

# The Richest Poor

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Although the title sounds strange, according to official statistics, the poor population in Azerbaijan receive a greater share of income from the economy than the poor in other countries. Besides, the fact that the National Statistics Office has sent such information to Russian Statistics Department without disclosing it first to the public in the country is another interesting point.

Let's take a look at the recent official statistics on the living standards of the Azerbaijani population: monthly per capita household income (172 manats) in the poorest 20 per cent is only 2.3 times less than the household income (393 manats) in the richest 20 per cent. This difference is reported to be even smaller in spending.

According to official statistics, monthly consumption expenditures per capita (184 manats) in the poorest 20 per cent households are 2.1 times less than the monthly consumption expenditures per capita in the wealthiest 20 per cent households (387 manats). Interestingly though, in the UN Human Development Report 2016, the difference between average incomes of the poorest 20 per cent and the wealthiest 20 per cent population of Azerbaijan is reported to be 4.8 times, which is significantly different from what the national statistics office has announced to the domestic audience.

According to the UN report in question, among the 188 countries, the highest difference between these two average incomes is in Republic of Central Africa, Chile, Argentina, Venezuela, Brazil, and Peru, which varies between 10 and 17 times. The lowest average per capita income for low and high-income groups has been recorded in such countries as Norway, Germany, Denmark, Estonia and Belorussia (3.5 through 6 times).

Also, the latest UN Human Development Report has some interesting information on another interesting indicator, called "Palma Ratio", which reflects the level of social stratification. This ratio captures the difference between the incomes of the poorest 40 percent with those of the richest 10 percent. It has been noted that the incomes of the richest 10 percent in Azerbaijan are 1.2 times the income of the poorest 40 percent. The lowest "Palma coefficient" has been recorded in Norway and Sweden (0.9), while the highest in Venezuela, Brazil and the Republic of South Africa (3-7 times).

The households' income and expense database of the State Statistics Committee of Azerbaijan does not provide, at all, any information on another important indicator of the social stratification in the country. This indicator is about the distribution of the total income generated in the economy by quintiles (20 per cent income groups divided into 5 equal parts) and deciles (10 per cent income groups divided into 10 equal parts), as well as the Gini index, which is calculated based on this indicator and reflects income inequality in quantitative terms. By the way, developed countries apart, even with small exceptions among CIS countries, all national statistical bodies calculate and announce the Gini coefficient on their websites every year. It is quite surprising that both quintile coefficients of incomes and Gini coefficients of Azerbaijan can be obtained from external sources, but not from national statistics. For example, according to the 2016 UN Global report on Human Development, the average Gini coefficient for Azerbaijan stood at 0.318 in 2010 – 2015 years. It is worth noting that this coefficient varies between 0 and 1, with "0" representing complete equality and "1" complete inequality.

The comparative statistics of Russian statistics agency on social stratification in the world countries (the report named Russian population's social status and living standards was published in 2017) shows that the incomes of the poorest 20 per cent households are only 2.1 times less than the incomes

of the wealthiest 20 per cent. It is clear from this report that Azerbaijan is the country with the lowest level of social stratification recorded among 45 countries and the poor population groups have better income opportunities. For example, the difference between the average incomes of the poorest 20 percent households, who are at the bottom of social stratification pyramid and the wealthiest 20 percent household at the top was 13.6 in the Philippines, 10.2 in Indonesia, 8.4 in the UK, 8.4 in Armenia, 7.8 in Poland and 5.6 in Kazakhstan.

In the meantime, according to the same statistics of the Russian statistics agency, the poor 20 percent in Azerbaijan owns 15.4 percent of all revenues, while the wealthiest 20 percent has 27.2 percent in their hands.

Undoubtedly, the figures of social stratification in Azerbaijan as reported either in the UN Human Development Report or Russian statistics agency do not seem to adequately represent the real level of wealth concentration in Azerbaijan. It is obvious that in any country, the level of income (as well as, social stratification) is proportional to the level of concentration of wealth and investment. Of course, there is no official statistics available to keep the track of the distribution of national wealth across population groups in Azerbaijan, and no alternative research has ever been conducted in this area. Looking at the distribution of revenues between investments and work incomes in the National Accounts System, we can get a certain picture of income distribution. As per the latest statistics, the work incomes account for no more than 17-18 percent of the national income in the country (in developed countries, this figure varies between 50-65 percent). Incomes from capital and mixed revenues make up 65-70% of total national income (in developed countries, this figure is between 30 and 35 percent). There are not many facts, but few proving the high concentration of capital incomes in Azerbaijan. For example, the Minister of Taxes has recently announced that the annual turnover of 95%

of 180 thousand simplified taxpayers generates a total income of less than 100,000 AZN. Relying on this information, it is possible to discern that, at best, 12-15% of all business turnover in the country is generated by the subjects of small and medium entrepreneurship, while simplified taxpayers (this group mainly includes small and medium-sized businesses) account for approximately 90% of all active businesses. When 85-90% of the total business turnover is at the disposal of 10-15% large businesses, it is inevitable that capital revenues are formed according to this ratio too. On the one hand, there are official statistics showing that capital revenues are almost 4-5 times higher than work incomes, while on the other hand, there are indirect reports confirming the significant share of capital incomes owned by few business entities, it is quite natural that doubts arise on official statistics.

It is important to point out one interesting nuance here: Criminal cases over the last two years in the country's courts regarding the amount of wealth belonging to individual high-rank clerks somewhat shed light on the scale of wealth concentration in the country. For instance, lawsuits about the International Bank, the Ministry of Communications, and the Ministry of National Security over the 2016-2017 years have revealed that some papers about the clerks in question owning the 60 -70-million-manats worth wealth have been added to their court cases. it is worth mentioning that these persons involved in these lawsuits represent those in the middle and partially downstream tiers of the bureaucratic hierarchy. Also, the findings of independent bloggers and media reporters on the properties, which have an estimated worth of \$10 millions and foreign assets abroad (both financial and non-financial) can also be considered as sources indicating the real scale of social stratification in the country.

According to the Nobel Prize-winning economist Simon Kuznets, who is known for his research in the field of income inequality in the mid of the previous century, the incidence

of inequality is low in the economy where incomes are low. When an economy grows, the risks of social stratification begin to rise too. From this point of view, we need to heed the period as of 2004, when the social stratification in Azerbaijan has reached the peak. In the light of official statistics, a number of automobile brands with a market value of \$70 – 80 thousand began to flow into Azerbaijan after 2005. For example, according to the State Statistics Committee, the number of cars with high-brand automobiles (LandRover, Porsche, Lexus, Infiniti), which were not available in Azerbaijan's car park by 2006, is now approaching 20,000. Also, the construction of elite apartments with the cost of \$ 2,500 through \$ 3,000 per square meter in the central part of the city over the last 10 years can be considered as another series of such facts.

Some studies also focus on the dynamics of spending in order to reveal the real level of social stratification. This is because in most cases it is easier to hide incomes than expenditures. People spend their earnings on either financial (stock, bond, deposit) or non-financial instruments (real estates, movable properties, durable home appliances and jewelries, etc.) or on various services (education, health, leisure). In this regard, the World Bank's 2008-2015 study on the real scale of health expenditures in Azerbaijan (**"Challenges on the Path to Universal Health Coverage: The Experience of Azerbaijan"**) is of great interest. One of the main conclusions of the study is that despite the fact that the population's health expenditures in the country have considerably increased over the last 7 years, this increase is mainly due to the wealthiest 20 per cent of the population, and more than 30 per cent of total health expenditures is attributable to 16 per cent of all households. The authors of the report state that 80% of all the expenses incurred by people on their health goes out of their own personal budgets. According to the State Statistics Committee of Azerbaijan, the share of health expenditures in total consumption expenditures

varies between 4-6%, depending on quintile groups, while according to the World Bank's survey, this indicator is on average 12.5%. The study shows that in 2015, the richest 10 per cent of households had per capita health care costs of 1120 manat, while this figure for the poorest households was only 33 manat. Apparently, the World Bank's study shows that the difference between the annual health expenditures of households in the top and bottom decile groups is more than 30 times. However, the reports published by the State Statistics Committee of Azerbaijan on the results of the household surveys shows that this difference is three times. In other words, the wealthy 10 percent had per capita health care costs of about 300 manat per year, vis-à-vis the poorest 10 per cent of households' per capita costs of about 100 per cent. There are two striking differences observed in these 2 sources on health care costs: **1) Health-care costs of the wealthy households are 4 times less than the costs revealed by the World Bank study; 2) health expenditures of the poorest population groups are almost ten times more in the national statistics than the World Bank estimates.**

Thus, the picture of social stratification in the country is dramatically distorted by the fact that the national statistics show that the difference between the wealthy and poor population's health expenditures so sharply low. This mere fact can be considered as part of the main evidence that the real level of inequality in the country is much higher than it is reported by the official statistics.

Considering a similar difference in the education and leisure expenses, as well as automobile and housing purchases, of wealthy and poor populations, the real picture gets much clearer.