

Economic Factors of Russian Inequality

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ABSTRACT

The relevance of the researched problem is connected with the high level of economic inequality in Russia. The article goal is to show that the current Russian institutional system is not directed to decrease the economic inequality but on the contrary it continues to make and deepen it. The leading approach to study of this problem is the analysis of social institutes, formal and informal regulations which promote keeping on economic inequality in the country. The results of sociological surveys of the Russian research centers confirm sharpness of this problem. The economic inequality laid its foundation due to the transition to the market in the period of privatization and price liberalization in the 90-ies of XX century. Among the factors which aggravate the problem of economic inequality in contemporary Russia there is a rent-seeking behavior of major market players and regressive tax system. The materials can be used to assess the prospects and consequences of large-scale reforms in the transition economies. The experience of the Russian market transformation is useful not only for developing countries but for all the rest of the world.

KEYWORDS

Social institutes, inequality, social justice, equal opportunities, poverty, rent-seeking, regressive taxation

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Introduction

The inequality in economics, policy and the public relations causes concern in many countries of the world, including the most advanced. The inequalities which arose in the last decades are too great to consider only their consequence of work of the markets therefore economists speak about the excess inequalities which driving forces have not only market, but also non-market sources (Bobkov & Veredyuk, 2014). In the terms of excess inequalities the major principle of social justice – equal opportunities - is broken, and the inefficient economics is its consequence.

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The scientists all around the world are not indifferent to the problem of inequality and disability. Russian economic thought is no exception, however, is characterized in that in the Soviet period it was believed that the problem of inequality in the country is solved. Proclaimed position that “developed socialism” is not compatible with the inequality and state ownership allows the excess to produce public goods that provide equal opportunities for all. This article does not aim to compare the Russian administrative system and the Russian market economy by the level of inequality. Of course, in Soviet Russia there was more equality, and many Russians still feel nostalgic about the social atmosphere.

It is well-known that in pre-revolutionary Russia, the problem of inequality was very strong, so the Russian economist such as M.I. Tugan-Baranovsky (1996), S.N. Bulgakov (1990), and the philosopher N.A. Berdyaev (1990) and the other scientists made the research on the inequality impact on the economy, democracy and social life. After the fall of the Soviet administrative system and the economy restructuring the inequality in Russia quickly began to gain momentum. The society is polarized, decreased the level of trust between people and institutions, primarily of the state status. Such Russian scientists as L.I. Abalkin (2005), O.T. Bogomolov (2007), were the first who updated the research on the problem, proposed the systemic measures to reduce inequality and to create equal rights of market access. The most consistent and vivid supporter of restoration of social justice in contemporary Russia is an economist S.Y. Glazyev (2007).

The development of the world economic thought about the questions of the inequality impact on the economy, politics and the legal sphere is important for Russian scientists. First, the western countries have considerable experience of the market economy, they realized all the positives and the failures of the market, therefore, empirical and theoretical studies on this subject are of considerable value for the Russians. In addition, the economies of Western Europe are different from other economies, e.g. the USA or Japan. It allows to make the comparisons, to draw parallels with the Russian market, to differentiate effective and ineffective practices. Finally, it is important that the western economic thought developed in the context of democracy that contributed to the pluralism of opinions, so the scientists were able to advance their studies further than the Russian social science did. From this point of view, the Russian scientists have a lot to learn. The works of D. North (2011), J. Stiglitz (2004), P. Kozlowski (1999), J. Rawls (2010), F. Fukuyama (2004), J. Habermas (2000) and the others in recent years are especially popular.

However, it is impossible not to take into account that the Russian experience which demonstrates the evidence of blatant inequality is no less important for foreign scholars. It is not a secret that many of them showed their confidence that the transition of Russia to the market would lead to the economic growth and welfare improvement. The Russian market brought a golden fruit, but not for all, just for a minority. D. North (2011), reminiscing about his participation in the Russian reforms at the dawn of perestroika, writes that he told last on one of the leading forums where American economists told the Russian leaders how to build a market economy and said that they (the leaders) should forget all the tips, but actually to do it by their own way. In this context the advanced western scientists have something to think about: because



the negative experience of the Russian market economy and “democracy” is a bad example for others.

Methodological framework

The theoretical and empirical methods of the traditional institutional economic theory were used in the study process based on the analysis of formal and informal regulations, rules and representations which led to the growth of economic inequality in Russia. The official statistical information was collected to confirm these conclusions. The tabular methods of data interpretation were used. Using historical and evolutionary method it was able to trace the process of emergence of the roots of economic inequality, sustainability and variability of social institutions in the period of adjustment of economic relations in Russia.

Considering the factors of economic inequality the authors were not limited only to formal rules, but came from the fact that informal norms are also important, so the article is the collection and analysis of sociological research data. Since the price is unfair economy is too high, the article was not only economic, but also ethical arguments.

The studied problem belongs to a macroeconomic perspective therefore official static information of Federal State Statistics Service of Russia (Russian Statistics Committee) and the data of the all-Russian sociological researches were used. The theoretical regulations on deepening of a problem of economic inequality in Russia and the factors promoting strengthening of this negative tendency are formulated on the basis of preliminary studying of the facts in a historical retrospective.

Results

Modern Russia has become a shining example of social inequality. According to data of Federal service of the state statistics (Russian Statistics Committee), by the end of 2014 11.2 percent of the population had incomes below the subsistence minimum. In 2015 the poor in Russia has increased nearly by 3 million people in comparison with the same period in 2014. This is 15.1 percent of the total number of Russian citizens. Segment of the population that receives more than one living wage but not exceeding 3 is also a significant amount – 40%. Poverty line in Russia, as well as in the majority of the countries, is the size of a living wage. Officially established minimum living wage set by the government for the second quarter of 2015 is 10017 rubles per capita. The Russian consumer basket, which establishes minimum living wage, lower than in developed countries. For comparison, in Russia it consists of 156 goods and services (EU – 25 to 650). Currently 37,3% of the minimum consumer basket is the share of food reaching a maximum for the last 4 years. For the Russian economy the minimum living wage is an important applied problem, because on the basis of the calculated benefits, the benefits generated an expense of budgets of different levels (Bobkov & Odintsova, 2014).

On the state of poverty it can be measured by the ratio of the minimum living wage and minimum salary and the basic social guarantees established in the Russian Federation: the labour old-age pension, unemployment benefit and allowance for care for a child up to the age of one and a half years, the scholarship of students at higher educational institutions. Many of these required monthly payments do not reach the legally established level of

minimum living wage. It relates to the minimum wage (SMIC) in a large extent, the value of which in Russia is set to standard. The minimum wage affects the amount of the allowances for temporary disability, pregnancy and childbirth, as well as other purposes of compulsory social insurance. On January 1 2015 the minimum wage per month is 5965 rubles.

Table 1 shows the ratio of the minimum living wage (the level of living wage set in the last quarter of the year is used for calculation) with some monthly income and social guarantees established in the Russian Federation by years. More detailed information in this regard is contained in another work (Berdnikov & Vakhtina, 2014).

Table 1. Ratio of income of the population and basic social guarantees established in the Russian Federation, the level of minimum living wage, %

	2000	2005	2010	2014	2015
Minimum income (wage) per month.	10,9	23,9	73,36	67,45	63,1
The average assigned level of pension per month.	19,0	30,5	120,3	121,8	127,4
Allowance during the days off for taking to care for a child up until the age of one and a half years old (full state minimum values)	14,2	21,6			
Allowance for taking care for the first child	-	-	38,8	31,3	28,7
Allowance for Taking a care for the second and subsequent children	-	-	77,6	62,6	57,5
Unemployment allowance (minimum value set by the State)			14,3	5,95	8,99
Scholarship of students enrolled in full-time education in Federal state higher educational institutions (minimum value set by the State)		16,5	18,5	16,2	14,17

Source: Federal Service of State Statistics (Russian Statistics Committee)

If you are employed person or a person living on social allowance receives less than minimum living age, his/her physical survival is in question. The majority of Russians with incomes below the poverty level – families with many children or families with disabled people. Moreover recently a share of people with employed age has increased among the poor: the average age of the Russian poor man is estimated by sociologists at the level of 40.9 years, appeared the phenomenon of “working poverty” (the number of persons in the higher and unfinished higher education among the poor is over 25%) (Gorshkov, 2011).

Not only the official statistics, but also Russians consider that the number of the poor in the country becomes more. In 2015, according to the data of the polls made by the Russian Public Opinion Research Center (RPORC) such

people were 82% while due to the data of 1990 the affirmative answer was given only by 69% of respondents (Rich and poor, 2015).

On other side of the Russian social ladder – are the superrich whose cumulative capital despite the crisis phenomena in economy goes on growing. By the number of billionaires in 2014 Russia conceded the third place to India after the USA and China. In the research of the Boston Consulting Group (BCG) “Riding a Wave of Growth: Global Wealth 2014” Russia remains in the leaders (the fifth place in the world) among the number the superrich households with financial assets more than 100 million dollars and more (thus their share makes only 0,4% of total number of the Russian households).

Owing to the above-named distinctions stratification of the population according to the income in Russia is very great, Jeanie's coefficient is in range of 40-42 many years. The inequality assessment on property gives higher stratification. In the report of “Global Wealth Databook” Credit Suisse for 2013 the property inequality in Russia is estimated as one of the highest in the world. And though the Russian scientists find in a technique defects because of the underestimated real estate assessment on balance of the Russian households, nevertheless the range of distinctions remains very big. Earlier report of Credit Suisse (for 2012) contains data that in Russia at 5% of inhabitants 82,5% of all richness of the country, and at 1% - 70,9% that brings the country to the first place among the considered 29 economies are concentrated.

The novelty of approaches to the researched problem represents the idea that economic factors of the Russian inequality are considered in the article through the historical retrospective, since the period of mass voucher privatization as the result of a conscious activity of the government and Central bank. The article shows that the possession of raw material resources and rent-seeking behavior of key market players definitely influence the formation of the principles and mechanisms of modern macroeconomic policy in Russia. Taking into account the ideas of Russians about justice and an inequality the reasons of illegitimacy of the large private capitals which arose during transition to the market stage are opened in the article.

Discussions

The conditions and the mechanism of mass voucher privatization in the 90-ies of XX century were the main factors that contributed to the inequality in Russia. Perhaps there is no country in the world where almost one hundred percent privatization of state property did not pass so swiftly and politically biased without no pre-built public-oriented strategy. For the period from the beginning of the 90s to 2003 the share of state and municipal ownership was declined to 10%, and public-private share was 13%. The privatization process took place without proper legal regulation, a violation of the current rules and contrary to representations of people about the legitimacy of ownership and wealth.

Russian economist S.Y. Glazyev (2007), and also the first editor of Russian Forbes, a descendant of the first Russian emigration P. Khlebnikov (2001), who paid for these revelations of your own life, wrote most frankly about many of the abuses. Evaluating the mechanisms of privatization we can say that the foundations of Russian economic inequality were laid in this period. In our opinion it contributed to a number of reasons.

The first reason was related to the insufficient awareness of employees about the aims and methods of privatization. The methods of transfer of ownership was multivariate and poorly understood for most workers.

The second reason – was the use in the process of privatization of administrative resources as there were no established mechanisms of democratic participation in governance in the country.

The third reason was the impairment of the labor savings and incomes of the majority of Russians that was triggered by the price liberalization in the conditions of monopoly and the dismantling of state regulation. The rise in consumer prices outstripped the growth of current incomes (wages and social payments), which were not indexed in that period (Vaisburd et al., 2016).

The fourth reason was due to the fact that the payment for transferred in private hands assets were undervalued compared to their real value several hundred times. In addition, in a period of rapid reforms have opened opportunities for direct abuse.

Being nameless the privatization cheques (vouchers) were sold among the needy people and it became the object of speculation and enrichment of intermediaries and voucher investment funds. Such methods of privatization, as the sale of businesses on investment, commercial competition or at auction, was accompanied by numerous violations of formally established rules.

Finally it was driven a destructive mechanism for the redistribution of wealth that benefits the organizers and conductors of privatization in the face of managers, mediators, representatives of power structures who concentrated in their hands surplus wealth, while the majority of the population (employed and unemployed), as well as the state lost their stable income and property.

For the period from 1993 to 2003 the annual share of privatization revenues in the budgets was only a few percentage points of the constituent entities of the Russian Federation. With the huge profits extracted by the financial speculators through the re-growth of stock prices undervalued privatized enterprises resource industries and natural monopolies.

In that period the share of wages together with social benefits in the income of the population decreased from 74% in 1990 to 43.4% by the end of 1996, while income from entrepreneurial activity rose to 38.7% (Glazyev, 2007). The main source of windfall profits minority in terms of reduction of production volumes were the savings and wages of the rest of the population, as well as rental incomes from the sale of natural resources. And most importantly – that was a direct result of conscious actions of the Russian government and the Central Bank. W. Andreff (2004) and J. Stiglitz (2004) wrote about spontaneity and redistributive mechanisms of privatization.

Economists typically paid less attention to the informal side of privatization, which was associated with people thoughts about the legitimacy of property and wealth, whereas such factor plays an important role in the functioning of the newly arisen market institutions. The real purpose and methods of the Russian privatization caused growing discontent and mistrust of the population on the one hand to new owners and on the other – to the state. In such circumstances, the legitimacy of newfound wealth and property based on the fair ways of accumulation, could not be considered.

Respect to new large private owners was not entrenched in public view as it was in the period of the reformation in the West, as the wealth of the “new Russian” was not the result of honest labor, entrepreneurial skills or innovative risk.

The most Russians considered and keep on considering the privatization results unfair and antinational, expressing negative attitude to those who managed to grow rich. That is, the respect for new large private owners as it was during reformation in the West as the wealth of “new Russians” didn't turn out to be consequence of honest work, enterprise abilities or innovative risk wasn't enshrined in public opinion. It is possible to judge the attitude of the Russians towards millionaires according to polls, in particular, of “Levada Center”. The answers to a question of the attitude of respondents towards the people who are legally receiving millions are presented in Table 2.

Table 2. How do you feel about the fact that in our country there are people who are legally receiving millions

	<i>I have nothing against</i>	<i>Positively, if the money earned honestly</i>	<i>No answer</i>	<i>Against, because such money couldn't be earned by honest way</i>	<i>Against such money, even if they earned honestly</i>
November 1989	9	34	3	45	9
September 1996	18	34	8	33	7
January 2008	13	30	3	48	6
June 2015	11	30	4	47	8

Source: Poll of Levada Center, 1600 respondents (Inequality and income, 2015).

In the minds of Russians the priority of “fair inequality” has deep roots, which originated under the influence of objective circumstances in pre-revolutionary Russia. Any inequality in the views of people associated with merits to the state and place in the pecking order. Access to resources the main mass of the peasant population of Russia was due to the priority of community (collective) ownership over the property yard, which, in turn, was the priority of private property of the householder. Communal landholding was closely associated with the labor principle since it provided a real implementation of the labor right of each peasant family and thus right on physical survival. Labour principle in relation to the earth meant that the earth was literally could not be the property since no one created it. The same attitude was to the layers of the earth: forest, coal, oil, and other minerals. Read more about this in another book.

Supported by the predatory action for the appropriation of state property in the period of privatization the above informal notions of “fair inequality” determined the negative attitude of Russians to contemporary inequality. According to surveys by the Russian Public Opinion Research Center (RPORC) the distribution of income in society (as a quarter of a century ago) most people consider unfair - 77%. Even among respondents with high incomes there are 69%, youth - 73%. The main reason for the significant “injustice” is considered to be unreasonably high incomes of some people (40%). If in 1990 69% of Russians thought that there were many poor people in the country now there are already

82%. 90% believe that the government should guarantee everyone an income not lower than the subsistence level (Rich and Poor, 2015). If in 1989 64% of respondents believed that the state should minimize intervention in the distribution of income now there are only 27% (Distribution of Income in Society, 2015).

J. Stiglitz (2015) in his book “The Price of Inequality: How Today’s Divided Society Endangers Our Future” gives a particularly significant role for rent-seeking in increasing the level of inequality in the USA and suggests that the forms of rent-seeking behavior in oil-producing countries are not so diverse. We can agree with that. In Russia the most important source of rents is the possession of natural resources, which inherently must be owned by the state, but in the process of privatization a large part of the mining industry were passed into private ownership. Such kind of property distribution impressed on the mechanisms of rent-seeking in Russia. In the USA (including Europe mostly), where the government regulation of markets has come a long way of development maintained a certain level of competition and openness in society, rent-seeking takes more varied and masked forms. According to Russian and foreign researchers “the privileges birth to rent” (North, Wallis & Vinegast, 2012). In this case we don’t talk about the rent used for public interests (Ngo, 2008).

In modern Russian practice the transfers and subsidies (allowances) of the government, a weak corporate and competition law, pre-emptive rights granted to individual corporations or banks, are also used, but they are less veiled, that is compensated by a low awareness of the population. This resource rent is the definite. Currently 2/3 of all Russian exports are: oil, petroleum products and natural gas connected with the prices for oil. Rental income from the possession of raw material resources dictates game rules and form the infrastructure “on its own” (Larsen, 2006). The part of monopoly rents are transformed in administrative (rent), which acts as a “support resource” (Tullock, 2011). In its turn it forms a strong tendency to expand the public sector, which distinguishes not only Russia, but other countries with rich in natural resources. And the gradual transformation of the oil market in the segment of global financial market further reinforce this trend. Thus the support on a raw rent puts the Russian society at big risks of an inequality. This conclusion especially visually was confirmed in 2015. Falling of the world prices for raw materials pushes the exporters movable by desire to keep dollar profits, to play on decline in the rate of national currency as they incur considerable part of expenses in rubles. Classical formula of the exports growth in case of the ruble weakening in the terms of the Russian economy does not work, but the inflation increases, production shrinks, employment rate reduces and, consequently, an excessive inequality which is already familiar to Russia increases and an number of the poor increases as well.

The factor influencing the growth of the inequality is weak redistributive mechanisms, including a flat income tax rate, regressive social security contributions and low property taxes. A progressive tax rate for individuals was used until 2001 in Russia with a range from 12 to 35%, with 95% of the population who paid by the minimum rate. There has been a subsequent transition to a flat scale with the rate of 13%.

The arguments of supporters of transition on the adverse effects of progressive rates on income tax revenues in the budget are widely known but not sufficiently convincing. Russian scientific literature substantiates the conclusion that the transition to the flat scale of the taxation of individuals did not lead to the expected results of definitely income, but intensified social contradictions in the society (Economic Subjects of Post-Soviet Russia..., 2010). Meanwhile the experience of the European countries (where income disparities are significantly lower than in Russia) shows that progressive taxation has more pros than cons. Despite the fact that Russian public opinion supports the idea of alleviating the tax burden of people with smaller incomes at the expense of the wealthiest, all attempts to amend the legislation are still inconclusive. The bill on progressive taxation of individuals (in the State Duma of the Russian Federation since 2010) proposed a range of rates and the maximum income is lower than in many other countries, however it still is not supported by the government. The bill, in particular, it is proposed to retain a 13 percent tax rate at the income level of not more than 5 million rubles per year, if income exceeds 5 million per year - 18%, more than 50 million rubles – 23%, in the case of excess of the annual income of 500 million rubles, it is proposed to set a maximum rate of 28%. As can be seen, proposed in the bill rates are not too high, especially because the number of Russians whose employment income in a year exceeds 5 million rubles, is not more than 0.2% of persons employed in the economy. The structure of personal income tax which is active in the country increases the burden on low-income segments of the population. According to the calculations of the Independent Institute of Social Policy, because of aggression of social security contributions the effective tax rate (income tax and social contributions in disposable income) of households of the 1st decile (the richest 10% of the group) amounted in 2010 to 10.6%, and for the households in the 9th and 10th deciles (the poorest) respectively to 14.7 and 16.4%.

The excessive inequalities fuelled by rental income, reduce an economic efficiency and impede equal opportunities for all that is the key principle of social justice. First of all, it limits the people's access to education and health care. The government project “Main directions of budget policy for 2016 and the planning period of 2017 and 2018” contains suggestions on “optimization of budget expenditures”, among which - decrease in funding for health and education, while these sectors and the already under-funded. In particular, is recommended by the world health organization (who) health expenditure at 7% of GDP in the Russian Federation on health care is spent in the last two years, less than 3% of GDP.

Anticrisis government measures in 2015, as in 2008-2009, are largely aimed at strengthening the financial sector: decisions about the funding of 1 trillion RUB. (for comparison, in 2008-2009 - approximately 1.4 trillion RUB.). On the support of the real sector of the economy in the context of the recent crisis it is planned to allocate 600 billion RUB (300 billion RUB were contributed to Vnesheconombank from the national welfare Fund; 200-230 billion RUB state guarantees on the loans, 50 billion RUB to support agriculture). Five years ago the total cost of the business amounted \$ 1.1 trillion RUB. If to take into the account that the global financial crisis largely was provoked by excessively risky policy of the banks (including Russian), their supports with the state money can be considered as hidden subsidies in unfair business. Due to the current adverse

circumstances associated with the oil prices, sanctions, funds intended to support social programs should be cut.

While the financial resources for knocking over of poverty in the country were in excess, the inequality wasn't considered by the government as a pressing problem, and the problems of the poor were resolved at the expense of petrodollars. Today the state is obliged to show consideration for a problem of an inequality and restriction of opportunities which directly influences welfare and efficiency of economy in the terms of the next round of financial crisis, falling of oil prices, deterioration of a foreign trade turnover. Growth rates of the Russian economy, as we know, are being slowed down: following the results of 2015 the GDP in Russia reduced to 3,8%. The investments into fixed capital showed negative result. In 2015 according to the specified forecast of the Ministry of Economic Development of investment were reduced by more than 13%, thus in the majority of sectors the stagnation was observed. The growth was provided mostly with the defensive production, space branch, aircraft, courts and gas turbines. Only the fair economy based on growth of the human capital can show good results.

Thus, economic factors which created initial social stratification in the Russian society during transition to the market relations, were changed, but continue to work. In special degree it is promoted by the regressive taxation of the income of individuals and rento-seeking institutes of the Russian market, mostly, founded on a natural rent. The formal Russian institutes focused on such policy face an informal rejection of an excess inequality and the unfair superincome in society.

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