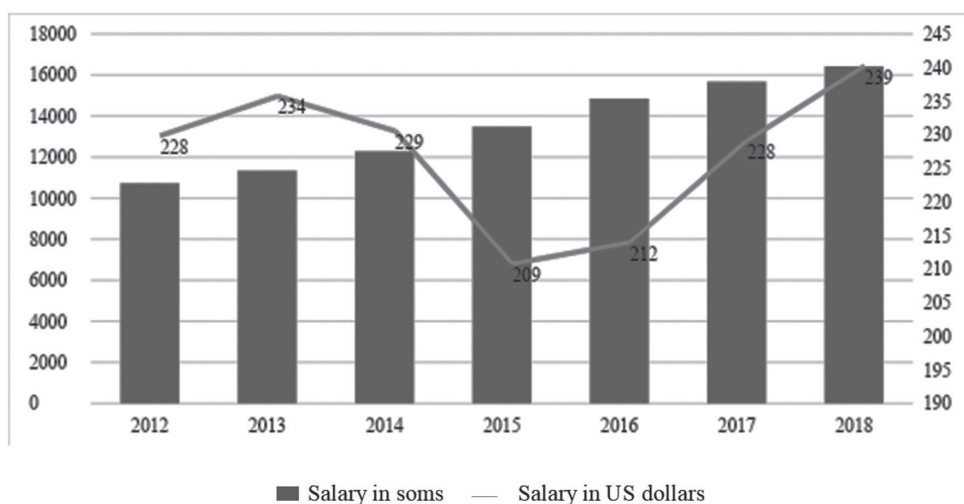

Fig. 2. The average nominal salary in Kyrgyzstan
Source: Knoema Database, 2019. https://knoema.ru/atlas

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The most important source in the formation of cash income is income from labor activity, both in urban settlements (78.3 percent) and in rural areas (63.1 percent). The second most important source in the formation of the income of the population living in rural areas was the income from the sale of products of personal subsidiary plots, which accounted for 16.0 percent of all income. In 2017, the share of social transfers in the income structure was 16.4 percent.

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In 2017, average nominal monthly salary in Kazakhstan amounted to

149,669 tenge (about 450 US dollars) . The wage level of employees in tenge has grown 10 times over the past 17 years. If we take the data on the average wage in terms of US dollars, then the peak of the average wage was reached in 2013 ($ 717). In general, in dollar terms, wages returned to the level of 2009 .
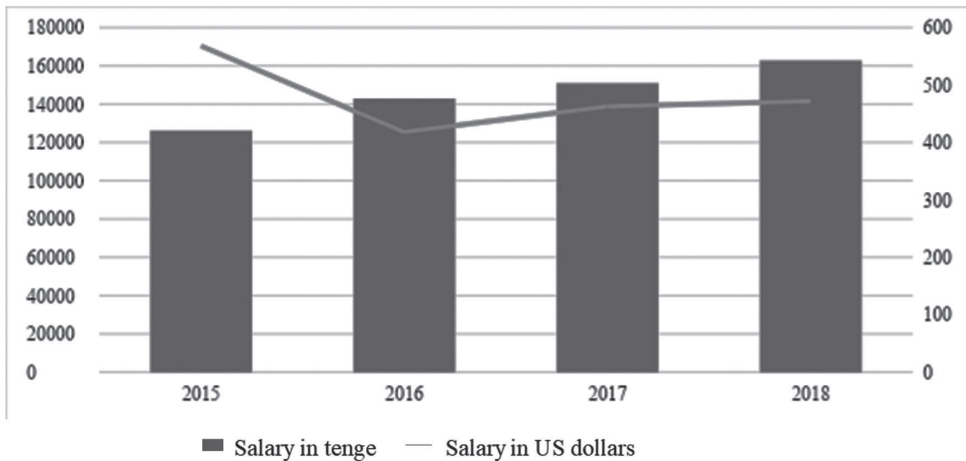

Fig. 3. The average nominal salary in Kazakhstan
Source: Knoema Database, 2019. https://knoema.ru/atlas

The most real picture is shown by the median salary, which in the first half of 2017 amounted to 83,000 tenge . Moreover, when calculating salary data, the country does not take into account income in small businesses and the self-employed, whose salaries are significantly lower than the average of the economy, therefore, "the real level of wages can be significantly lower" that it was officially declared. The average salary of managerial occupations was 2.0 times higher than the salaries of other high skilled professional occupations, 2.6 times higher than middle and 4.4 times higher than of unskilled workers, respectively .

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Population income issues in Tajikistan, as well as in Kyrgyzstan, are closely dependent to remittances - external transfers from labor migrants. According to the Agency for Statistics of the Tajikistan, the average monthly nominal wage for the end of 2018 is more than 1,200 somoni (130 US dollars). The minimum wage in Tajikistan is 200 somoni.
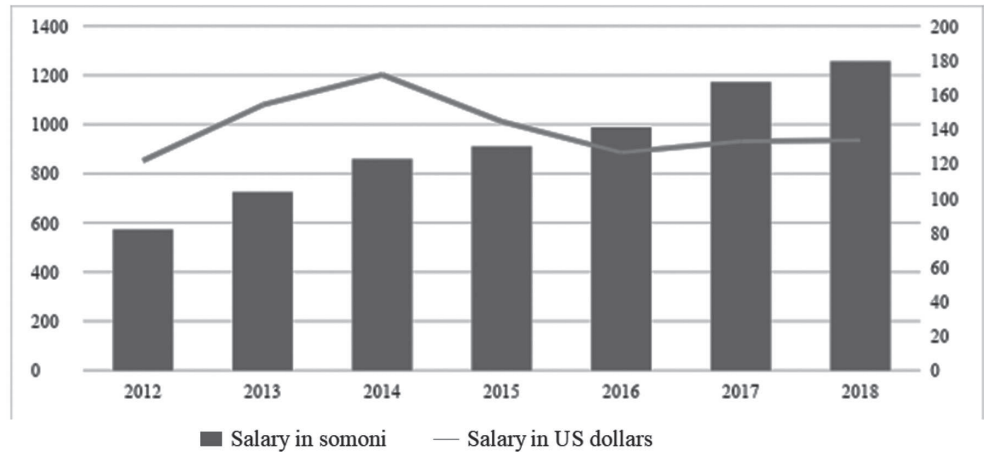
Fig. 4. The average nominal salary in Tajikistan
Source: Knoema Database, 2019. https://knoema.ru/atlas

As of 2017, the average monthly salary was 1,144.19 somoni $ 121.27. As of November 2018, the average monthly salary 1324.98 somoni ($ 140.43). Starting from July 1, 2016, the minimum monthly salary was 400 somoni ($ 42.40). The data from official statistics on incomes of the population received as a result of hired work shows the need for a sectoral

> As of 2017, the average monthly salary was 1,144.19 somoni $ 121.27.

policy, as the ratio between national currencies to the US dollar in all the countries under consideration had variable fluctuations.

The revenue management mechanism involves a certain sequence and interconnectedness of actions in this area of the governing bodies. Revenue management by the government is a comprehensive policy that simultaneously affects the level of income, inflation and price levels. First of all, legislative acts are adopted that should be aimed at narrowing the income gap, reducing inflation, ensuring social protection of socially vulnerable segments of the population (for example, unemployed, disabled, etc.)

The Main Aspects of the Relationship between Cash Incomes and Inflation

An increasing influence of the population's cash income on the socio-economic development of a country, the need to attract household funds as a source of financing economic and social programs, as well as the insufficient development of these issues in relation to the conditions of market economy lead to income inequality. The growth of the purchasing power of the population due to savings, relatively low inflation rate, and a constant GDP growth characterize the course taken for sustainable development in Kyrgyzstan in the last few years. Comparatively less price fluctuations in national currency allows employers and workers to more predictably plan their consumption and savings.
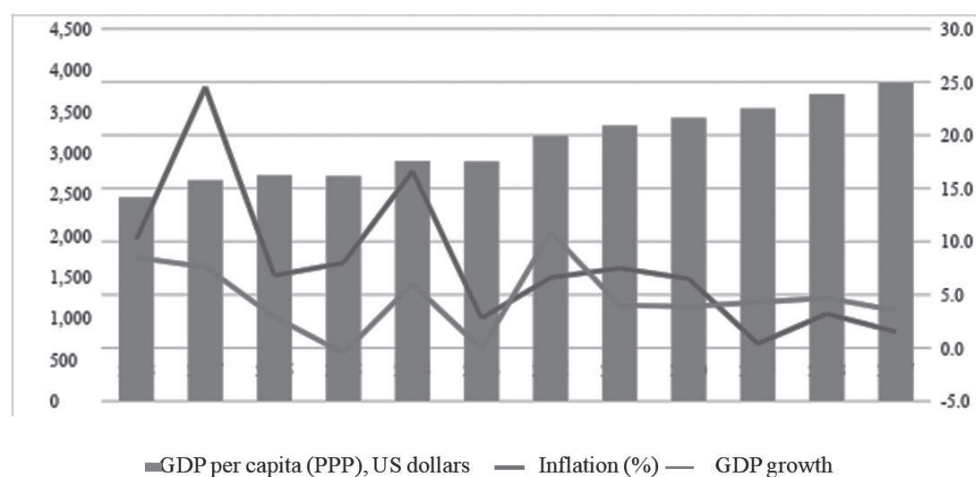

Fig. 5. Kyrgyzstan
Source: Knoema Database, 2019. https://knoema.ru/atlas

The situation with macroeconomic stability in Kazakhstan is less stable due to its integration with more developed financial markets. Inflation rate surges can be both the result of a monetary policy and a reflection of the speculative activities in the stock and foreign exchange markets of the country. The processes and events taking place in the financial market no longer caused a decrease in the solvency of the population, although the short-term effects on consumption of GDP growth and a general decrease in inflationary pressure are positively influenced.
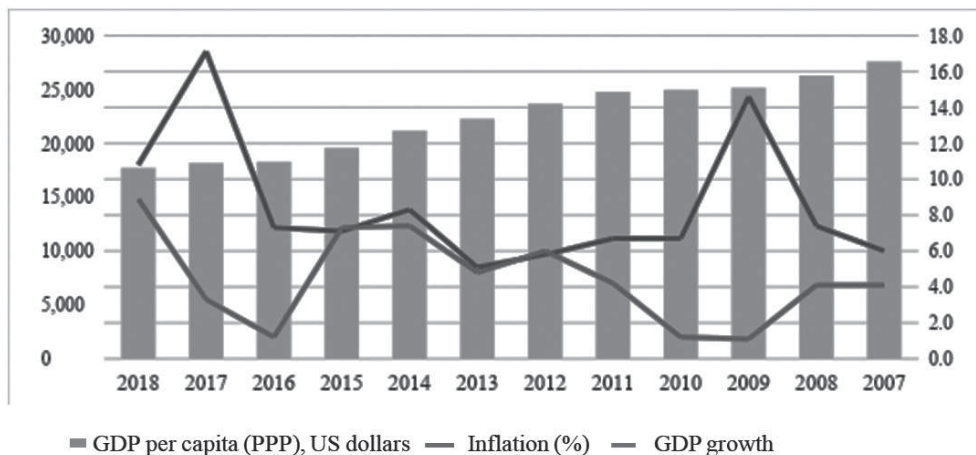
Fig. 6. Kazakhstan
Source: Knoema Database, 2019. https://knoema.ru/atlas

In comparison to other economies in the region, Kazakhstan has higher positive solvency as measured by purchasing power parity. According to the results of 2018, the GDP per capita measured in purchasing power parity reached $ 27.5 thousand; whereas, similar indicators in Kyrgyzstan and Tajikistan vary around level of four thousand US dollars. However, Tajikistan has a two times higher the inflation rate than in Kyrgyzstan. In general, despite the indicated proportions over the past 3-4 years, the growth of the solvency has a steady tendency.
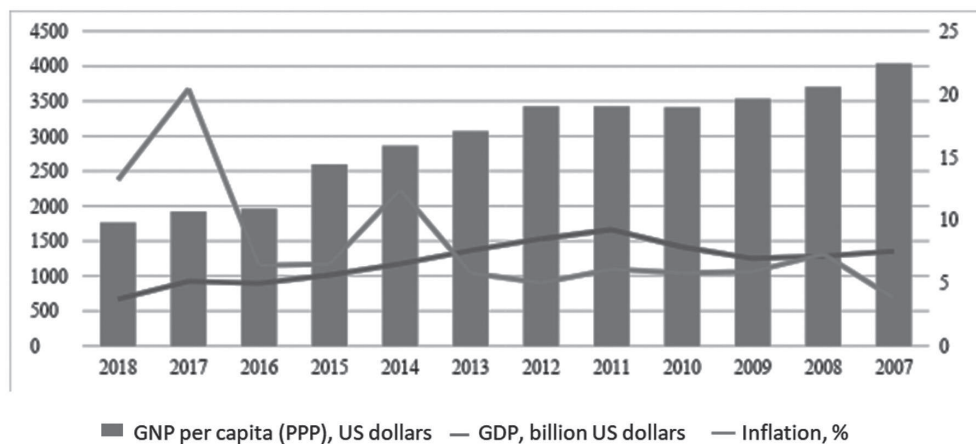

Fig. 7. Tajikistan
Source: Knoema Database, 2019. https://knoema.ru/atlas

Analysis of Income Inequality

One of the reasons of social tension in a country is the difference in the levels of people's well-being and other life conditions. The wealth is explained by two measurements; first, the amount and types of wealth, that belongs to individuals; second, the amount of people's current earnings. The high differences in earnings and wealth create a danger to economic and political stability in the country. Therefore, almost all industrialized countries are continuously implementing measures to reduce such inequality.

People earn income from their own business activities or by providing the factors of production they possess (labor force, land or capital) for use or legal entities who use this property to make the goods that people need. At the beginning of this mechanism, the probability of unequal income generation is embedded.

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According to traditional Keynesian framework, changing the distribution of income in favor of the rich can reduce aggregate demand due to their lower propensity to consume, which is characteristic of a high-income group. The middle-income population is focused on meeting the needs including maintaining health, obtaining qualitative education and self-education, comfortable rest and active leisure, as well as higher transport mobility and property security. This part of the population has the opportunity to enjoy the benefits that ensure their full development.

Over the past five years in Kyrgyzstan, there has been a noticeable increase in the main indicators of the standard of living and social life. In 2013-2017, per capita cash incomes of the population, according to a sample survey of household budgets conducted by the National Statistical Committee, increased by 1.4 times.

In Central Asian countries, the distribution of total cash income by 20 percent quintile population groups is in favor of the fifth group (with the highest incomes), where 45.3 percent of all cash income is concentrated, while the share of the first 20 percent population group (with lowest income) accounted for only 5.9 percent of all income.

We believe that an important indicator of inequality is the weight

in the total income of the richest tenth decile. It is in the 10th decile that the incomes of the rich strata of the population are concentrated, and it is this decile that best reflects the nature of inequality - the position of elites, the entrenched interests ("mentality" of high society) of the richest sections of each country.
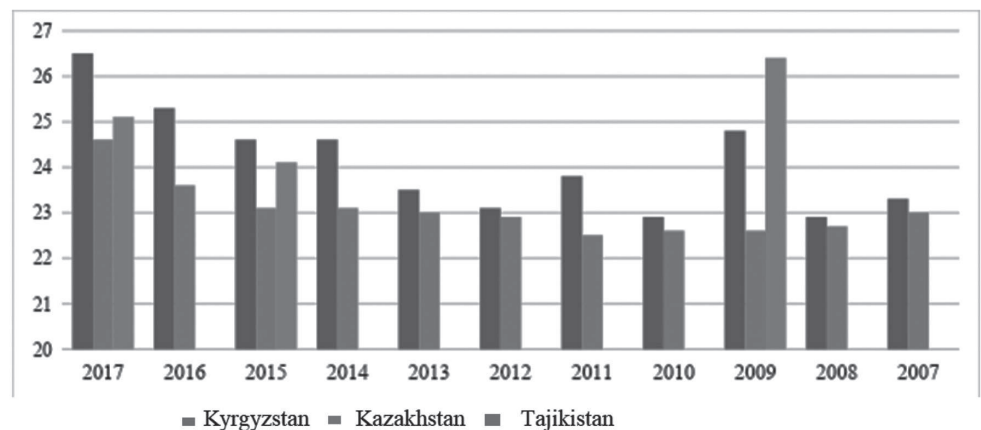

Fig. 8. The share of total income of 10% of the richest
Source: Knoema Database, 2019. https://knoema.ru/atlas

One more observation that should be emphasized is that significantly increases the income of the richest 10th decile of population. The weight in the total income of the richest 10th decile can be an indicator of a certain measure of progress in the development of the economy, approaching a more uniform structure not only for society as a whole, but also for its layers in time and in cross-country comparisons.

The experience of recent decades has convincingly shown that the path to a rational distribution of incomes lies not through their equalization, but through the level of their differentiation, which provides high incentives to increase labor efficiency and maintains stability in society by guaranteeing the satisfaction of the basic needs of the entire population.

The main instruments of direct impact to reduce the inequality of market income are taxes and benefits, which at the same time can adversely affect the growth rate. This can happen, for example, in conditions when a high level of taxes and transfers is accompanied by wasteful spending of resources and generates inefficiency (similar to Ouken's (1975) "bucket full of holes") . If so, then the specification should take into account the fact that upon reaching a certain level, inequality of disposable income will have an increasingly negative effect on economic growth in countries with a high rate of inequality of market income.

Reasons for income inequality:

1. Hereditary prerequisites, for example, the availability of resources, skills and the presence of giftedness;

2. Human capital in the guise of highly qualified qualities, the presence of experience in one of the activities, the degree of education. These factors are acquired by the individual during his life;

3. Labor aspirations of workers, their interest in work;

4. The presence or absence of a market restriction in rights;

5. Luck and other reasons that affect decision-making by an economic entity and determine the outcome of its activities;

6. Various success, the application of factors of production (for example, an employee of a company manufacturing a scarce product can gain higher income than his/her colleague of the same qualification working in a company whose products are difficult to sell)

Conclusion

The analysis carried out by the author made it possible to determine the attitude towards income inequality as well as inequality of opportunities for the population living in the territory of Central Asian countries. Work on official data and previously published doctrines gives rise to the conclusion that there are many ways to identify inequality and work with the subject at the level of decision-making policy.

In addition to the simplest methods for assessing income inequality by comparing statistical indicators, there are more rigorous mathematical methods of measurement. There are still few quantitative studies of interregional inequality, mainly a measurement of economic inequality or an analysis of the methods of such measurements.

Wage income inequality can be considered not only as a social risk, but also as a "motor" of the territorial mobility of the urban population. If one looks at the problem from this angle, the necessary measures become more obvious. For the development of cities in Central Asia, the formulation of the corresponding task at the level of implementation of state programs is needed.

Recommendations

Incomes inequality of the population in society is caused, first of all, by the production crisis, low productivity levels and wages, the difficult condition in the labor market. The experience of economically developed countries shows that if the government pursues an effective redistributive policy, then progressive socio-economic shifts occur even in difficult times.

The main mechanisms of income redistribution are the system of social transfers; the establishment of minimum social guarantees in the field of remuneration, education, healthcare; a system of progressive taxation of income of citizens, etc. As a result, the initial unevenness in the distribution of income is smoothed out. With the help of such measures and the organization on their basis of the system of social protection of the population, the negative social consequences of the market organization of production are weakened.

The goals of the domestic policy of the state, which is still creating a market economy, should be to solve the most acute social problems. Otherwise the growth of contradictions will make it impossible to continue economic reforms.

In addition to tax regulation and social transfer payments, indexation of incomes of low-income citizens and price regulation for socially significant products are also used. State policy during the transition period should help the population survive the difficult economic situation, as well as adapt to market relations. This requires an effective system of social support, simplified and updated schemes for employment and retraining of the workforce. In turn, social stability resulting from measures taken, in and of itself, also contributes to the creation of a favorable investment climate in the country, and, consequently, to economic growth.

Measures to stimulate growth and create new jobs are effective in terms of both macroeconomic and social policies, especially in light of long-term goals. It is much more profitable that efforts to increase workers 'overall income which are based more on expanding employment than raising average wages. Since rising employment can markedly reduce unemployment benefits, while increasing wages automatically leads to an increase in such social

expenditures of the state as pensions and benefits, determined on the basis of the level of wages.

The economic importance of reducing the differentiation of income and consumption lies in the fact that the demand of the poorest population is mainly directed to domestic goods, which cannot yet fully compete in the world market, but often have a lower price. Therefore, to increase the incomes of the poor is to send additional funds to the real sector of the Russian economy. This is especially important for agricultural sectors, which should ensure food security of the state.

The experience of recent decades has convincingly shown that the path to a rational distribution of incomes lies not only through their equalization, but through the level of their differentiation. This provides high incentives to increase labor efficiency and maintains stability in society by guaranteeing the satisfaction of the basic needs of the entire population.

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