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Income Inequality and Labour Income Share in CIS Countries: Trends, Impacts and Causes

Abstract

Object: The purpose of this paper is to study trends, reasons of income inequality and labour income share in CIS countries.

Methods: The study relies on the use of secondary research methods. It is a research method that focuses on using the existing published documents to generate insights into the object of the research.

Findings: In CIS countries, employment remains the major source of income where the prospect of having a job has higher implications in terms of income inequality. Various changes have occurred in income inequality in recent years due to the global financial crisis and the pandemic. It, therefore, occurs that both the macroeconomic policies and the labor market policies have facilitated the situation.

Conclusions: The study has focused on the use of secondary research methods where publications by the IMF and the World Bank have been given the top priority and used in conjunction with other sources from legitimate sources. It has been established that CIS region is characterized by countries that are deeply immersed in the situation of rising income inequalities and declining labor shares.

Keywords: income, inequality, labour, CIS regions, Lorenz curve, Gini index

Introduction

Governments across the Commonwealth of Independent States (CIS) have deliberated on numerous mechanisms and frameworks to build market economies in the post-Soviet Union era. These are the countries that have continued to face lots of problems associated with the attainment of the desired rates of economic growth, overcoming acute financial deficits, and introducing the principles of social equality in wealth distribution. Efforts have been made towards supporting the development and inclusive growth to pave the way for reducing the high levels of inequality and poverty.

It has emerged that the inclusiveness of growth, among other related aspects built around concerns of the growing inequality and declining labor income shares, has become crucial in the policy debates across the CIS and beyond.

Literature review

Research has documented the growing inequalities worldwide, including most CIS countries that have recorded historic highs (Dabla-Norris, E. et al, 2015). It is a situation squeezing out the middle class where incoming stagnating or declining cases have been experienced.

Data has also revealed that the share of the national income associated with labor has declined in nearly all CIS countries when productivity has been rising much faster than the real wages across these countries (Dabla-Norris, E. et al, 2015). In the context of the labor share, it has been documented that the highest earners have been getting increasingly large portions while their counterparts at the bottom have experienced declined shares (Ostry, J. & Berg, A., 2014). The number of these countries have managed to pull millions of people out of absolute poverty since the collapse of the Soviet Union. However, several have experienced sharp increases in the levels of income inequality.

The few studies that analyze the relationship between labor force share and income inequality vary by country and periods covered, as well as by the methodologies used. Daudey and Garcia-Penalosa (2007) found that a larger share of the workforce was associated with a higher Gini coefficient for 39 developed and developing countries between 1970 and 1994. Checchi and Garcia-Penalosa (2010) also found the same re-

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sult for 16 OECD countries for the period 1960-2000. Wolff (2010) shows that capital ownership is concentrated primarily at the top of the income distribution, which increases (decreases) the share of capital (labor) and income inequality in the United States in the period 2001-2007. Adler and Schmid (2013) found that a decrease in the share of labor income is associated with an increase in inequality in Germany in 2002-2008.

Methods

The study relies on the use of secondary research methods. It is a research method that focuses on using the existing published documents to generate insights into the object of the research. The emphasis has been laid on the prospect of synthesizing the existing data based on the meta-analysis of the published journal articles and the comparison to past studies.

The sampling of the publications has been based on the convenience and availability framework, where those associated with authentic sources have been prioritized. Databases of the International Monetary Fund (IMF) and the World Bank have formed the basis for the investigation. The research has been enriched and undertaken to the highest quality expectations with peer-reviewed journal articles from some of the leading researchers and other publications.

Results

Trends. Income Inequality

A comprehensive situational analysis of the CIS region leads to the understanding that a worrying trend toward rising inequality has also been closely associated with declining labor incomes, even though the extents of such situations vary across countries. A general observation is that the widening income inequality based on the Gini Coefficient values indicates significant rises across these countries. In some countries, the figures have reached what can be regarded as historical highs.

The understanding in this context is that great volumes of the gross domestic product (GDP) and GDP per capita do not necessarily imply the situation of equal distribution of income. The Gini index comes into function as the main indices that capture the differences in the income of the people within the CIS countries. The figures below indicate that the highest Gini index is associated with Georgia, Lithuania, and Russia. The lowest figures are observed in the cases of Ukraine and Moldova.

The countries have eventually been organized into two groups. The data indicate that in the first group, the unfavorable situation of income distribution is evident. The situation of the second group is relatively better even though it is still uncertain based on the prevailing economic conditions in those countries and the high levels of corruption. Poverty levels have remained high in Georgia even though they have been declining in recent years.

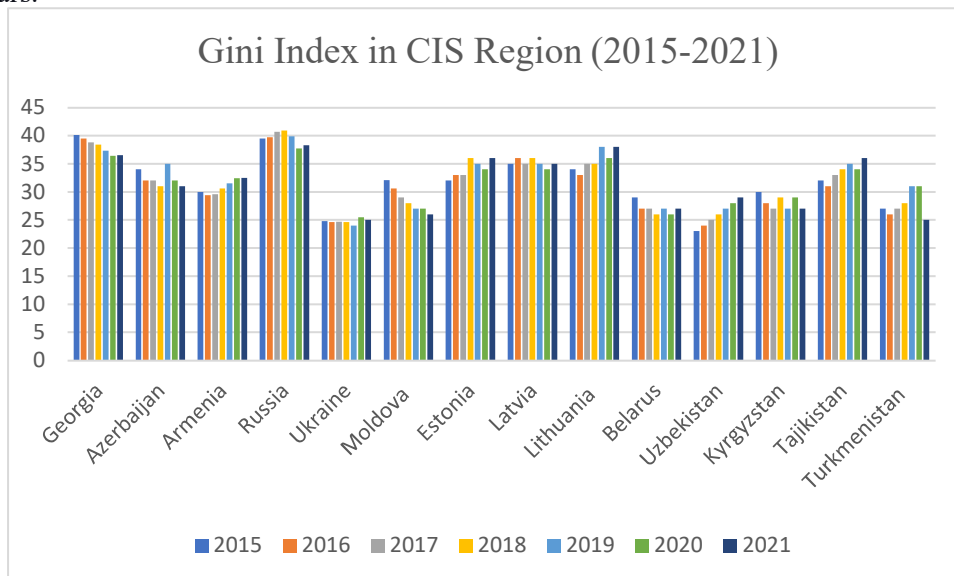


Figure 1: Gini Index in CIS Region

Source: IMF and ILO

It is also evident that the Gini index of Tajikistan has been comparatively higher than most of the CIS countries. Analysis of the population living below the poverty line indicates that Armenia, Kyrgyzstan, and Tajikistan have a high index that has prevented the formation of the middle class in recent years. The index

has remained high in Georgia despite the notable decreases. It can be argued that relatively better situations have been captured in Ukraine, Moldavia, Belarus, and Kazakhstan.

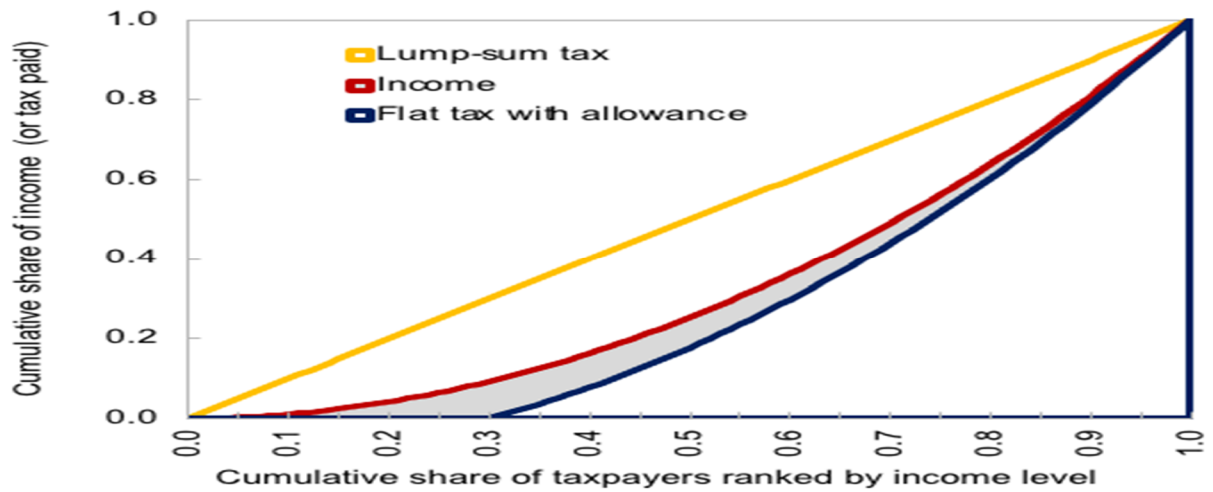


Figure 2: Lorenz Curve for ICS Region

Source: IMF and ILO

Labor Income Share

Recent evidence has led to the understanding that labor shares have declined in most countries worldwide (International Monetary Fund (IMF), 2007). Even though the adjusted and unadjusted labor income shares have been showing consistent trends in developed economies, the same has not been the case in most emerging economies, like the majority of the CIS countries. It is a situation linked to the difficulties of estimating the components and size of income for those in informal and self-employment within the emerging economies (Basilia T., Silagadze A., Chikvaidze T., 2001).

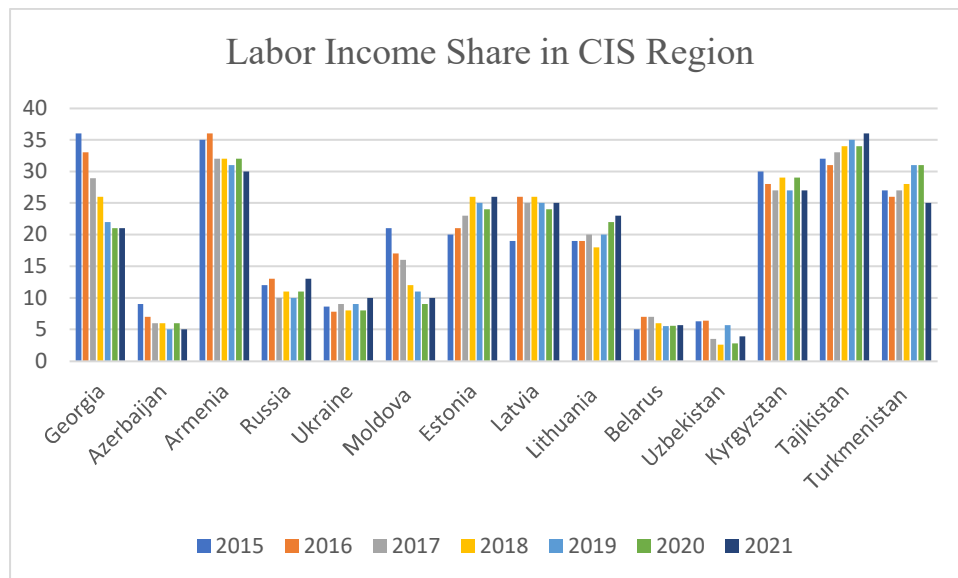


Figure 3: Labor Income Share in CIS Region

Source: IMF and ILO

The declining share associated with labor income has been distributed unevenly, where the top income earners are the greatest beneficiaries. The labor incomes of the top earners increased by more than 20 percent when those of the low-income earners slumped significantly (Jenkins, S., 2014). The trends observed in this context indicate that labor income share has been declining with the increase in income inequality. The implication is that countries that manage to reduce inequality are likely to observe the situation of increases in labor share.

In theory, it can be noted that the relationship between the two variables is not clear-cut based on the extent to which capital and labor incomes are distributed and also the magnitude of the alternative sources of income in situations where taxes and social transfers are taken into consideration (Milanovic, B. & van der Weide, R., 2014). Recent evidence has proved that the declines in labor income shares are associated with increased cases of inequality. Such a conclusion is not unique since labor income usually represents the higher share of total income associated with the low and middle-income groups (World Bank, 2016).

Impacts

Labor Market and Employment

Analysis of the labor markets indicates that income inequality can emerge from various avenues led by the gap between productivity and wages, increasing wage dispersion, employment levels, weakening market situations, and changes in employment relationship patterns. The gaps between productivity and wages become essential to the labor income share. In the countries experiencing declining labor shares, deteriorating wage growth was experienced, lagging behind productivity growth (Hyytinen, A. & Toivanen, O., 2011). In the context of the CIS countries, it is evident that labor productivity has gone way beyond real wage growth.

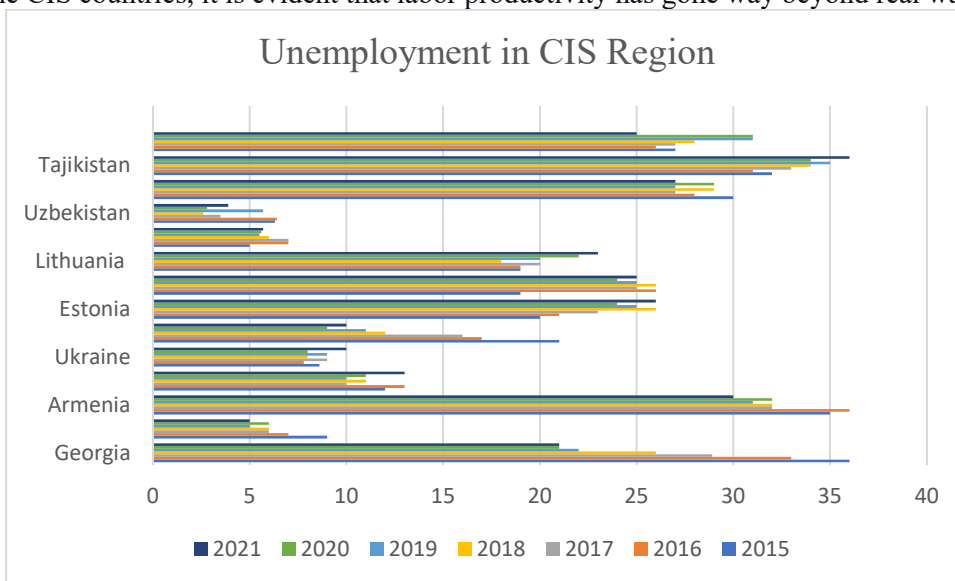


Figure 4: Unemployment in CIS Region

Source: IMF and ILO

The share of employed working individuals is a second factor within the labor market. It is a factor that is based on the availability of employment openings. In CIS countries, employment remains the major source of income where the prospect of having a job has higher implications in terms of income inequality. Various changes have occurred in income inequality in recent years due to the global financial crisis and the pandemic. It, therefore, occurs that both the macroeconomic policies and the labor market policies have facilitated the situation.

The changing nature of employment relationships characterized by the movement away from the traditional full-time and permanent jobs within the formal economy has also emerged as a source of inequality in the labor market. The CIS economies have been characterized by temporary and part-time work and informal jobs that are not well-remunerated compared to permanent ones. These are the situations that can be taken to partly explain the situation of the declining labor shares and the persistent cases of inequality (Alderson, A. S. & Nielsen, F., 1999).

Discussions

Social Protection and Redistribution

Situations of Decreasing labor income and income inequality have paved the way for situations of redistribution. These are the government's aspects via policies that include taxes and transfers. In CIS countries, mostly emerging economies, it is evident that there are limited cases of fiscal redistribution reflecting the lower levels of taxes and social spending. Moreover, these countries have continuously allocated a relatively smaller share of the incomes set aside for social spending which can be described as progressive redistribution compared to the advanced economies (Devaux, M., 2015).

The CIS governments have been relying on the instances of indirect taxes that include the value-added taxes that, unfortunately, have continued being regressive. The implication is that the differences associated with the redistributive impacts of spending and tax can explain most of the differences between the disposable income Gini coefficients between the CIS countries and the advanced economies (Sergi, B. S., Paunović, S., & Kosanović, R., 2018). It can, however, be noted that there exist considerable variations among the CIS countries concerning the impact of the redistributive policies and the role that they are playing moving forward.

Causes

Policymakers within the CIS countries are obligated to acquit themselves with the causes of the various undesirable trends to formulate and implement effective policy responses moving forward. Data has shown that in the CIS region, levels of inequality have escalated in recent years at a time when the labor share has also declined. It is a topic that has been greatly researched to understand and address the effects of rising inequality on the situations associated with economic growth (Lacroix, G., 2019).

Various factors have been identified by numerous studies about the topic and the trends therein. The most prominent factors are technological changes, globalization, changes in labor market institutions, changes in product markets, and privatization. Technological change has been noted as the main factor, followed by other factors like the weakening of the trade unions that affect the bargaining powers of the workers and the growth of the financial sectors.

Intensification of technology characterized by the situations of capital deepening and the diffusion of skill-based technology have continued to account for a large extent of the decline of the income associated with labor and, thus, the increased inequality in the levels of income (Mahutga, M. C., & Jorgenson, A. K., 2016). Secondly, the sector shifts that have seen the move from the labor-intensive to capital-intensive sectors associated with limited labor demands have been explaining the decline in labor shares (Cambois, E., et al., 2016).

Globalization has also been greatly cited as one of the causes of income inequality and the decrease in labor income shares. The workers' bargaining powers have been reduced across the CIS region since there is an intense situation of competition and the entry of what is regarded as labor-abundant countries from Asia into the global economy. Workers are finding situations where some of the production activities are undertaken in countries with comparatively lower labor costs, thus disadvantaging the local workers.

Recent years have been characterized by increased changes in labor market institutions and policies. Studies have established that weakening labor market institutions have been paving the way for the frustrated distribution of labor income shares, especially in the cases of the bottom and the low cadre of jobs (Pilc, M., 2015). The bargaining powers of workers have been greatly disrupted and eroded. Moreover, there have been cases of a decline in unionization rates and the weakening of the various labor market institutions.

The regulatory reforms initiated across the CIS region to strengthen production and ensure market competition have been counterproductive in some situations. They have affected how technological changes and globalization have translated into distributional changes. Most of the policies are linked to the widening wage disparities where highly-skilled individuals have been getting more benefits than their low-skilled counterparts. The effects of the complementary policies have also been called into question regarding the income inequality situation.

Finally, financial deepening has also been cited as a cause of income inequality and the decline of the labor income share in the CIS region. Situations have emerged where there has been increased pressure for profit maximization and shareholder value at the expense of sharing profits with the workers. Firms have also been increasingly pressured to focus on the core activities where they subcontract labor-intensive activities (World Bank, 2020).

Conclusions

The study has focused on the use of secondary research methods where publications by the IMF and the World Bank have been given the top priority and used in conjunction with other sources from legitimate sources. It has been established that CIS region is characterized by countries that are deeply immersed in the situation of rising income inequalities and declining labor shares. It is a situation that has been comprehensively analyzed in this context. Moving forward, efforts have to be made to ensure that the possible mechanisms are laid in place to create additional millions of jobs and regulate the markets to ensure that the income aspects of workers are addressed in the best ways possible. Governments will have to work in unison under

the umbrella of CIS and individually to ensure that proper policies are formulated and implemented in the best ways possible moving into the unforeseeable future.

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**ТМД елдеріндегі табыс теңсіздігі және еңбек кірістерінің үлесі:
тенденциялар, салдары мен себептері**

Аңдатпа:

Мақсаты: Мақаланың мақсаты ТМД елдеріндегі табыс теңсіздігінің тенденцияларын, себептерін және еңбек кірістерінің үлесін зерттеу.

Әдісі: Зерттеу қайталама зерттеу әдістерін қолдануға негізделген. Бұл зерттеу объектісі туралы ақпарат алу үшін қолданыстағы жарияланған құжаттарды пайдалануға бағытталған зерттеу әдісі.

Қорытынды: ТМД елдерінде жұмыспен қамту негізгі табыс көзі болып қала береді, мұнда жұмысқа орналасу мүмкіндігі табыс теңсіздігіне көбірек әсер етеді. Соңғы жылдары әлемдік қаржы

дағдарысы мен пандемияға байланысты табыс теңсіздігінде әртүрлі өзгерістер болды. Осылайша, макроэкономикалық саясат та, еңбек нарығындағы саясат та жағдайды жеңілдеткен сияқты.

Тұжырымдар: Зерттеу ХВҚ мен Дүниежүзілік Банктің жарияланымдарына ең жоғары басымдық берілген және заңды дереккөздерден басқа дереккөздермен бірге пайдаланылған қайталама зерттеу әдістерін пайдалануға бағытталған. ТМД аймағына табыс теңсіздігінің күшеюі және жұмыс күші үлесінің азаюы жағдайына терең бойлаған елдер тән екені анықталды.

Кілт сөздер: табыс, теңсіздік, жұмыс күші, ТМД аймақтары, Лоренц қисығы, Джини индексі.

Л. Курманғалиева, Е. Аймағамбетов, Б. Спанова, А. Мыржыкбаева

**Неравенство доходов и доля трудовых доходов в странах СНГ:
тенденции, последствия и причины**

Аннотация

Цель: Целью настоящей статьи является изучение тенденций, причин неравенства доходов и доли трудовых доходов в странах СНГ.

Методы: Исследование основано на использовании вторичных методов исследования, то есть данный метод фокусируется на применении существующих опубликованных документов для получения информации об объекте исследования.

Результаты: В странах СНГ занятость остается основным источником дохода, где перспектива иметь работу имеет более серьезные последствия с точки зрения неравенства доходов. В последние годы в неравенстве доходов произошли различные изменения в связи с глобальным финансовым кризисом и пандемией. Таким образом, получается, что как макроэкономическая политика, так и политика на рынке труда облегчили ситуацию.

Выводы: Исследование было сосредоточено на использовании вторичных методов исследования, где публикациям МВФ и Всемирного банка был отдан высший приоритет и они использовались в сочетании с другими источниками из законных источников. Установлено, что регион СНГ характеризуется странами, которые глубоко погружены в ситуацию растущего неравенства в доходах и снижения доли рабочей силы.

Ключевые слова: доход, неравенство в доходах, рабочая сила, регионы СНГ, кривая Лоренца, индекс Джини, снижение доли рабочей силы.