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Financial levers to reduce social inequality in Kazakhstan

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Abstract.

The article examines the current problems of growing social inequality in Kazakhstan, reveals its causes and outlines ways to overcome it. The purpose of the study is to develop recommendations for overcoming income inequality in Kazakhstan based on an assessment of its level and factors. The authors conducted a comparative analysis of the depth and severity of poverty in Kazakhstan. The article proves the bias of the statistical assessment of poverty, presents calculations using the methodology of the World Bank. The research uses methods of comparative, statistical analysis, a systematic approach, methods of empirical and expert assessment. Digital data from the Bureau of National Statistics of Kazakhstan and the World Bank were used to conduct the study.

Based on the analysis, conclusions are drawn about the growing social inequality, which is expressed in income polarization between rich and poor. It is proved that social inequality increases in conditions of rising inflation. The assessment of the poverty level based on the subsistence level and the consumer basket is outdated and does not meet the requirements of modern realities. This exacerbates poverty and misery, demonstrates the inefficiency of state social policy, its inconsistency with market mechanisms.

The problem of regional differentiation has a special impact on inequality, which is expressed in a significant gap between indicators in different regions of the republic. Based on the analysis, recommendations are made to overcome social inequality based on the introduction of a progressive income tax scale, strengthening tax incentives for business activation, improving the methodology for assessing poverty and social benefits.

Keywords: key social inequality, poverty, taxes, living wage

1. Introduction

The problems of social inequality are typical for most countries of the world. They are a consequence of the shortcomings of the market economy. This leads to a stratification of society, an increase in poverty problems, and a decrease in the standard of living of the population. Therefore, the imperfection of the market economy should be neutralized through public policy.

The purpose of the study is to assess social inequality in Kazakhstan and develop measures to reduce it. Achieving this goal involves solving the following tasks:

- systematization of theoretical approaches to explore the possibilities of overcoming social inequality and poverty based on the study of modern research by foreign scientists;
- assessment of the poverty level in Kazakhstan using existing methodological approaches that have proven themselves in economic literature and practice;
- identification of shortcomings in the methodology for assessing social inequality and poverty in Kazakhstan;
- analysis of factors influencing the level of poverty and the causes of social inequality in Kazakhstan;
- development of methodological and practical recommendations aimed at leveling social inequality in Kazakhstan.

Reducing inequality is one of the 17 Sustainable Development Goals set by the UN General Assembly (World Bank, 2023). In 2023, Kazakhstan ranks 66th out of 166 countries in the world, having lowered the rating of the previous year. Social inequality is expressed not only in different levels of income and property for different categories of the population, but also means unequal access to education, health care, and social mobility. In Kazakhstan, as in many countries of the world, there is also a problem of inequality in the standard of living of people living in different regions.

The problems of social inequality in different countries are solved mainly through the use of fiscal levers. Anthony Atkins, exploring the problems of social inequality, identifies 5 tools – technology, social protection system, employment and capital sharing. At the same time, as the main one, he notes taxation as a set of levers for achieving social justice (Atkinson, 2015).

In world practice, poverty problems are solved on the basis of state social protection programs, which include various benefits and allowances for socially vulnerable segments of citizens. However, such support is possible provided that the level of taxation is sufficiently high (Granger et al., 2022).

The second approach is based on the principle of social responsibility of people for ensuring an adequate standard of living for their family at the expense of labor income and entrepreneurial activity. The role of the state is to create a favorable environment and a legislative framework to stimulate entrepreneurial activity.

The current social protection system in the republic does not meet modern realities and needs to be improved. According to the authors of the article, the problems of leveling social inequality should be solved by activating tax levers and creating conditions for productive employment.

2. Body of paper

Social inequality is one of the most pressing problems in the world today. It is expressed, first of all, in a decrease in the standard of living of people, an increase in poverty and extreme poverty against the background of the growing wealth of other segments of society.

The combinations of tax regulators and budgetary instruments used in different countries to level social inequality are formed within the framework of models:

- social insurance model – assumes a high level of taxation and an appropriate level of social benefits (Germany, the Netherlands, Australia, Switzerland, France);

- liberal model – provides for minimal government involvement in social security (Great Britain, Ireland, USA, Japan);

- Scandinavian model (Denmark, Sweden, Finland, Norway);

- a rudimentary model (Italy, Spain, Greece, Portugal) (Klimova et al., 2015).

In the research of foreign scientists, the term "inequality" is rarely used, income is more often used as an object, sometimes real estate. Only a small number of studies by modern foreign scientists consider inequality as an object. Thus, it is noted that the income tax structure in Germany and Belgium is effective in solving the problems of leveling inequality. The study compares proportional and progressive taxation systems in different countries, noting that, in particular, in Lithuania, the proportional rate is more preferable for this country than the progressive scale in Poland, taking into account the specifics of these countries. Stephenson notes that in Bulgaria, the introduction of an income tax threshold corresponding to the average income of the country will reduce inequality by about 4% (Stephenson, 2018).

Another study of the role of taxes in solving problems of social inequality proved the role of personal income tax not only in solving problems of inequality, but also proved its importance in reducing decentralization and social well-being (López-Laborda) et al., 2005).

A large number of studies have been devoted to the study of poverty problems. The scientific foundations for improving living standards in the context of global economic growth were laid by renowned scientists, including A. Atkinson, J. Greer, T.Kalan, A.Sen, J. Foster and others. However, in the works of scientists, the problems of poverty in the research of modern authors are studied mainly from the point of view of social security (Yu et al., 2021; Navruz-Zoda, 2021; Yu et al, 2021). At the same time, the research is dominated by a subjective approach related to the characteristics of a particular country.

Modern researchers of the problems of poverty and social inequality often link them with environmental issues, the provision of clean drinking water, and food (Villani et al., 2022; Semet, 2024; Hajjar et al., 2021]. To solve the problems of poverty reduction, the authors propose the development of eco-tourism and the introduction of environmental taxes according to several scenarios, taking into account the negative impact of carbon emissions on certain households.

A number of articles show the specific feature of a country that determines the sources of social inequality and ways to reduce it (Little, 2022; Granger et al., 2022; Smith, 2024;

Kakhniashvili, 2023; Bétas et al., n.d.; Oswald, 2022). Despite the differences in these countries, the authors propose identical solutions – progressive taxation of income and property, expansion of government social spending, and the introduction of taxes on luxury.

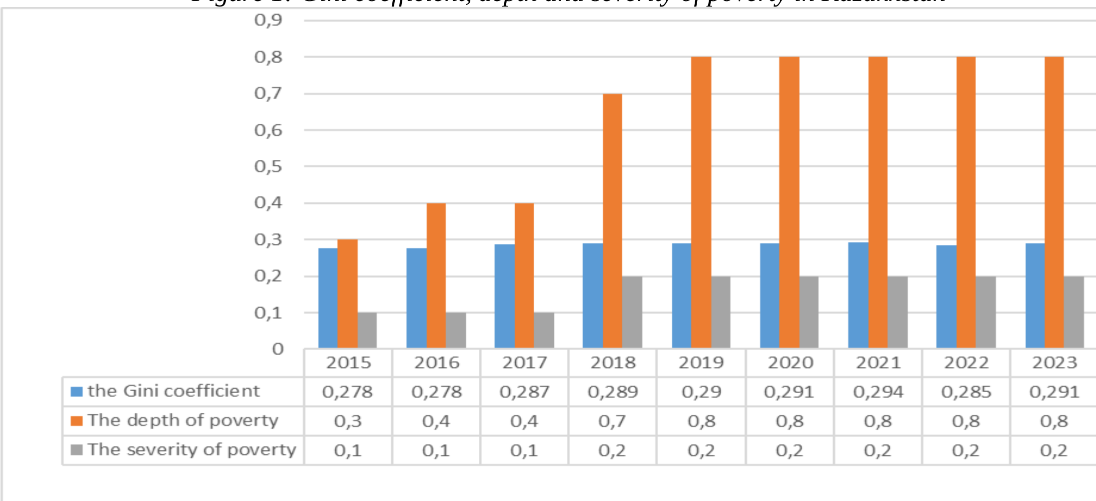
In the most cited studies published in Scopus publications, scientists Paes N.L. and Bukharin M.N. emphasize the role of the progressive scale of taxation in achieving social justice (Paes et al., 2006). Income inequality in Slovakia decreased after the introduction of the progressive scale (Mozdzierz, 2015). This conclusion is confirmed by the fact that, in Romania in particular, social inequality is a consequence of the country's proportional income tax rate (Mihaescu et al., 2009; Abramovsky et al., 2023). At the same time, other studies note that in some countries of the Asia-Pacific region, the progressive scale did not contribute to leveling social inequality (Belozyorov at el., 2018).

Some researchers emphasize the gender aspect of inequality (Abramovsky et al., 2023), suggesting a differentiated approach to taxation of men and women as a solution.

The spread in income levels among different categories of citizens in the country creates social risks, reduces confidence in the future and trust in the government.

The most common indicator of social inequality in the world is the Gini coefficient.

Figure 1: Gini coefficient, depth and severity of poverty in Kazakhstan



Source: World Inequality Database

An analysis of official statistics in Kazakhstan has shown a fairly low level of poverty indicators. But this does not reflect a solution to the problems of income inequality, but is related to the overall low income level in Kazakhstan (according to OECD standards). Given the high unemployment rate, the significant gap between average and median wages, as well as international comparisons, it can be concluded that official statistics in the country are unreliable.

Today, the poverty level in the republic is calculated as 70% of the subsistence level in this region, which is determined on the basis of the consumer basket. The World Bank's methodology determines the poverty level based on $6.85 per day per person (Adu et al., 2023). Comparing these two approaches, it can be noted that the poverty threshold calculated according to the legislative practice of Kazakhstan is three times lower than the poverty level according to the methodology of the World Bank. That is, the current methodology in Kazakhstan does not correspond to the current economic situation in the country.

Even despite the not entirely truthful statistics, there are more than 1 million people in Kazakhstan today whose incomes are below the subsistence level. During 2023, the number of families whose incomes are below the subsistence level increased from 135,200 to 177,800 families. Moreover, more than 43 thousand people (0.2% of the population of the Republic) have incomes below the cost of a food basket (equivalent to 80 euros) (Bureau of National statistics, 2023).

The World Bank defines the extreme poverty line at $2.15 per day per person. According to this method, Kazakhstan is located between Ethiopia and Bangladesh, despite the presence of large natural resources and oil (ADB, 2023).

The study of the factors of social inequality in Kazakhstan allows us to identify the main factors of social inequality:

- low income level;

- high unemployment rate;

- the presence of unproductive employment;

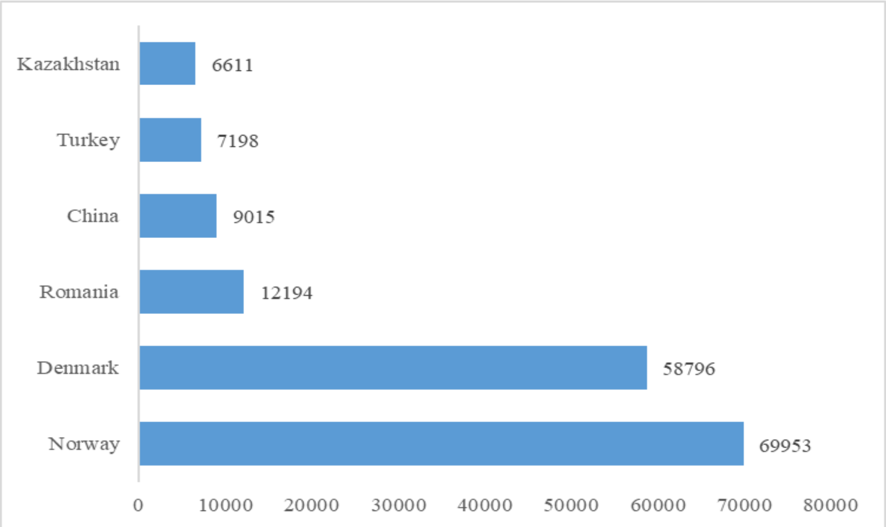
- insufficient level of entrepreneurial activity;

- low level of social transfers related to the crisis of public finances in the country;

- lack of incentives to find income due to insufficient financial literacy of the population and low social responsibility.

The analysis showed that the main factor of inequality is the low income level in the country. We have estimated income based on the indicator of net national income per capita. The analysis showed that this indicator lags significantly behind not only developed countries, but also neighboring countries (Figure 2).

Figure 2: Net national income per capita in some countries

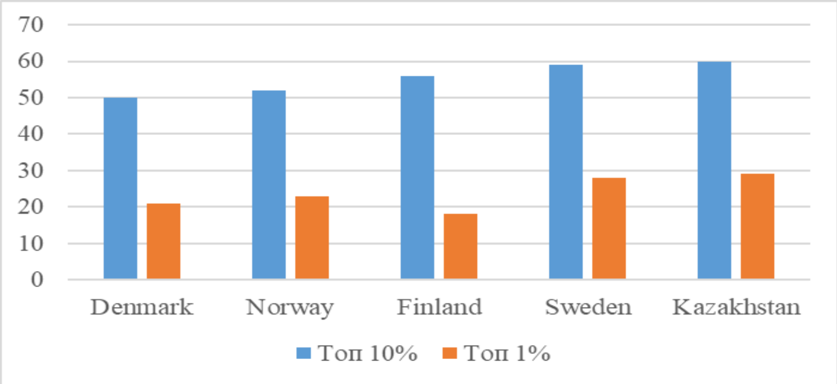


Source: World Inequality Database

Research and scientific systematization of theoretical and methodological approaches to the phenomenon of social inequality allow us to conclude that most scientists recommend taking into account not only the income of the population, but also their ownership of assets when assessing the level of inequality.

Income inequality is also evidenced by the figures reflecting the ownership of assets in the country by 1% and 10% of the richest people (Figure 3).

Figure 3: The level of wealth in some countries

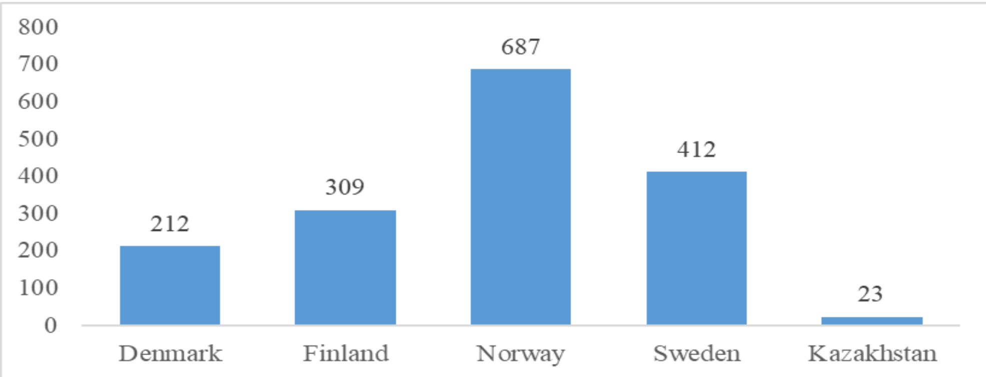


Source: World Inequality Database

As can be seen from the figure, the share of the richest 1% of the country's population in Kazakhstan accounts for about 1/3 of all assets, and in developed countries this figure is much lower. In these countries, the richest 10% of people account for half of the assets, and in Kazakhstan more than 60%.

At the same time, in terms of the average value of assets per 1 adult (Figure 4), Kazakhstan lags significantly behind other countries.

Figure 4: The average value of assets per adult in 2022, thousand dollars

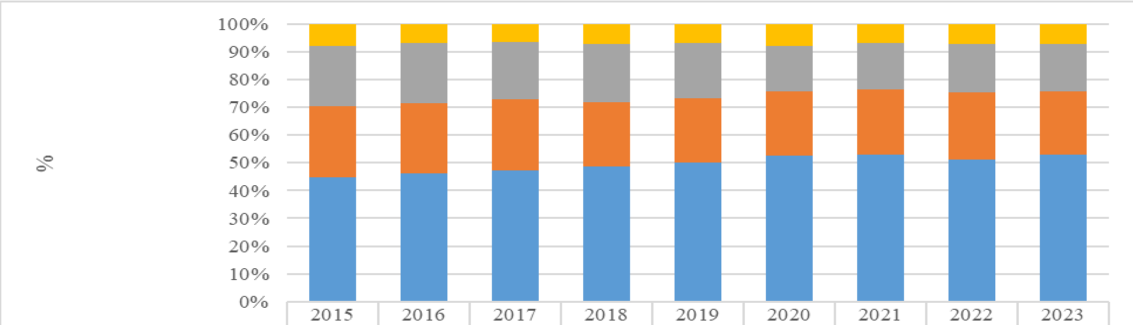


Source: World Inequality Database

Norway, which is the largest exporter of oil and gas, has a figure 23 times higher than Kazakhstan, which is also rich in oil and other natural resources. This highlights the significant gap between rich and poor in the country.

Social inequality is expressed not only in income and property inequality. Inequality means the lack of equal access to education and healthcare (Discover Sociology, n.d.). An analysis of household expenditures in Kazakhstan allows us to conclude that during the analyzed period, the share of expenditures on food is growing. At the same time, there is a significant gap between rich and poor. The lower the family income, the more expenses on food and vice versa, the higher the income, the more diversified the structure of expenses and the lower their share on food. About 7% of the surveyed respondents reported that they regularly face hunger due to insufficient income.

Figure 5: The structure of household spending in Kazakhstan



	2015	2016	2017	2018	2019	2020	2021	2022	2023
Taxes and other services	7.8	6.7	6.5	7	6.8	7.8	6.8	7.3	7.1
Paid services	21.9	21.7	20.7	21	20.1	16.4	16.7	17.2	17.2
Non-food products	25.6	25.4	25.7	23.5	23.1	23.1	23.5	24.3	22.6
Food products	44.7	46.2	47.1	48.5	50	52.7	52.6	51.2	53.1

Source: Bureau of National statistics
Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

The problem of inequality is aggravated by the inequality in the standard of living of people living in different regions of the republic. If we estimate GRP per capita, then its level in the richest region – Atyrau region – exceeds the indicator in the poorest region – Turkestan region – by more than 10 times (Halykfinance, 2024).

The problems of regional differentiation with uneven distribution of productive forces and differences in the socio-demographic situation are exacerbated by the problems of forming local budgets, from which social benefits are mainly paid. Since every citizen of Kazakhstan has equal rights enshrined in the Constitution of the Republic of Kazakhstan in providing social benefits, transfers are allocated from the republican budget to the poorest regions. Thus, a vicious circle is formed. Insufficient number of jobs and low entrepreneurial activity are factors of poverty of the population and increase the deficit of local budgets, their dependence on republican transfers.

A high level of government involvement with a complex system of social benefits hinders market reforms by distorting them. As the analysis showed, the country still has shortcomings in the methodology for assessing poverty and social inequality. The current practice of assessing these social problems generates an incorrect assessment of the level of social risks in Kazakhstan, which does not allow us to develop an effective system of social protection of the population.

Under the current conditions, it is more acceptable for Kazakhstan to create a favorable business environment, create conditions for productive employment and, on this basis, increase the standard of living of the population.

In modern conditions, the following measures are needed to solve the problems of poverty in Kazakhstan.

First of all, there is a need to change approaches to measuring poverty. The level of poverty is the basis for the provision of a number of social benefits, therefore it is extremely important not to underestimate its level. The measurement of poverty based on the subsistence level and the consumer basket does not stand up to criticism, since it contains a very limited list of products and non-food products, the assessment of which does not correspond to modern realities. The growth of inflation outstrips the indexation of social benefits and reduces the effectiveness of state social policy. Therefore, starting from January 1, 2025, the poverty level in Kazakhstan is supposed to be measured at 50% of the median income.

Also, in order to increase the objectivity of measuring the level of poverty, it is advisable to take into account the provision of housing for citizens of the country, the availability of which is one of the global problems of the republic.

Poor quality of life is primarily due to insufficient income levels. In order to improve the standard of living, it is necessary to promote the growth of incomes of the population. At the same time, we are talking, first of all, about the growth of productive employment, the development of entrepreneurship and increasing the responsibility of citizens for providing for their families.

The set of measures to solve these problems, according to the authors, should include:

- the introduction of a progressive scale of individual income tax, in particular, we have revealed that there is no unified methodology for determining the scale of rates. When determining the rate, it is necessary to take into account the income level of the population and entrepreneurs, as well as to develop a criterion for assessing the security of the population. And with this in mind, set the amount of individual income tax rates. It is also necessary to consider the use of economic models to assess the impact of various individual income tax rates on taxpayers' behavior, budget revenues, GDP, employment, etc. (take into account the experience of the OECD and other developed countries). It is correct to define the "middle class". For example, according to the OECD methodology, the "middle class" is people with an income of 75-200% of the median income. And only taking into account all these factors should increased taxation be introduced. For example, in Russia, increased income taxation is being introduced from 2025 for only 3.2% of the population.

- creation of tax levers to stimulate entrepreneurial activity. Thus, as part of the simplification of tax administration, it is planned to reduce the volume of tax reporting by 30%. This includes the cancellation of a number of calculations and declarations. As well as simplification of the content of tax reporting: in particular, the exclusion of unnecessary information in the forms. Also, for value added tax (VAT), a reduced rate should be provided for producers of food, basic necessities and agricultural products. On corporate income tax, the rate for agricultural producers should be lowered from 10% to 3%, and for enterprises in the processing sector of the economy, the rate should be lowered from 20% to 10% in order to stimulate the non-resource sector of the economy.

- scientific elaboration of social standards that would ensure an adequate standard of living in the republic;

- improvement of financial and institutional measures to increase productive employment;

- strengthening the responsibility of local executive bodies to reduce unemployment, the formation of regional employment centers;

- improving the methodology for assessing poverty and calculating social benefits in order to strengthen state guarantees of support for the poor and socially vulnerable citizens.

3. Conclusion

The issues of leveling social inequality and combating poverty should be solved not at the expense of budgetary resources for the payment of social benefits, but on the basis of joint efforts of the state, business and citizens themselves. There is a lot of work to be done in Kazakhstan to create effective conditions for improving the business climate. The reform of fiscal levers should be carried out in the direction of stimulating private initiative, bringing businesses out of the shadows, differentiating income and property taxation, and creating a clear and fair tax system. These recommendations have practical significance and can be considered by the Methodological Council on Taxation and the Tax Alliance to make proposals and amendments to the Draft new Tax Code of the Republic of Kazakhstan.

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