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Income and Wealth Distribution in the European Union and Russia: Comparative Analysis

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ABSTRACT

The subject of the study is the features of economic relations between income and wealth distribution/redistribution in Europe and Russia from the perspective of the need to overcome excessive socio-economic inequality. **The aim** of the article is to determine the level of existing socio-economic inequality, to make cross-country comparisons of income and wealth differentials in society, and then to substantiate the possibilities of applying the best practices of foreign countries to reduce socio-economic inequality in Russia. **The methods** of research are philosophical (dialectical, critical), general scientific (methods of scientific abstraction, the unity of the historical and logical, analysis and synthesis, induction and deduction, analogy, classification), private scientific (economic and mathematical, statistical, functional). **The theoretical significance** of the study lies in the development of the theory and methodology of A. Ya. Kiruta and A. Yu. Shevyakov on excessive inequality. The recommendations proposed by the authors to reduce excessive inequality in Russia represent **the practical significance**. The study shows that the EU countries, which are characterized by smooth income distribution, are extremely unequal in wealth distribution. The Russian economy has excessive levels of inequality in terms of both income and wealth. At the same time, there is a polarization of Russian society and a concentration of income in the hands of the upper percipient. The Gini coefficient, the Kaitz index, and the ratio of median and minimum wages demonstrate the extreme degree of inequality in income distribution among Russians. The research investigates the losses from existing levels of inequality in the EU countries and Russia through changes in human development indices. The authors **conclude** that socio-economic policy aimed at reducing excessive inequality in Russia should be based on the principle of social federalism. Russia needs a comprehensive strategy to combat social stratification and a consistent policy aimed at the formation of a full-fledged middle class. The authors consider it necessary to introduce in Russia a non-taxable minimum income tax, a progressive scale of gift and inheritance taxes, and the introduction of a new wealth tax.

Keywords: income and wealth distribution; income concentration; socio-economic inequality; Gini index; inequality-adjusted human development index; redistribution policy

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INTRODUCTION

The problem of socio-economic inequality today is the cornerstone in matters of ensuring further economic growth. In the global economy since the 1980s, despite deep global and local crises, global economic growth was observed due to the development of scientific and technological progress, the breakthrough of certain emerging economies, globalization processes and many other reasons. However, as the President of the Russian Federation V.V. Putin rightly noted at the World Economic Forum in Davos on January 27, 2021, "the main question…what was the nature of this global growth, who benefited most from it?"

Differences in the socio-economic situation of individual countries and social groups, observed against the backdrop of global economic growth, emphasize the unevenness and heterogeneity of such development. These disproportions were especially acute in Russia. Since the 1980s, the share of income in the top decile in Russia has increased exponentially. According to the growth rate of the income share of the top 10% in 1980–2018 Russia was 2–5 times ahead of the USA, China, as well as the countries of Northern and Western Europe in terms of growth rates.

The Oxford Committee for Famine Relief (Oxfam), which annually releases reports on inequality, timed to coincide with the World Economic Forum in Davos in January 2021, presented the report "The Inequality Virus".[1]

The report, based on the expert opinions of 295 leading world economists (including J. Sachs, G. Zukman) from 79 countries, states that the COVID-19 pandemic has caused increased inequality in the vast majority of countries. The report cites the following data: the share of the poor is recovering to the pre-pandemic level 14 times slower than the capital of the richest people on the planet. At the same time, the report focuses on gender and racial inequality. For example, in Brazil, the risk of death from coronavirus disease in African Americans is 40% higher than in the white population. In the US, the number of African American deaths from coronavirus is 22,000 more than the number of deaths among the white population.

Analysts emphasize that most of the wealth is currently concentrated in the hands of men. This is evidenced by reports published by Oxfam in previous years: only 26 people in the world (mostly men) own the same wealth as people in the bottom 50% of the world's population (about 3.9 billion people).

The bottom income decile has been hit hard by the pandemic, with COVID-19 morbidity and mortality rates among the poor higher than those in the middle class. This applies even to advanced economies (Great Britain, France, Spain). Branko Milanovic's research confirms that in societies with a constant average income, epidemics are negative forces of inequality (i.e., reinforce it) [1].

Unfortunately, empirical evidence suggests that over the past 30–40 years, the problem of socio-economic inequality has become the most obvious threat to economic and social security not only for the countries of the "third world", but also for industrialized countries [2].

The free movement of labor and the "open door" policies pursued until recently by many countries have resulted in more than half (60%) of the extremely poor living in middle-income countries and above. The stronghold of social stability — Western Europe — is currently experiencing a socio-economic crisis that exacerbates the "North-South" problem (the countries of Northern Europe are more prosperous and free from the difficulties inherent in Southern Europe — unemployment, extreme poverty, crime, high public debt, etc.) and increases the deprivation of certain segments of the population of access to basic social services (primarily for migrants, women and households at risk of poverty).

In the United States, by 2016, inequality had reached the level of the Civil War of 1861–1865; by 2020 the situation has not changed [3].

Analysts of the information agency "RosBusinessConsulting" state that the level of

[1] The Inequality Virus. The Oxford Committee for Famine Relief Report. Oxfam International. URL: https://www.oxfam.org/en/research/inequality-virus (accessed on 15.02.2021).

socio-economic inequality in Russia in 2018 reached a state characteristic of Tsarist Russia in 1905,[2] and continues to grow. In other words, with such disproportions in the distribution of income in Russian society, a social explosion occurred just over a hundred years ago (first the First Russian Revolution, and then the October Revolution).

At present, the public, the government of countries and the scientific community are faced with the question of finding ways to eliminate and increase excessive inequality. As the experience of European countries shows, one redistributive mechanism is not enough to solve a multifaceted and deep problem. Within the modern development model (based on the monopoly-oligopolistic position of leading corporations lobbying their interests in the governments of countries), there are prerequisites for further polarization of society and oppression of the interests of the lower strata of the population (income from capital accumulates faster than income from labor). The specificity of the Russian development model lies in the fact that such corporations are concentrated in the oil and gas sector, which increases disproportions in both sectoral and regional development, and the quality of economic management institutions deteriorates with distance from the center.

The proposed working scientific hypothesis is based on the fact that a competent combination of active social policy, the principle of social federalism and the redistributive mechanism can reduce the level of excessive socio-economic inequality in the country. In this regard, the aim of the work is to identify the causes and level of the prevailing socio-economic inequality, conduct a cross-country comparison of the differentiation of society in terms of income and wealth, followed by substantiation of the possibilities of applying the best practices of foreign countries to reduce the level of socio-economic inequality in Russia.

LITERATURE REVIEW

The first attempts to comprehend the causes of social inequality in society were made back in the Middle Ages in the context of a religious worldview, and for the first time in Western literature, inequality in the socio-economic aspect is most specifically mentioned in the works of J.-J. Rousseau. The thinker saw the reason for social inequality in private property [4], and in the book "Discourses on the beginning and foundation of inequality between people", he proposed a classification of social inequality into natural (or physical) and conditional (i.e. political) [5].

Domestic thinker and philosopher I.T. Pososhkov outlined the problem of inequality in the "The book of poverty and wealth" published in 1724, the main idea of which boils down to the need for economic equality among the population of Imperial Russia [6].

Born in the 18th century the school of Utopian socialism, which entered into an ideological struggle with representatives of classical political economy, insisted on the need for social protection for the poor.[3]

The Marxist theory raises questions of social and class equality, which is reflected in the works of K. Marx [7] and F. Engels [8]. The scientists formulate the theory of class struggle. The ideas of Marxists about class inequality and the relations of production underlying it were developed in their writings by the American scientist E.O. Wright [9].

A fundamentally new view of the nature of socio-economic inequality was proposed by the American scientist S. Kuznets in 1954 when he made a report at a meeting of the American Economic Association [10]. The scientist formulated the so-called "fundamental Kuznets law", which is graphically interpreted as an inverted U-shaped curve [11], reflecting the relationship between the level of socio-economic inequality and the country's economic development. According to the classic, as soon as a country reaches a certain high level of development, the trend

[2] Experts recognized inequality in Russia as comparable to 1905: RBC. URL: https://www.rbc.ru/economics/16/12/2017/5a33e2fc9a79471b6d846e24 (accessed on 15.02.2021).

[3] Tutov L.A., Philosophy and methodology of science. Textbook. Moscow: INFRA-M; 2019. 386 p.

of increasing the degree of socio-economic inequality turns in the opposite direction and begins to have a downward trend. In other words, in order for inequality in society to begin to decrease, it is necessary to achieve a significant degree of economic development.

Since then, many attempts have been made to establish the relationship between inequality, growth, demography, the level of development of the country and its stability [12].

A significant contribution to the development of the theory and methodology of socio-economic inequality was made by the French economist Th. Piketty, who refuted the hypothesis of S. Kuznets in his study.

Th. Piketty came to the conclusion that modern capitalism is a rentier economy [13]. At the same time, the scientist notes that in a number of countries (for example, in France) there has been a transition from a superrentier society (when the owner of the property receives an annual rent sufficient to live on it; this society is characterized by an excessively high degree of inequality of income from property and income from labor) to a less extreme form of rentier society (due to the fact that the incomes of top managers exceeded the incomes of rentiers due to the fall of the latter).

Th. Piketty is at the origins of the World Inequality Lab, which operates on the basis of the Paris School of Economics at the Berkeley Institute. F. Alvaredo,[4] G. Zukman [14], E. Saez [15], who specialize in studying the distribution of income and wealth in the world, within countries and between them, work under the guidance of an outstanding economist.

In his new book "Capital and Ideology", Th. Piketty focuses on the institutional and ideological reasons for the rooting of inequality in the world, arguing that each society justifies its own inequality — this is how various economic and social rules arise, designed to strengthen the established order of things, reinforcing this conclusion by the following example: Soviet leaders simply replaced one type of inequality (income from capital) with another — access to valuable goods [16].

Fundamental and applied studies of inequality in the 20th century are recorded in the works of J. Sachs [17], P. Krugman [18], J. Stiglitz [19, 20]. In the works of the latter, the "problem of one percent" and the objectivity of measuring the level of socio-economic inequality are raised.

Domestic scientists who focused on the problem of inequality A. Ya. Kiruta, A. Yu. Shevyakov introduced into scientific circulation the categories of normal (fair) and redundant (aggravating contradictions) inequality [21].

The problem of socio-economic inequality today worries many researchers, various expert assessments of the state of inequality in society are given, and the need to eliminate excessive inequality is declared. But scientists argue about ways and tools to achieve normal inequality: some see a way out in strengthening the role of the redistributive mechanism and imposing a tax on the rich (Th. Piketty and his associates), others (J. Stiglitz) — in changing the country's political course (in relation to the United States), Russian scientists — in strengthening the role of social policy and pension reform [22].

Academician S. Yu. Glaz'ev sees the reason for the blatant level of inequality in the country in the archaic nature of the technological structure of the Russian economy and links the decrease in the level of inequality with the technological modernization of the economy and institutional reforms [23].

Among the consequences of an unfair and uneven distribution of income may be a deterioration in the quality of economic growth and human capital, an increase in the deprivation of certain segments of the population of basic goods and services, a deterioration in the investment climate, social and political instability [24].

In connection with the above, the study of the experience of foreign countries that have reached and maintain the level of socio-economic inequality within the norm (6–8 times

[4] World inequality report — 2018. Coordinated by F. Alvaredo, L. Chancel, T. Piketty, E. Saez, G. Zukmam. World inequality lab. 2018. 300 p.

by the coefficient of funds[5]), is a promising area of research, since certain tools of economic policy (progressive taxation of income and property, active social policy, social contract, social federalism) can be subsequently adapted and built into the model of Russia's development.

MATERIALS AND METHODS

The methodological basis of the study is the system of views of the authors, based on the principles of methodological pluralism and a systematic approach to studying the level of inequality in different countries and studying the tools for reducing it. According to the authors, there is no universal method for analyzing economic reality, which is characterized by an excessive level of inequality in society, which is due to the complexity of the phenomenon of inequality, its causes and consequences.

The following methods of cognition were used in the work: philosophical (dialectical, critical), general scientific (methods of scientific abstraction, the unity of historical and logical, analysis and synthesis, induction and deduction, analogy, classification), particular scientific (economic and mathematical, statistical, functional).

The methodological approach used by the Central Economics and Mathematics Institute of the Russian Academy of Sciences (CEMI RAS) became the basis for distinguishing inequality into normal (a positive factor motivating labor productivity growth) and excessive (hindering the development of the system) [25]. In this regard, the paper uses both traditional methods for representing wealth and income inequality (Gini coefficients, funds, decile and quintile coefficients, Lorenz curve), and expansion of the Gini index of general inequality [26] into the Gini index of normal and superfluous inequalities.

Expansions of the Gini index are constructed according to the formula

$$G = 2\,\mathrm{cov}F\,(X, F(X))\,/m = \\ = (2/m)\int (x - m)(F(x) - F)\mathrm{d}F(x), \qquad (1)$$

where G — the Gini coefficient of the general inequality; cov$F(X, F(X))$ — the is the covariance between the level of income X and the share $F(X)$ of the population with an income not higher than X; m — the average income for the entire population under consideration.

With a given poverty line z the variable X can contain components corresponding to incomes not lower and not higher than z (poverty level):

$$G = (2/m)\,\mathrm{cov}F\,(X - (z), F(X)) + \\ + (2/m)\,\mathrm{cov}F\,(X + (z), F(X)). \qquad (2)$$

Normal inequality is defined by the formulas:

$$GN = 2\,\mathrm{cov}F\,(X + (z), F(X))\,/\,m+, \qquad (3)$$

$$m+ = m + \Delta m, \Delta m = h(z - mP), \qquad (4)$$

where GN — the Gini coefficient of the normal inequality; Δm — s the increase in average income resulting from the increase in all incomes below the poverty line to this border; h — the proportion of the population with incomes below the poverty line; mP — the average income in this population group.

Excessive inequality is the excess of the general over the normal:

$$GE = G - GN = (2/m)\,\mathrm{cov}F\,(X - (z), F(X)) + \\ + (\Delta m/m)\,GN. \qquad (5)$$

The method of calculating this index is traditionally used to reflect the measurement of the degree of (un)equal distribution of income among the entire population [27]. In this paper, we will analyze the uniformity of the distribution of not only income but also wealth, proposed by the Swiss Credit Bank, for

[5] This threshold value of the coefficient of funds is justified in the studies of A. Ya. Kiruta, A. Yu. Shevyakov. According to their works, social and economic inequality is normal (stimulating for productive labor activity), the coefficient of funds in which does not exceed 6–8 times, and the Gini index does not exceed 0.4. When this threshold is exceeded, inequality from a naturally competitive market state is transformed into a threat to socio-economic development (becomes excessive).

completeness of information on the degree of inequality in society.

The information base of the study was the official statistics of the State Statistics Committee, Eurostat, World Bank, OECD, Global Wealth Databooks (Swiss Credit Bank), Euromonitor International, Oxfam, World Inequality Lab.

RESEARCH RESULTS

The level of socio-economic inequality is traditionally presented in Gini coefficients and funds. These coefficients are not without drawbacks in terms of forming a complex picture of inequality, but in the most general form, they objectively reflect the existing reality.

Fig. 1 presents information on the values of the Gini coefficients for income and wealth in the countries of the European Union (EU) and Russia. The charts in the figure above show income shares by decile population in these countries.

Comparative characteristics of Russia and the EU countries in terms of the Gini coefficient show that inequality in Russian society is much higher than in the European Union. The Russian Gini coefficient for disposable income is as close as possible to the values of Bulgaria: 41.1% and 40.8%, respectively. In other EU countries, the value of this coefficient is within the normal range. It is scientifically substantiated that the boundaries of the normal distribution of income correspond to the level of the Gini coefficient *GN* = 0.4 (40%). In some cases (for example, to compare countries within the European area), *GN* can be taken as 0.3 (30%). In this paper, we will proceed from the fact that the threshold between normal and excessive inequality corresponds to the value of the Gini coefficient *GN* = 0.4 (40%).

The maximum inequality in disposable income is observed in the EU in the countries of the former socialist bloc (Latvia 35.2%, Lithuania 35.4%, Romania 34.8%, Estonia 30.5%) and in the countries of Southern Europe (Italy 3.4%), Spain. (33%), Cyprus (31.3%), Portugal (31.9%). In the same countries, the income share of the bottom decile is minimal and does not exceed 3% of national income. The most evenly distributed incomes are in Ireland and Scandinavian countries (Gini index does not exceed 29%), the share of incomes of the bottom decile in these countries is close to 4% of the national one.

The only country in which the situation in terms of the studied indicators of inequality is worse than in Russia is Bulgaria: the share of incomes of the bottom decile is 1.9%, the top decile is 31.9% (in Russia, 2.9 and 29.9%, respectively).

Th. Piketty refers Europe to countries with moderate inequality, and Scandinavian countries — to countries with weak inequality. Contrary to this, we note that EU countries with a low level of income inequality have high values of the Gini coefficient for wealth and vice versa. So, for example, in Denmark, with a Gini coefficient for income equal to 27.5%, a similar coefficient calculated for wealth is 83.8%, for Sweden — 27.6 and 87.6%, for the Netherlands — 26.8 and 90.2%.

The pattern is confirmed by all EU countries — with low income inequality, there is fairly high wealth inequality. The Russian economy is characterized by a high level of income inequality (Gini index G = 41.1%, GE = 1.1%) and wealth inequality (Gini index 87.9%).

The Gini coefficient for wealth most clearly characterizes the degree of uneven distribution of resources in society. The graph presented in *Fig. 1* shows that the European society, which is more equal in terms of income than the Russian one, is replete with disproportions in the distribution of wealth: the Gini coefficient for wealth in the EU is prohibitively high and tends to grow: in 2010–2019 it increased from 79.9 to 82.4% (*Fig. 2*).

Against the background of increasing wealth inequality in the EU and Russia, there is an increase in median wealth, while the gap in the level of the median wealth per Russian adult and European is very large and reaches 8–10 times (*Fig. 3*).

A visual comparison of the distribution of income in Russia and Europe (on the example

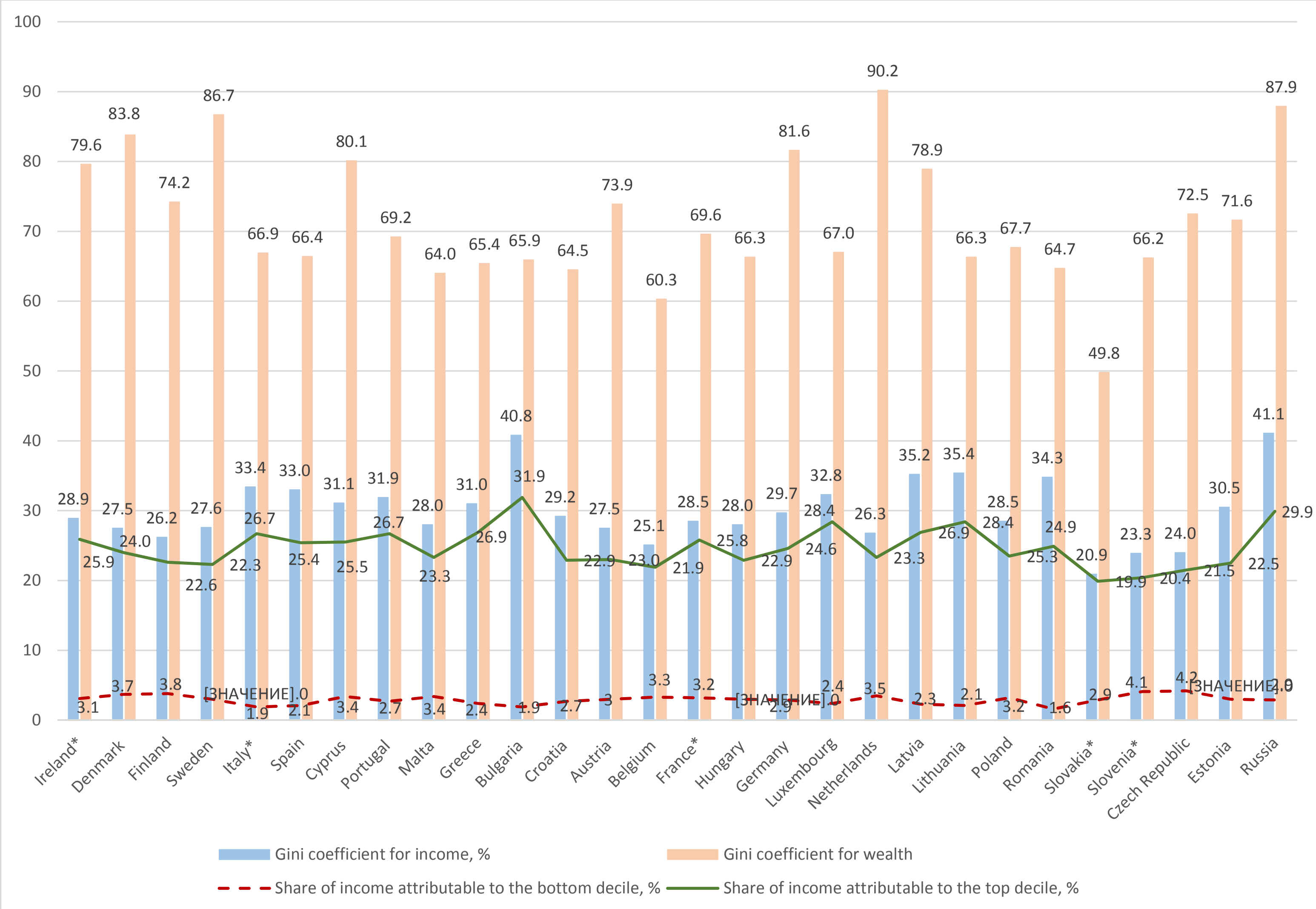

Fig. 1. **Inequality indicators in the EU countries and Russia (2019)**
Source: World Bank, SwissBank (Global wealth databook 2019). URL: https://www.interest.co.nz/sites/default/files/embedded_images/global-wealth-databook-2019.pdf (accessed on 17.01.2022).
Note: * – The figures are as of 2018.

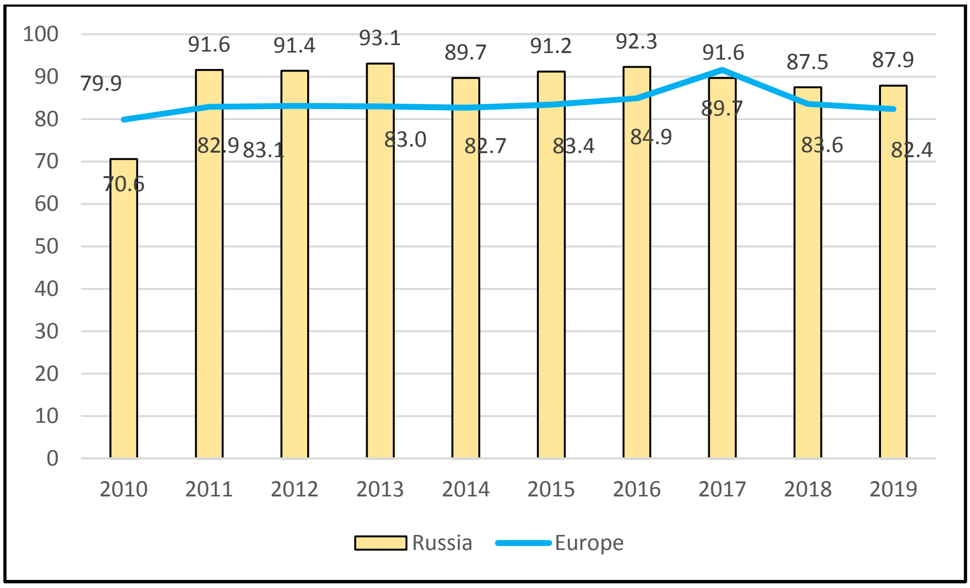

Fig. 2. **Dynamic of the Gini index by wealth in the EU and Russia, %**

Source: SwissBank (Global wealth databook 2019). URL: https://www.interest.co.nz/sites/default/files/embedded_images/global-wealth-databook-2019.pdf (accessed on 17.01.2022).

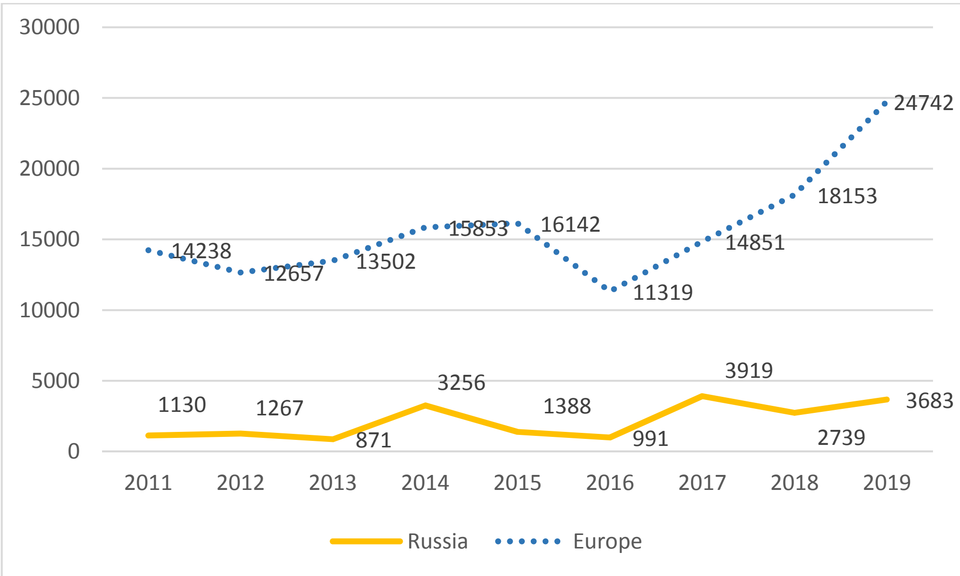

Fig. 3. **Median wealth per adult, USD**

Source: SwissBank. URL: https://www.interest.co.nz/sites/default/files/embedded_images/global-wealth-databook-2019.pdf (accessed on 17.01.2022).

of Belgium) will be presented using the Lorenz curve (*Fig. 4*).

It is not by chance that Belgium was chosen as a base for comparison — this is justified by the fact that in this EU country, inequality in terms of both income and wealth is one of the lowest. The Gini coefficient for disposable income in Belgium in 2019 was 25.1%, for wealth — 60.3%. Other countries of the European Union, as noted earlier, with low values of income inequality, have high wealth inequality.

Belgium is also characterized by a low distribution of income in favor of the top decile (21.9% versus 29.9% in Russia). As shown in Fig. 3, the degree of deviation of the Russian Lorenz curve from the line of conditional equality is noticeably stronger than the in-

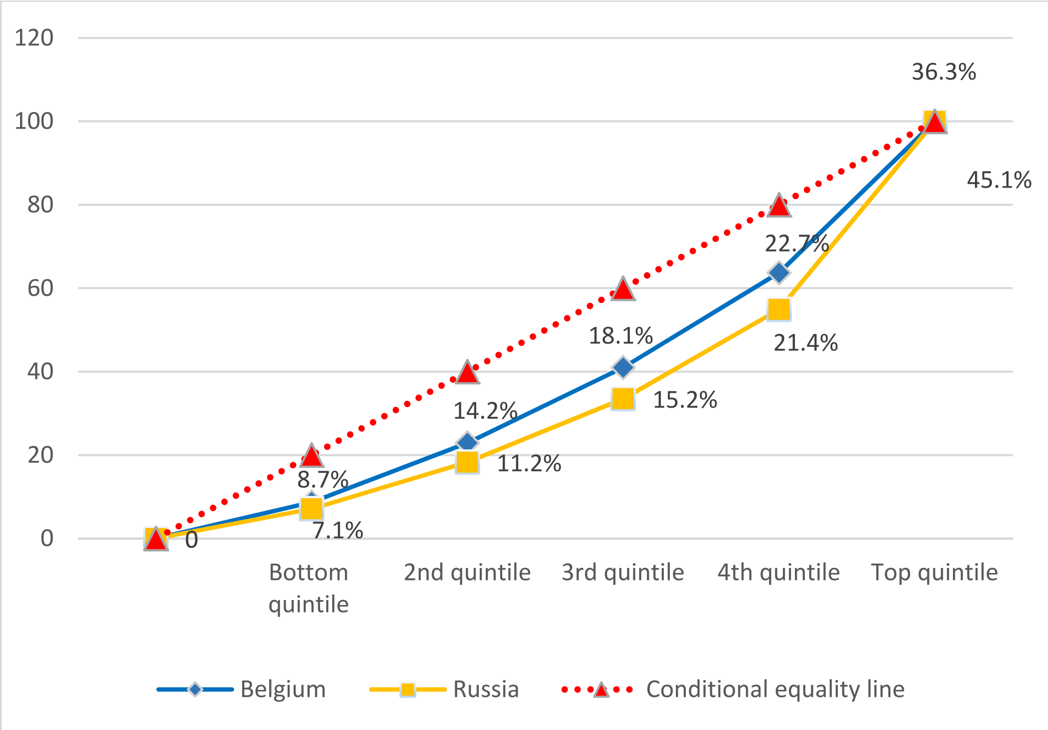

Fig. 4. **Distribution of income in Russia and Belgium: Lorentz curves (2019)**

Source: compiled by the authors according to the World Bank. URL: https://databank.worldbank.org/source/world-development-indicators# (accessed on 17.01.2022).

come distribution in Belgium. At the same time, the minimum wage in Belgium is 1,626 euros in 2019 (in the Russian Federation 156 euros), i.e. the gap in the minimum wage in Belgium and Russia is 10 times. With the average wage in Belgium, the minimum wage correlates in a ratio of 1:2. In Russia, the average salary in 2019 was 42,595 rubles, and the minimum was 11,280 rubles. (i.e., the average wage is 4 times higher than the minimum, which indicates an inadequately low value of the legally established minimum). The Kaitz index[6] (the ratio of the minimum wage to the median labor income) in Belgium is 73%, while in Russia it is only 22.4%.

Thanks to the research of the French economist Th. Piketty and the American Nobel Prize winner J. Stiglitz, it has become popular to measure the level of inequality in society using the “the share of the richest 1% in the total income of the population” indicator (*Table 1*).

[6] Youth Unemployment and Minimum Wages. U.S. DEPARTMENT OF LABOR. Bureau of Labor Statistics. Washington D.C.: U.S. Government Printing Office; 1970. No. 1657. 190 p.

It should be noted that the methods for assessing the distribution of income in studies led by Th. Piketty and in the reports of the World Bank differ significantly. Thus, according to the World Inequality Lab, the share of income in the top decile in Russia is 46%, and according to the World Bank, 46% is in the top quintile of Russian society.

Fig. 1 shows that since the perestroika period, the average annual income growth rate of the poorest 50% of the population has been declining by 0.8% annually, while that of the top 10% has increased by 3.8% per year. Let us pay attention to the fact that as the share of the richest citizens narrows, the average annual growth rate of their income increases: the top-1% of the population increased their income by an average of 6.4% per year, the top-0.1% — by 9.5%, the top-0.01% — by 12.2%, upper-0.001% — by 14.9%. Thus, we can talk about the need to translate the assessment of the level of inequality by decile coefficients into percentile coefficients (distribution by one percent groups of the population).

Table 1

Annual income growth by population groups in Russia

Income group	Average annual income growth			
	1905–2016	1905–1956	1956–1989	1989–2016
Population	1.9%	1.9%	2.5%	1.3%
Bottom 50%	1.9%	2.6%	3.2%	–0.8%
Middle 40%	2.0%	2.5%	2.3%	0.5%
Top-10%	1.9%	0.8%	2.3%	3.8%
Top-1%	2.0%	–0.3%	2.5%	6.4%
Top-0.1%	2.3%	–1.2%	2.7%	9.5%
Top-0.01%	2.5%	–2.1%	3.0%	12.2%
Top-0.001%	2.7%	–3.0%	3.3%	14.9%

Source: World Inequality Lab. URL: https://wid.world/country/russian-federation/ (accessed on 17.01.2022).

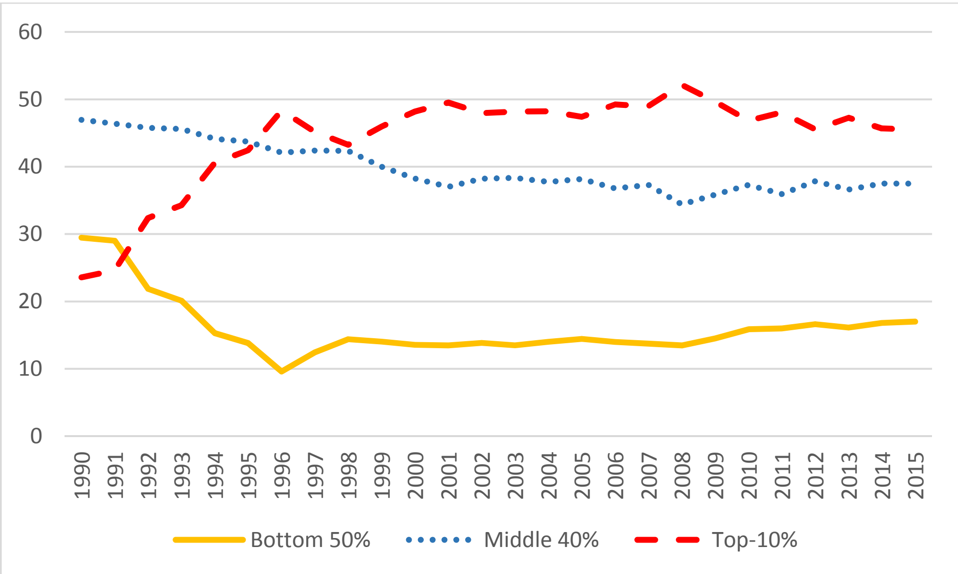

Fig. 5. **National income distribution by population groups in Russia**

Source: World Inequality Lab. URL: https://wid.world/country/russian-federation/ (accessed on 17.01.2022).

The dynamics of income distribution in Russia are characterized by the following. Trends in the top-10% and bottom 50% shares are mirrored: from 1990 to 1996 there is a sharp jump in the share of national income attributable to the top-10% (from 23.58 to 48.32%), at the same time, the share of national income accounted for by the poorest 50% decreases from 29.47% to 9.60%. After that, there is a slight smoothing, and by 2015, the top-10% account for 45.52% of Russia's national income, and the bottom 50% — 16.99%. Of greatest concern is the steady decline in the share of income attributable to the middle 40%, from 46.95% to 37.49% over a 25-year period (*Fig. 5*).

The extreme degree of uneven distribution of income among Russians is evidenced by the enormous growth in the wealth of US dollar millionaires — over the past 19 years, it has amounted to more than 2000% (*Fig. 6*). In Europe, the maximum increase in the fortune

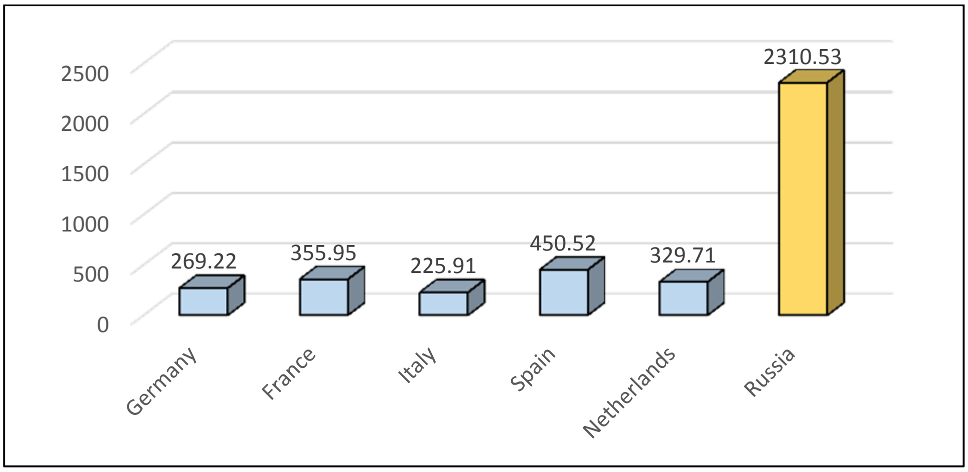

Fig. 6. **Wealth growth among millionaires in selected countries 2000–2019, %**

Source: SwissBank (Global wealth databook 2019). URL: https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html (accessed on 17.01.2022).

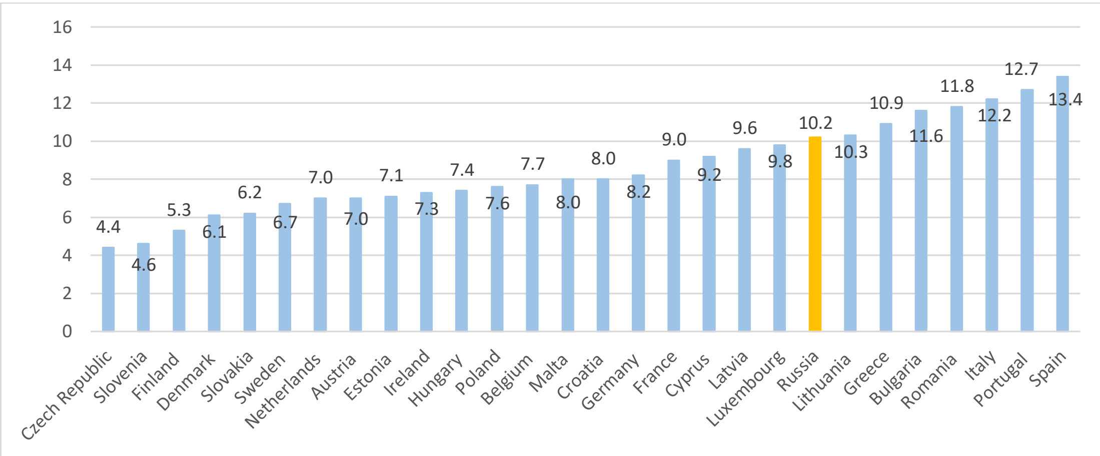

Fig. 7. **Country losses from inequality in 2019, %***

Source: compiled by the authors based on Human Development Report 2020. URL: http://hdr.undp.org/en/content/human-development-report-2020 (accessed on 17.01.2022).

Note: * — calculated as a percentage difference in the inequality-adjusted human development index and the human development index.

of US dollar millionaires over the same period was recorded in Spain — 450%.

Thus, it can be stated that the level of socio-economic inequality in Russian society is much higher than in the EU countries, however, even those countries in which it is within acceptable limits suffer losses from inequality (*Fig. 7*).

Russia's loss in the human development index from inequality is 10.2% in 2019, which is less than in the countries of Southern Europe (the North-South problem leaves its mark on European countries), but much higher than in many countries of the former socialist world (Czech Republic 4.4%, Slovenia 4.6%, Slovakia 6.2%, Poland 7.6%). Such losses of human capital can negatively affect both quantitative and qualitative indicators of economic growth.

It is believed that the EU countries have achieved success in implementing a policy of smoothing socio-economic inequalities, one of the instruments of which is tax policy. Unlike Russia, in most EU countries a multi-stage progressive scale of taxation of personal income and a rather complex system of

Table 2

Smoothing inequality in the distribution of wealth in the EU countries through the fiscal mechanism*

Country	Tax rates, %			
	Inheritance tax	Gift tax	Real estate tax	Property transfer tax
1	2	3	4	5
Belgium	27–95	20–80	1.25–2.5	10–12.5
Bulgaria	1–4	0.01–0.7	0.15	3–3.3
Czech Republic	0.5–40	7–40	0.5–40	4–15
Denmark	up to 36	–	1 to 3	–
Germany	7–50	–	from 0.35	3.5–6.5
Estonia	–	–	0.1–2.5	20
Ireland	up to 33%	up to 33%	0.18–0.25	–
Greece	0–40	0–40	0.1–1	3.09–24
Spain	7.6–34	7.6–34	0.4–1.1	7–10
France	5–40	up to 60	0.7–1.5	+
Croatia	5	5	+	25
Italy	4–8	4–8	0.76–10.6	4–8
Cyprus	–	–	–	–
Latvia	–	–	0.2–1.5	–
Lithuania	5–10	–	1	–
Luxembourg	+	+	up to 7.5	6
Hungary	+	+	3.6	2–4
Malta	–	–	–	12
Netherlands	10–40	10–40	0.3	2
Austria	0	0	–	2–3.5
Poland	0–12	0–12	+	2–23
Portugal	0	0	0.2–0.8	0–8
Romania	–	–	0.1	–
Slovenia	5–39	5–39	0.05–0.5	–
Slovakia	–	–	+	–
Finland	up to 32	up to 32	0.41–6	+
Sweden	–	–	0.75	+

Source: compiled by the authors.

Note: * – the "–" sign in the table means the absence of a certain type of tax in the country, "+" – the presence of a tax, but a complex mechanism for determining the amount of tax payment, calculated, as a rule, not as a percentage of the tax base.

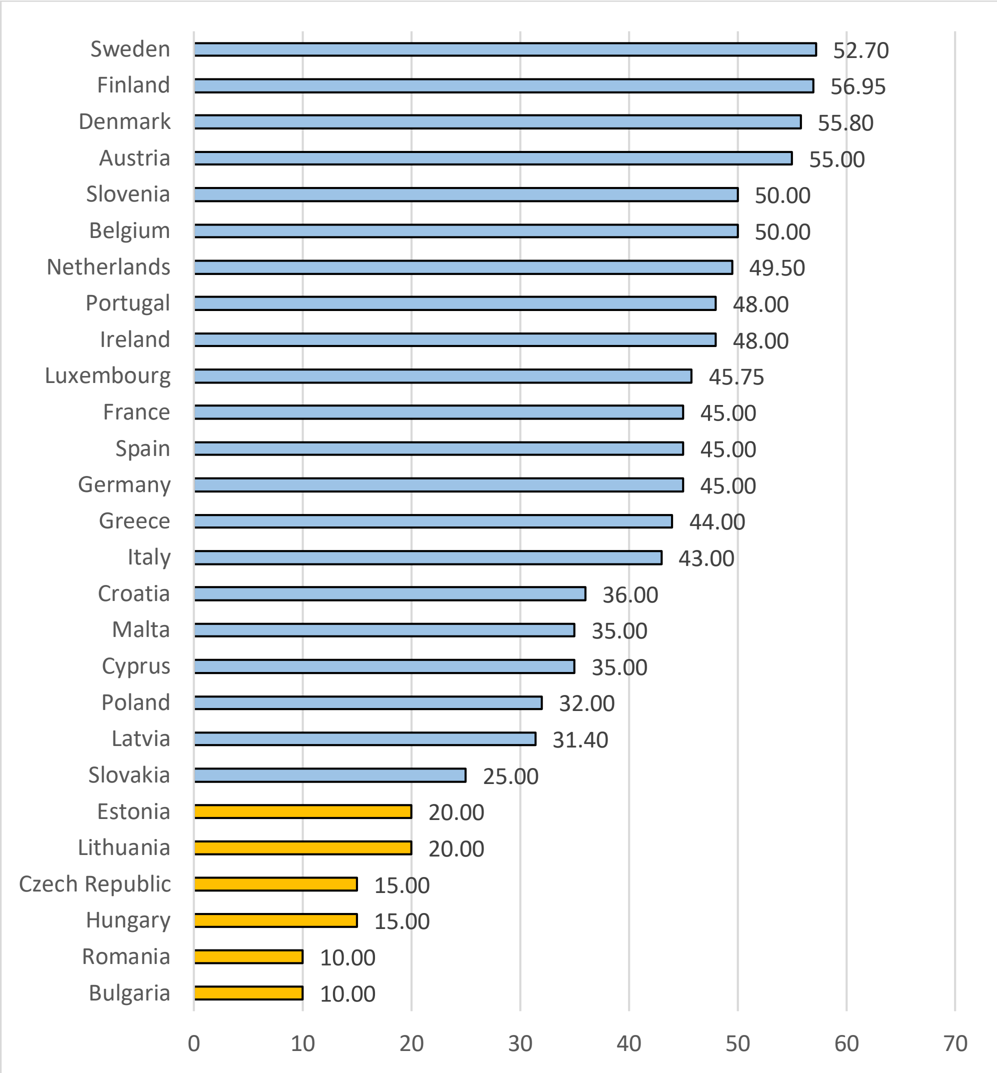

Fig. 8. **Maximum income tax rates in the EU countries, %***

Source: compiled by the authors.

Note: * — countries applying a "flat" income tax scale are highlighted in yellow.

property taxation are used, which increases the wealth of a person through inheritance, donation, transfer of property (*Table 2*).

Table 2 shows that in many countries high rates of taxes are applied on the transfer of property, inheritance, gift and possession (with the exception of Cyprus as a global offshore zone and the countries of Eastern Europe). This policy is aimed at curbing the formation of a society of rentiers who are able to receive passive income and concentrate a significant share of the national wealth in their hands. In most countries where there are no taxes on gift, inheritance, sale of real estate and property, the tax legislation contains separate provisions governing this process and determining the size of the fiscal exemption. In some countries (for example, in France) a luxury tax is applied. This kind of practice can serve as an effective tool for curbing the growth of wealth inequality. The fiscal tool for income equalization in the European society is a multi-stage progressive taxation scale for personal income, which is used in 21 EU countries (except Estonia, the Czech Republic, Bulgaria, Hungary, Romania, Lithuania). Often there is a withdrawal of more than half of the excess income from EU citizens (for example, in Sweden, Denmark, Slovenia, Finland, Austria, Belgium) (*Fig. 8*), which are redistributed through the budget system in favor of the poorest segments of the population. The progressive scale of personal income tax (PIT) existed in Russia until 2000, then it was canceled due to inefficiency.

From January 1, 2020, Russia abandoned the "flat" personal income tax scale, returning the progressive mechanism, which is the first step towards a greater withdrawal of the income of super-rich citizens in favor of the budget system. Unlike Western European countries, the progression of personal income tax in Russia is targeted — budget revenues from an increase in the tax rate will be redistributed in favor of certain categories of citizens (children with rare and serious diseases), which will expand their access to medical services and improve the quality of life. This is undoubtedly an important step towards reducing disparities in access to basic services between strata of society.

As an argument in favor of the advisability of adopting the experience of the redistributive policy of the EU countries to reduce the level of economic inequality (due to its effectiveness), we present a comparative Table of Gini coefficients for primary and disposable income for the EU countries (*Table 3*).

Thus, we see that the level of income concentration in European countries is significantly reduced after taxes and transfers. For example, in Finland, the Gini coefficient for disposable income is 48% lower than for primary income, in Ireland — by 46%, in Belgium and Hungary — by 45%, in Luxembourg — by 41%, in France — by 40%. In Russia, the after-tax Gini coefficient is reduced by only 14%.

CONCLUSIONS

The problem of socio-economic inequality is the cornerstone of the development of modern world economies. Disproportions in the level and quality of life, the distribution of income and wealth have a negative impact on social and human capital, hindering national cohesion and demotivating labor activity. In the modern capitalist world, the problem has acquired a global scope and has attracted the attention of not only the scientific community,

Table 3

Concentration of primary and disposable income (2018)

	Gini coefficient for income before taxes and transfers	Gini coefficient for disposable income
France	0.505	0.302
Austria	0.494	0.279
Belgium	0.492	0.268
Czech Republic	0.462	0.262
Denmark	0.442	0.254
Estonia	0.512	0.361
Finland	0.495	0.257
Germany	0.479	0.292
Greece	0.566	0.343
Hungary	0.508	0.278
Iceland	0.386	0.244
Ireland	0.574	0.309
Italy	0.514	0.325
Luxembourg	0.48	0.281
Netherlands	0.417	0.283
Poland	0.464	0.3
Slovakia	0.428	0.269
Slovenia	0.452	0.252
Spain	0.513	0.341
Sweden	0.443	0.281
Switzerland	0.421	0.293
Russia	0.48	0.413

Source: ОЭСР / OECD. URL: https://www.oecd-ilibrary.org/taxation/post-taxes-and-transfers-disposable-income-gini-coefficients_7f704580-en (accessed on 17.01.2022).

but also international institutions, national leaders, and the public.

In Russia, there is excessive inequality in all respects: market, disposable income, wealth. It is noteworthy that the distribution of wealth is more than twice as uneven as compared to the distribution of disposable income. As the layer of the richest citizens narrows, there is an increase in the concentration of their incomes and wealth, and abnormally high average annual income growth rates. The economic policy pursued in the state (redistributive and social) does not greatly contribute to reducing the level of excessive inequality, reducing it by 17%.

It is generally accepted that the EU countries (especially the Scandinavian, Northern European and Western European countries) cope most successfully with the polarization of society by income, however, as the analysis showed, these countries face some challenges. This conclusion is supported by the reported losses from inequalities in the distribution of income, education, and health care in the Human Development Index. Against the background of normal levels of disposable income inequality in all EU countries, there is excessive wealth inequality, and not all households manage to achieve inclusiveness. Nevertheless, the fiscal policy of European countries, actively applying a progressive scale of taxation not only for income but also for material values, makes it possible to redistribute more than 60% of GDP through the budget system and ensures the alignment of the polar strata of society.

In previous studies, we calculated that with the introduction of a five-stage (from 0 to 33%) progressive personal income tax scale in Russia, the accrued annual personal income tax could increase by 1.85 times. At the same time, the share of income attributable to the bottom quintile may increase by 1.32%, while the share of income attributable to the top quintile may decrease by 4.11% [28].

Russian society today is not ready to accept a multi-stage progression in relation to inheritance, donation, transfer of property. Even the second stage of the personal income tax rate (15%) is justified by the targeted use of future budget revenues. Subject to the introduction of taxes on gifts, inheritance, transfer of property, the top decile that forms the elite still has the opportunity to use "shady" schemes to divert real estate transactions so that they do not fall under taxation.

Therefore, today a more significant and unambiguously perceived step towards smoothing out property inequality should be the introduction of a non-taxable minimum income tax (for family members whose incomes are below the subsistence minimum).

For Russia, the problem is acute not only of increasing the share of withdrawal of excess income in favor of the budget and society but also of raising the level of income and life of the lower decile, the formation of a full-fledged developed middle class. In this regard, the experience of the EU in the creation and use of structural funds, the implementation of the flagship initiative to combat poverty and exclusion 2010–2020, which in essence is a comprehensive strategy for the complete elimination of poverty in society, is of interest.

In the search for ways to overcome income inequality, we must not forget the growing wealth inequality. The fiscal mechanism alone is not enough to prevent the rules of the rentier society from taking root in the modern world. The challenge is so great that the most effective response to it should be systemic modernization based on the principle of social federalism. The latter comes from the concept of a just society — where access to the widest range of benefits is provided to all members of society, and income inequality is explained only by different life aspirations; the key goal of such a social order is not the distribution of income, but of opportunities.

The modern tax system in Russia requires changes, it must meet the challenges of our time and serve as an effective tool to reduce the burden of inequality. Inheritance and income taxes should be complemented by a progressive wealth tax that can serve fair capital: it is more difficult to manipulate than income tax, especially for the very wealthy, whose taxable income is often a small part of their wealth, while real income multiplies wealth. In the future, progressive taxes on high wealth could become a source of financing for the general investment fund of the younger generation for various social needs (for example, education) [29].

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