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**POVERTY IN THE MODERN KAZAKHSTAN  
AND NEW POSSIBLE WAYS OF SOLVING THEM**

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***Abstract:** The paper formulates new scientific approaches to the methodology of poverty reduction for such specific groups as young people and the self-employed. The purpose of research is to the development of proposals for improving the methods of poverty reduction in the target population groups of Kazakhstan. The target social groups, which under current conditions are the most in need of fundamental changes in poverty reduction methods in the context of ensuring socio-political stability and social modernization of Kazakhstan's society, are those of the self-employed and the youth who perceive and reinforce in their environment consumer behavior patterns inherent in chronic poverty. Practical recommendations and concrete proposals for the improvement of social policy and the reduction of poverty in the population of Kazakhstan are presented.*

***Keywords:** young people, self-employed population, poverty, social mechanisms, behavioral stereotypes of chronic poverty.*

**1. Introduction**

In recent years, a number of negative trends can be clearly observed in Kazakhstan's economy – trends underpinned by the low efficiency of budget spending on industry and social policies.

In a sense, it can be claimed that the Republic of Kazakhstan went back to the socialist methods of economic activity: Kazakhstan has been spending about a quarter of its budget on the development of non-resource sectors of the economy for some several years already. What's more, such spending has been rather inefficient: structural imbalances due to the dominant role of the mining industry still persist in the economy.

Spending on social policies and the contribution of government payouts by way of bank transfers to the incomes of the population in Kazakhstan have also reached historic highs, but the social security system has failed to become an effective institution for poverty alleviation: economic growth has ceased to have a positive impact on the structure

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of poverty. Methods used for poverty reduction in Kazakhstan were developed under the liberal economic theory but have demonstrated their inefficiency and failure and have actually stopped working under the present-day conditions.

Therefore, in the near future, the Kazakhstan society, in the words of N.A. Nazarbayev, will have to get rid of “false social benchmarks” [1] and of scientific approaches based on the concept of free-market fundamentalism and on methods of liberal economic theory: “utopian ideas both of liberal and socialist orientation belong to the last century” [1]. Today, the need to move on to qualitatively new methods of managing the socio-economic development of the Republic of Kazakhstan has ceased to be a matter of purely academic discussion. These ideas were fleshed out and laid down as regulations in the “Kazakhstan-2050” Strategy (hereinafter: the “Strategy”) [2] and in the “Concept of the Social Development of the Republic of Kazakhstan for the Period Until 2030” (hereinafter: the “Concept”) [3]. In particular, they provide that:-

- the policy of poverty reduction will now be based solely on the personal initiative and the willingness of an individual to break out of the vicious circle of poverty and engage in productive labor;
- by 2017 the mechanism of a social contract will have been adopted as the main form of providing conditional cash payout assistance (that is, it is planned to introduce the idea of conditional government benefit payouts);
- the main method of poverty reduction will be professional training in, and the mastery of, new professions.

However, in circumstances where, according to the Sample Survey of Households (“SSHS”), the leading cause of poverty in Kazakhstan is low wages [4], it is quite justified to have doubts with regard to the universality of the approach set out in the Concept, especially as regards its effectiveness in reducing poverty in some specific social groups in Kazakhstan. This allows us to formulate *the object of research at hand* which is the contradiction between the goals of a transition to qualitatively new methods of managing the Republic’s socio-economic development and methods of reducing poverty used in Kazakhstan until recently.

## **2. New Approaches to Reducing Poverty in Kazakhstan**

The search for new approaches to reducing poverty in Kazakhstan is an urgent problem because:

- traditional approaches to poverty reduction, developed under the liberal economic theory, have been demonstrated to be ineffective and inappropriate in the conditions of modern Kazakhstan;
- currently a transition is ongoing to qualitatively new approaches and methods of managing the socio-economic development of the Republic of Kazakhstan as defined in the “Concept” [3];
- methods to reduce poverty, set out in the “Concept” [3], are not effective enough as regards certain socially relevant groups in Kazakhstan.

Let us analyze, albeit briefly, publications by Kazakhstan authors on the issue of research at hand.

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The Agency for Statistics of the Republic of Kazakhstan (the “ASRK”) annually publishes a range of sufficiently detailed statistics data on living standards, including those formed on the basis of a sample survey of households and analytical materials posted on the ASRK website. The main source of information on poverty and well-being of the population of Kazakhstan is a sample survey of households (SSHS) regularly conducted by the ASRK [4].

In recent years, the expert community has engaged in a heated debate about how to improve the methods of measuring and quantifying poverty and with regard to choosing a strategy for the further reduction of poverty. A. Avrov, M.V. Akhmedyarova, A.U. Abishova, E.Ye. Baymukhanbetov, Zh. Kaydarova, I.B. Kolmakov, A. Koshanov, S.M. Kunitsa, G. Karimova, T.V. Kudasheva, T. Pritvorova, among others, made a number of suggestions:

- the subsistence level cost of living as per official statistics and the laws of Kazakhstan received the status of the primary social indicator and is used to assess the overall standard of living of the population, to measure poverty and to justify the minimum living wage, the amount of pensions and other social benefits and payouts (A. Koshanov) [5];
- measurement of inequality is conducted based on consumption, whereas in most other countries inequality is measured based on per capita income, which complicates cross-country comparisons (I.B. Kolmakov) [6];
- the average salary in the country is only 2-2.5 times higher than the real cost of living, the calculated value of which is greatly understated; the structure and composition of the cost of living / minimum living wage does not at all meet the standards of the lower threshold of subsistence; 70% of this amount is spent on food (A. Koshanov) [5], with the size of the food basket being significantly underestimated (T. Pritvorova, Zh. Kaydarova) [7].

Until recently, Kazakhstan experts were advocating a variety of methods for poverty reduction which however placed a common emphasis on the need to significantly increase specific spending on social support so as to raise its level to the volume adopted in most of the EU countries.

It was suggested in the first place:

- raising the subsistence cost of living from 0.19 to 0.30 of the nominal average wage (S. M. Kunitsa) [9];
- increasing the amount of targeted and housing assistance (A. Avrov) [10];
- increasing the minimum wage and the minimum pension (T. Kudasheva) [11];
- increasing the size of the food basket which is currently significantly underestimated (T. Pritvorova, J. Kaidarova) [7].

However, none of these ideas were accepted. It is possible that they were not accepted because they offered nothing new. “Increasing the level of social support from 4.2% in 2010 to 10% of GDP in 2015” as was proposed by S.M. Kunitsa [9], in circumstances where the methods used to reduce poverty no longer have a positive impact on the structure of poverty could mean only one thing -- money will be wasted.

Currently, the world economic science is undergoing a transition to a qualitatively new scientific approach to reducing inequality and poverty. Unfortunately, it should be

admitted that these scientific views have not yet met with sufficient acceptance in Kazakhstan. The need for Kazakhstan's science to use the new scientific apparatus underpins the relevance and practical importance of this study.

*The hypothesis of the study* is that the approaches to poverty reduction proposed in the "Concept" [3] can be significantly improved with regard to a number of specific social groups of Kazakhstan's population provided there is an active use of social mechanisms to improve the level of *intra-group trust, self-organization and mutual aid* (transfers of funds made by individuals) and to destroy the prevailing behavioral stereotypes of chronic poverty (the social aspect of poverty) and to increase well-being (the economic dimension of poverty).

*The purpose of the study* is to develop proposals for improving the methods of poverty reduction in the target population groups of Kazakhstan.

**Following are the key findings:**

1. We proceeded from the interpretation of poverty as a complex socio-cultural, natural phenomenon. To fight against poverty "in general" is as meaningless, as fighting against the rain: *methods to reduce poverty must necessarily be targeted and intended for a certain specific population group in each case.*

In its most general form the idea behind the approach proposed in the course of our research is stimulating certain social mechanisms to encourage the processes of *destruction of behavioral stereotypes of chronic poverty with members of the target population groups* (impacting the *social aspect of poverty*) and to bring on the concomitant increase in well-being (impacting the *economic aspect of poverty*).

2. In each country, it is *political expediency* that determines ways to reduce income inequality, to overcome serious deviations from the prevailing living standards and restrictions on the choice of life chances (deprivations) - and, consequently, the choice of methods for measuring poverty. Most countries have chosen to develop several poverty thresholds based on different methodological principles, but representing non-deviating and consistent solutions for a particular range of problems. For the purposes of national poverty monitoring, the EU and OECD countries use *the relative poverty threshold* whose determination is based on the median income. [12]

However, there is no single model of social policy, even if the problems are similar. Each state chooses poverty monitoring methods and poverty reduction methods, formulates the principles of social policy in its own way, ignoring those scientific recommendations that are not relevant to the chosen policy [13].

In practice, the reduction of poverty is not a "science" at all but is above all "the art of achieving the possible", a compromise resulting from multi-factor optimization of divergent interests and efforts of various groups of the political and financial elite in the specific historical conditions in a particular country.

The practical definition of the poverty threshold (the income level separating those individuals whom the government recognizes as poor and who the government provides assistance to from all the other "non-poor" citizenry) is the result of a political compromise between the various "interest groups" comprising the ruling elite.

Among these interests can be identified the following:

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- providing socio-political stability in society by means of “economic neutralization” (bribery) of specific social groups that are potentially capable of taking part in the overthrow of the existing government in one way or another;
- increasing the volume of added value through the use of cheap labor as much as possible;
- increasing the volume of added value by stimulating growth in demand within certain sectoral markets.

3. Methods of reducing poverty around the world developed in the second half of the twentieth century – both in “old universal welfare states” and in “the poorest regions of the world” and in “later-development social states” have demonstrated their inadequacy.

This is very clearly confirmed by numerous Russian studies in recent years; it is also emphasized in the “Concept”. Analysis of the traditional theoretical-methodological and practical approaches to the definition and measurement of poverty has shown that they do not meet the modern conditions of social and economic development in the Republic of Kazakhstan. Methods to reduce poverty based on the concepts of free-market fundamentalism and the postulates of liberal economic theory need to be reviewed and revised.

At the same time Kazakhstan should not waste time and energy on trying to learn from the experience of poverty reduction in the “old universal welfare states”, Kazakhstan should not jump to using “advanced” Western poverty impact methods or “internationally recognized” poverty monitoring methodologies.

The value of the Russian experience of combating poverty for Kazakhstan is in that, in contrast to the “old universal welfare states”, the poverty in Russia and in Kazakhstan is not the result of years of evolutionary development of the economy and society but rather is the result of a “snapshot” social catastrophe, as it were.

4. In Kazakhstan, where structural poverty had been eradicated and forgotten, it then developed rapidly in just a few years in the early 1990s. In 1993, the third of the population lived below the poverty line. After the collapse of the command-administrative system, the country found itself in the midst of a devastating economic crisis, with inflation at 3,000%, rising unemployment, lack of government revenues, delays in the payment of salaries, pensions and social benefits.

The situation then led to the development of peculiar mechanisms of *self-reproduction* of poverty. According to terminology adopted by the ASRK, those were “self-employed population” and “non-observed economy”. In the early 1990s a phenomenon developed which continues to exist in the present time – the socio-economic phenomenon of material distress and chronic poverty of working people who cannot in principle increase their income by increasing their labor activity.

5. At the present day, the share of “those in dire need” in the population of Kazakhstan is down to 1.9%. According to SSHS data, the most numerous are those population groups that have “enough money only for food and clothing” and those whose representatives “have difficulty buying items of clothing” (in total they make up 42.2% of the population). The second largest group is those “not poor but not middle class either” – this groups makes up 37.5% of the population. People in these groups have “difficulties with the purchase of durable goods” and, of course, they have “insufficient funds for the purchase of a housing property or a car”. Almost everything that they earn, they

immediately spend on their daily expenses - food, clothing and shoes. Savings “for a rainy day” are non-existent with these people. The groups representing the “middle class”, the “upper middle class” and the “rich” add up together to 18.4% of the population [4].

The growth dynamics of the purchasing power of the population is not comforting either. Six years ago - in February of 2009 - the amount of the so-called “vitally necessary expenses” was 59.7% and in 2014, 58.6% [4] - that is, in five years, the growth of purchasing power of an average citizen of Kazakhstan amounted to only 1.1% (in real terms it is roughly equal to the price of two pairs of socks [8]).

Thus, we do not have any reason for an optimistic social policy assessment. The vast majority of the population ( $42.2\% + 37.5\% = 79.7\%$ ) have a relatively low income, while 42.2% have incomes slightly above the subsistence level. If the Government of the Republic of Kazakhstan increases the subsistence level even by very little, the share of the poor (which may qualify for government payouts) will immediately increase significantly (by tens of percentage points).

6. The target groups in our study, which in today's Kazakhstan are especially in need of fundamental changes in poverty reduction methods in the context of ensuring the socio-political stability and social modernization of Kazakhstan's society, are those of the self-employed and young people who have already accepted, and are self-reinforcing, the behavioral stereotypes of chronic poverty.

These two target groups are especially in need of particular methods to reduce poverty because:

- self-employed population is “by definition” very active, and not only economically, but also socially: as international experience shows, it is out of such population that the passionate “talent pool” of future revolutions is formed;
- young people also have always been an active vanguard in all protests and riots; throughout the world in recent years, it is the young people that were a driving force of all “color-coded revolutions”.

7. In our opinion, the measures envisaged in the “Concept” [3] for these target groups are not sufficiently effective. In accordance with the Concept, “mechanisms to reduce poverty will be based solely on the personal initiative and willingness of the individual to “break” out of the vicious circle of poverty and engage in productive labor. By the year 2017, the mechanism of a social contract will be adopted as the main form of conditional monetary assistance” [3]. Each social contract includes a road map for the way out of difficult economic situations providing a full range of measures of social support from the state, including ways of returning to the labor market, as well as the obligations of an individual to implement the road map. Any breach of such obligations will entail termination of conditional monetary assistance.

In order to reduce self-employed poverty, the “Concept” sets out measures to reduce the numbers of the self-employed:

- the transfer of self-employed workers from the informal to the formal sector employment;
- actively promoting the employment of unproductive self-employed workers in the formal sector of the economy with special emphasis on their involvement in entrepreneurship [3].

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The “Concept” contains no answers to the following questions:

- in what way will the future profession (the direction of professional re-training) be determined;
- who and how will be creating high-paying jobs (there is no shortage of low-paying jobs even now);
- in what way will control over compliance by the government with the conditions of the “Contract” be implemented (because, in practice, various abuses are possible and even very likely).

For this reason, in an environment where according to the ASRK, the first place among the causes of poverty is taken by low wages, these recommendations do not appear very viable to us. The method of reducing poverty envisaged in the “Concept” is a mass training in new professions. In fact, it will be enforced with the use of conditional government bank-transfer payouts -- “social contract as the main form of conditional monetary assistance”. However, the increase in employment in the population does not automatically reduce poverty. Therefore, in our opinion, well-justified are doubts about the universality of the method proposed in the “Concept” and especially about its effectiveness in reducing poverty in the target groups of our study.

8. Until recently, all social programs in Kazakhstan were directed mainly to ensure that people should be economically active, employed. Much less attention was paid to working conditions, rights and responsibilities of employees. State and public interests concerned themselves least of all with *valuable, psychological, rational and emotional attitudes* that regulate social and labor behavior.

Today, in our opinion, the conditions are ripe in Kazakhstan for the development of a qualitatively new approach. The concept of social development is, in fact, only the first step on the road to building a national system of monitoring and regulating the scale of poverty. To evaluate the existing poverty, a shift to a new paradigm fundamental will be required, as will be required the development of a qualitatively new thesaurus and a system of indicators; qualitatively new, innovative approaches will be required for poverty reduction.

9. As a conceptual framework for the development of innovative approaches to reducing poverty in Kazakhstan, it is proposed to use the social mechanisms of elimination of behavioral stereotypes of chronic poverty and to avail of scientific- and practical recommendations:

- stimulating private transfers of funds, as one of the most effective ways to reduce inequality and poverty;
- assessing the economic well-being of socially significant population groups by means of intragroup trust indicators.

10. In a survey conducted by us (according to the methodology and questionnaire developed by the Levada Center (2013) [14]) it was shown that there is a statistically significant correlation between the well-being of individuals, their level of trust in the group and the choice of a specific poverty reduction strategy.

Despite the presence of a highly competitive environment and rigid administrative barriers, the *first group* of respondents (self-employed, owner-managed microbusinesses, sole proprietors trading in Almaty’s clothing market) have a high level of cooperation, solidarity, self-organization based on a high level of *intragroup trust* (relationships of trust

are considered by respondents to be a resource, a necessary condition for the fight against poverty) and a low level of *institutional trust*: sole proprietors trust each other but do not trust the state bodies and institutions.

As compared to the first group, the *second group* (menial laborers seeking work in temporary employment in Almaty) has a significantly lower level of *intra-group trust*. There is also no impact on behavior, even in cases where people have reported their willingness to trust social interaction. Relationships of trust are not considered by the respondents in this group to be a resource to facilitate or stimulate their fight against poverty.

### **3. Conclusion**

*The main conclusions* that we make based on the results of the study are as follows:

1. Theoretical-and-methodological and practical approaches to the identification and assessment of poverty existing today do not meet modern conditions of the socio-economic development of Kazakhstan. Methods to reduce poverty based on the concepts of free-market fundamentalism and on the postulates of liberal economic theory need to be thoroughly revised.
2. The target social groups, which under current conditions are the most in need of fundamental changes in poverty reduction methods in the context of ensuring socio-political stability and social modernization of Kazakhstan's society, are those of the self-employed and the youth who perceive and reinforce in their environment consumer behavior patterns inherent in chronic poverty.
3. The formation of behavioral stereotypes of chronic poverty in target groups is a consequence of their lack of access to "social mobility opportunities", due to a lack of social interaction opportunities and skills, such as the inability / failure to trust others and inspire trust in them.
4. Without destroying behavioral stereotypes of chronic poverty (*the social aspect of poverty*) it will be impossible to ensure sustained improvement in economic well-being (*economic aspect of poverty*) in the target groups and, therefore, the measures outlined in the "Concept" for these groups are not effective enough.

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## SIROMAŠTVO U MODERNOM KAZAHSTANU I NOVE MOGUĆNOSTI ZA REŠAVANJE

**Rezime:** U radu se formulišu novi naučni pristupi metodologiji smanjenja siromaštva za specifične grupe kao što su mladi i samozaposleni. Cilj istraživanja je razvoj predloga za unapređenje metoda smanjenja siromaštva u ciljnim grupama u Kazahstanu. Ciljne društvene grupe, kojima su u današnjim uslovima najviše potrebne fundamentalne promene u metodama smanjenja siromaštva u kontekstu obezbeđivanja društveno-političke stabilnosti i društvene modernizacije Kazahstana, su oni samozaposleni i mladi koji opažaju u sovm okruženju obrasce ponašanja koji su svojstveni siromaštvu. Predstavljene su praktične preporuke i konkretni predlozi za unapređenje socijalne politike i smanjenjesiromaštva stanovništva u Kazahstanu.

**Ključne reči:** mladi, samozaposleni, siromaštvo, društveni mehanizmi, stereotipi ponašanja hroničnog siromaštva.