



# **Inequality and Poverty in Russia in Transition**

**Moscow - 2002**

## 1. WAGES AS A FACTOR OF INEQUALITY AND POVERTY

The economic foundation of income inequality is wage differentiation, which exceeds income differentiation by two times (according to Goskomstat data), while social transfers and income redistribution within households iron out differentiation to a certain extent.

*The Minimum Wage.* In the early years of the reform, the minimum wage was allowed to fall significantly below the poverty line. In 1992, it constituted 33 percent of the poverty line for able-bodied persons and by 1995 it had fallen to as little as 14 percent of that level; subsequently it increased somewhat. Since 1998, however, there has been a tendency for the minimum wage to decline relative to the poverty line. In 1999, it fell to as little as 8 percent! <sup>1</sup>. As a result, in such branches of the economy as agriculture, health care, education and culture (Table 1) more than 60 percent of employees were receiving wages below the poverty line. Starting from 2000, we can observe the tendency for the minimum wage growth, and in the third quarter of 2002 the minimum wage has reached the level of 23% of the poverty line for the able-bodied population.

**Table 1. Proportion of Employees in Enterprises and Organisations with Earnings at or below the Subsistence Line (by branch of economy)<sup>1)</sup>**

(according to data from a sample survey of enterprises and organisations on the distribution of employees by earnings; as a percent of the total number of employees in the relevant branch of the economy)

	<b>May 1996</b>	<b>October 1997</b>	<b>October 1999</b>	<b>April 2000</b>	<b>April 2001</b>
Industry	28,7	17,5	26,5	25,7	23,9
Electricity production	4,8	3,6	8,0	7,5	8,1
Fuel Industry	7,6	4,6	5,0	4,9	4,8
Metallurgy	10,1	6,6	13,4	12,3	8,9
Chemicals and Petro-chemicals	24,1	13,8	23,4	22,3	17,8
Engineering and metal-working	45,5	28,5	39,6	36,1	28,1
Timber and Paper	37,4	24,2	37,4	34,9	33,4
Construction materials	24,3	15,3	31,1	33,3	29,3
Light Industry	61,1	43,6	58,0	58,8	51,7
Food Industry	21,7	15,1	30,3	34,0	31,9
Agriculture	70,4	65,5	82,0	84,6	81,3
Construction	24,7	14,8	29,3	29,0	24,5
Transport	12,0	8,7	19,2	20,6	16,2
Communications	24,9	18,8	37,4	37,1	29,1
Housing and Utilities; non-productive forms of services for the population	25,2	18,5	38,9	39,2	36,2
Medical care, physical culture and social security	48,7	47,8	67,2	65,7	61,0
Education	49,7	49,4	70,5	67,5	61,3
Culture and Arts	58,0	56,9	72,2	70,7	68,4
Science and scientific services	44,1	31,6	46,6	39,6	29,1

<sup>1)</sup> The value of the subsistence minimum was calculated on the basis of methodology recommended by the RF Ministry of Labour, November 10, 1992, as set out in the Act of the President of the Russian Federation of March 2, 1992 No. 210: On the System of Minimum

<sup>1</sup>*Sotsialnoe polozhenie i uroven zhizni naselenia Rossii.* Goskomstat Rossii, Moscow 2000. P. 227.

Consumption Budgets for the Population of the Russian Federation (for 1996, 1997 and 1999.) For 2000, the methodology followed the Federal Law of October 24, 1997, No. 134 FZ: On the Subsistence Minimum of the Russian Federation.

Source: *Sotsialnoe polozhenie i uroven zhizni naselenia Rossii* Goskomstat Rossii, Moscow, 2001; *Sotsialnoe polozhenie i uroven zhizni naselenia Rossii* Goskomstat Rossii, Moscow, 2000.

*The Relationship between Real Minimum and Average Earnings.* A specific feature of distributional processes in the Russian labour market is the large gap between real minimum earnings<sup>2</sup> and average earnings. In March 2001, real (effective) minimum earnings amounted to 6.7 percent of average earnings. The higher the average earnings are, the larger the gap between the minimum and the average earnings is. For instance, in the gas industry (extraction and processing of natural gas) characterised by the highest levels of wages, the ratio of minimum to average earnings was as low as 0.8 percent; whereas in agriculture, where wages are the lowest this ratio was as high as 20.8 percent.

*Incomes from Secondary Employment.* To some extent, second jobs have been called upon to compensate for the low level of wages in the reformed economy. Often these additional earnings provide the family with an acceptable standard of subsistence — especially for those employees whose primary jobs are in the so-called budget sector where their earnings are comparable with the subsistence minimum.

Official Statistics from the Goskomstat RF [State Committee on Statistics of the Russian Federation] on the whole demonstrate an increase in the scale of secondary employment. Thus, according to data from sample surveys on the problems of employment undertaken by the Goskomstat RF, in March 1996, some 1.3 percent of the population between 15 and 72 years had two or more jobs; in October 1998, the figure was 1.1 percent and in November 1999, it was 2.2 percent.<sup>3</sup> In May 2000, the numbers reporting a second job increased by 182 thousand over the figure for February — or by 16.1 percent and were equal to 2.1 percent of the population aged 15-72 years.

Official administrative statistics, which covers only a part of secondary employment (officially registered dual-job holding fixed in legal contracts), reports large scale secondary employment only at large and medium-sized enterprises where in December 1999, these forms of secondary employment accounted for approximately 4.5 percent of actual employment.

*Sotsialno-ekonomicheskoe polozhenie Rossii* January 2000; Moscow, GKS; p. 195.

In contrast to Goskomstat data, independent research shows that secondary employment is widely spread. According to surveys undertaken by the VCIOM, for example, between 11 and 17 percent of those in employment have additional jobs.

<sup>2</sup> Here we refer not to the statutory minimum wage but to the effective minimal payment for labour — which is higher. For instance, in March 2001 the statutory minimum wage was 100 roubles a month while the real (effective) minimum earnings amounted to 199 roubles.

<sup>3</sup> The reason of the increasing number of the reporting about second jobs in the 1999 was the rewording of the question in the questionnaire. Respondents were asked whether they have a second job. But if earlier respondents had been asked whether they had a second job in the week preceding the enquiry now they are asked not only about the previous week but also about the previous month.

Analysing economic strategies of the population, the Russian Longitudinal Monitoring Survey shows that an innovative and successful strategy of activism in the labour market was accessible to a relatively limited number of citizens

- ◆ 6 per cent of respondents aged 15 years or older engaged in successful entrepreneurial activity;

- ◆ 5.4 per cent received significant (in their own estimation) earnings from additional employment (which represents 74 percent of those reporting additional employment.)<sup>4</sup>;

- ◆ 2.4 per cent successfully organised their own business;

- ◆ 8.7 per cent changed their job — and this helped to overcome poverty;

- ◆ 3.9 per cent transferred to work at a private firm with high wages.

At the same time, 10.8 per cent of those questioned reported that they had intensified their work on the private allotment as a strategy for overcoming poverty; this cannot be regarded as an innovative labour activity. More than 60 per cent<sup>5</sup> could do nothing at all to go up the poverty line.

An analysis of incomes of those who succeeded in finding additional work reveals the following: 54 per cent continued to receive *individual* incomes below the subsistence level and 63 per cent had *per capita* incomes below subsistence.

Calculations by the IISP

As methods of gathering statistical information about secondary employment are not developed enough, there is a reason to suggest that its scale is underestimated. Differences in estimates of the scale of secondary employment can be explained to some extent by differences in the definition of secondary employment in various enquiries. The scale of secondary employment suggested by Goskomstat RF now is substantially lower than suggested by VCIOM data, primarily because in Goskomstat methodology the following categories are excluded from the analysis: working pensioners, working students, military personnel with additional jobs and the unemployed working informally. The time period over which information is collected also affects the estimations.

In November 2000, 5 per cent of employees had regular supplementary employment and 15 per cent had had intermittent additional earnings in the course of the previous 6 months.

Calculations by the IISP based on a nationally representative sample survey of 5000 households, 2000

Definitely not all employees can be involved in secondary employment, which constitutes an active adaptation strategy to new economic conditions. A majority of the employed would like to have supplementary employment but are restricted by certain objective constraints: those connected either with their state of health, or access to the market of secondary employment, or the work regime for paid and unpaid (domestic) work. Only about 15 per cent of employees do not search any additional job because their existing incomes are sufficient.

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<sup>4</sup> In this research only regular primary and regular additional jobs were included. If irregular supplementary employment had been included, the numbers reporting dual-job holding would be higher.

<sup>5</sup> Respondents could adopt more than one strategy; thus the proportion does not sum up to 100 per cent. Some strategies remain beyond our analysis.

Employees with only one job do not have any additional employment for the following reasons<sup>6</sup>:

- ◆ Existing income is adequate – 15%;
- ◆ Working regime does not permit to have an additional job – 49%;
- ◆ Do not have sufficient energy or health for additional employment – 23%;
- ◆ Excessive domestic responsibilities – 21%;
- ◆ Could not find additional job in their occupation – 14%;
- ◆ Could not find any additional job – 18%.

Calculations by the IISP based on a nationally representative sample survey of 5000 households,  
2000

In spite of the fact that secondary employment has become a more widespread form of positive adaptation to new economic conditions over the past ten years, it continues to be regulated by the legal norms of the Soviet period, which were designed to restrict second job-holding. (According to the KzoT [*Kodeks zakonodatelstva o trude*—the Soviet Code of Labour Law] it was possible to combine only two jobs and for the second one would receive only half of the salary<sup>7</sup>). This is one of the reasons why terms and conditions of employment (including remuneration) in second jobs and supplementary work are usually agreed upon orally.

Frequency of a oral agreement upon conditions of work:

- in the main job – 3%;
- in a second job – 14%;
- in a third job – 29%;
- for irregular work – 52%.

Calculations by the IISP based on a nationally representative sample survey of 5000 households,  
2000

According to official statistics, industry occupies the leading position in the structure of supplementary employment—with 18.6 per cent of the total; it is followed by education—16.7 per cent, trade and catering—14.8 per cent, construction—9.0 per cent, health care—8.8 per cent<sup>8</sup>. The leading forms of supplementary employment for women remain the traditional ones: education—25.3 per cent (where the share of women with second jobs exceeds the corresponding share for men by 2.8 times), trade and catering—18.3 per cent, healthcare and social security—13.4 per cent. Among men, the most common forms of secondary employment are in [manufacturing] industry—22.4 per cent and construction—13.8 per cent.

According to statistics by Goskomstat RF, the largest group of those with additional jobs by professional status are unskilled workers;<sup>9</sup> their share among all those with additional work in the survey week (May 2000) amounted to 27.0 per cent. They are followed by highly qualified specialists whose share was 23.1 per cent; then skilled workers in large and medium sized

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<sup>6</sup> Respondents could choose several answers; therefore, the figures sum up to more than 100 per cent.

<sup>7</sup> The legal norms regulating secondary employment will be considered in detail in the section on legislation.

<sup>8</sup> Sectors of the economy are introduced in accordance with OKONkh [Official/Standard Classification of Branches of the Economy].

<sup>9</sup> Occupations introduced in accordance with OKZ [Official/Standard Classification of Occupations].

enterprises, construction, transport and communications—13.5 per cent, specialists with middle levels of qualification—10.9 per cent. The fact that these figures are so close leads to the conclusion that the need for additional earnings is only weakly related to the professional status of the employee. This suggests that in present circumstances, the primary motive for seeking additional work is the low level of income as a whole, and this is true both of the elite highly qualified specialists and unskilled workers.

Thus, secondary employment is widespread, and earnings from it make a significant contribution to family budgets. At the same time, additional work does not always allow families to escape from poverty; it continues to be regulated by obsolete legal norms which help to explain the predominance of informal distributional relations in this sphere.

We can single out three main directions of negative influence of changes in wage remuneration on poverty rate.

*Informal Earnings.* Informal or unofficial payment of labour is widespread in the transition economy. In the first years of economic reforms in Russia there took place a substitution of gigantic potential unemployment by moderate unemployment and large-scale decrease in real earnings. Even in officially registered enterprises the actual earnings of one fifth of employees exceeds the amount formally specified in the labour contract; moreover, the difference ranges from twice to twenty times as much.<sup>10</sup> To a large extent, unofficial payments to labour are a means of avoiding high social taxes, the base for the calculation of which is the aggregate wage bill. According to the lowest estimates<sup>11</sup>, some 12-15 per cent of the paid time of employees is “in the shadow” as it were, allowing employers to increase the wages of their employees on average by 13 per cent.<sup>12</sup> As a whole some 35 (see Table 2) to 50 per cent (according to estimates of the Ministry of Internal Affairs) of wages are paid through the shadow economy.

The policy of “hidden” wages does not exist separately, but is the part of settlement relations in economy as a whole. That is why legalization of wages without legalization of other financial activity is problematic. The important issue in the process of increasing transparency of wages is the interest of both employers and employees. Each employee should understand the expediency of payments on social deductions from the real wages, and aim at receiving official income. This can be achieved only through personification of social deductions. Presently employees, in their majority, see no difference between “black” and “white” wages. As most state guarantees (minimum wages, unemployment benefit, pensions) have scanty sizes and are “not insured” from various “accidents” (for instance, there is no mechanism of indexation in case of inflation rise; no guarantees for regular receipts of wages), employees tend to agree to receive income in hidden form, not thinking about deductions to social funds, from which they probably would take advantage in future.

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<sup>10</sup> *Povyshenie konkurentosposobnosti zhenshchin na rossiiskom rynke truda; analiticheskiy doklad* Moscow Institute of Economics, Russian Academy of Sciences, 2000; p. 124.

<sup>11</sup> L. Kosals “Mezhdu khaosom i sotsial’nym poriadkom: tenevaia ekonomika” *Pro i Contra*, vol 4 No. 1 p. 41

<sup>12</sup> L. Kosals “Mezhdu khaosom i sotsial’nym poryadkom” *Pro i Contra* vol 4, No. 1, p. 41.

**Table 2. The unit weight of expenditure on work remuneration in Gross Domestic Product and cost of inputs into production**

	1990	1995	1996	1997	1998	1999	2000
The unit weight of wages of employees (including hidden wages) in GDP	48,8	45,2	49,6	50,0	47,2	40,9	40,0
Including:							
Official	48,8	34,8	37,9	38,3	37,1	29,9	28,9
Hidden	-	10,4	11,7	11,7	10,1	11,0	11,1
The unit weight of wage costs in costs of inputs into production and sales of products (services) by branches of economy:							
Manufacturing industry	13,0	10,6	11,5	12,1	12,8	11,8	12,0
Agriculture	...	15,8	13,7	13,7	13,3	14,1	14,4
Construction (contractor's work)	26,9	23,8	23,0	23,0	21,9	20,8	20,3

Source: Trud i Zanyatost' v Rossii (Labour and employment in Russia). Statistical Digest / Goskomstat of the RF. – Moscow 2001. – p. 333

*Earnings in Enterprises with Differing Forms of Ownership.* One of the most important results of the institutional changes in the last decade for Russia has been the emergence of a private sector as independent component of the economy and this has been largely responsible for significant changes on the labour market. The private sector is one of those parts of the economy where the demand for labour is growing. Over the period 1990-1999 the number of employees working in privately owned enterprises has tripled and now accounts for 44 percent of total employment.<sup>13</sup>

In spite of the fact that, for a majority of the able-bodied population, transfer to work in the private sector is seen as an example of successful adaptation to new economic circumstances, according to Goskomstat data, earnings in this sector are among the lowest (Table 3) and in 1999 median wages were 1209 roubles a month. For comparison:<sup>14</sup> in state-owned enterprises median earnings were 1584 roubles a month and in those with mixed ownership—2290 roubles; in foreign –owned enterprises median earnings were as high as 3871 roubles a month. Low levels of official earnings are typical of private enterprises in virtually all sectors of the economy. For example, in manufacturing industry average accrued earnings of employees in

<sup>13</sup> 28.3 million of employees in 1999 as compared with 9.4 million in 1990. *Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* Moscow 2000, p. 67. The difference between privately owned enterprises and those with mixed ownership is related to the participation of the state or foreign stockholders. For example, a cooperative all of whose members are Russian citizens should be classified as private whereas an OAO [joint stock company] where 99 percent of stock is held by private individuals and 1 percent by the government should be classified as a mixed company without foreign participation.

<sup>14</sup> *Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* Moscow 2000, p. 163.

privately owned enterprises were only 94 percent of earnings in state-owned firms; in agriculture, the figure was 67 percent, in construction—75 percent and in trade—as little as 61 percent.

**Table 3. Distribution of employees in enterprises and organizations by type of ownership and accrued earnings**

(based on a sample survey of earnings in enterprises and organisations)

	Enterprises and Organisations of All types of Ownership		Enterprises and Organisations			
			In state and municipal ownership		Non-state ownership	
	October 1999	April 2000	October 1999	April 2000	October 1999	April 2000
<b>All Employees</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Of which, with accrued earnings (roubles):						
Up to 100,0	1,4	1,2	0,7	0,5	1,8	1,7
100,1-150,0	1,3	1,0	1,3	0,8	1,4	1,2
150,1-200,0	1,8	1,3	1,9	1,3	1,6	1,3
200,1-300,0	4,1	3,2	5,1	3,7	3,3	2,8
300,1-300,0	4,7	3,8	6,1	4,8	3,7	3,0
400,1-600,0	9,6	7,8	12,4	10,0	7,4	6,0
600,1-800,0	9,3	8,0	11,7	10,3	7,5	6,2
800,1-1000,0	8,7	7,8	10,4	9,7	7,4	6,3
1000,1-1400,0	13,9	13,0	15,2	15,0	12,8	11,3
1400,1-1800,0	10,5	10,7	10,4	11,6	10,6	10,0
1800,1-2200,0	7,8	8,4	6,9	8,2	8,5	8,6
2200,1-2600,0	6,0	6,7	4,9	6,0	6,8	7,2
2600,1-3000,0	4,4	5,2	3,4	4,3	5,2	5,9
3000,1-3400,0	3,3	4,1	2,3	3,1	4,1	4,8
3400,1-4200,0	4,3	5,5	2,8	3,9	5,4	6,7
4200,1-5000,0	2,7	3,5	1,6	2,3	3,6	4,5
5000,1-5800,0	1,8	2,3	1,0	1,5	2,4	3,0
5800,1-7400,0	2,0	2,6	1,0	1,5	2,7	3,6
7400,1-9000,0	1,0	1,5	0,4	0,7	1,5	2,1
9000,1-10600,0	0,5	0,8	0,2	0,3	0,8	1,2
More than 10600,0	0,9	1,6	0,3	0,5	1,5	2,6

Source: *Sotsialnoe polozhenie i uroven zhizni naselenia Rossii* Goskomstat Rossii, Moscow , 2001; *Sotsialnoe polozhenie i uroven zhizni naselenia Rossii* Goskomstat Rossii, Moscow ,2000

These figures, however, are not confirmed by the results of independent research according to which those employed in the private sector earn substantially more than those who work in traditional enterprises.<sup>15</sup> It is the prospect of higher earnings, after all, that attracts people to work in the private sector.

<sup>15</sup> According to data from ISITO, for example, earnings in the private sector are some 35 percent greater than in traditional enterprises. S. Clarke, *New forms of Employment and Household Survival Strategies in Russia*, UK, 1999, p. 41. According to data from an enquiry undertaken by TsIRT at the Institute of Economics of the Academy of Sciences wages in the private sector were



For this reason, the level of earnings should be considered as the major factor attracting workers to the private sector—in spite of official figures. In the private sector, workers find more advantageous material conditions; but these are offset by other risk factors. For many workers neither employment nor wages in the private sector are guaranteed. In spite of the fact that contracts of employment are more common in the private sector, in many respects these contracts are merely formal. In particular, actual earnings can differ from those specified in the contract by an order of magnitude (obviously, this lies behind the divergence between the estimates generated by independent investigations and official statistics) According to figures from a study of labour relations in 1999, 36.6 percent of employees in the private sector received wages “in cash” which exceeded the sums specified in their contracts of employment; furthermore, on average the excess was 4.9 times (this practice was much less common in state enterprises.)

According to data from an investigation of labour relations in 1999, 42 percent of those questioned in new private enterprises claimed that salary was the main attraction of their job, whereas among those working in state enterprises the proportion was only 21 percent.<sup>16</sup> In the state sector, low wages are offset to some extent by privileges, conditions of work and stability of employment (these were the features most often mentioned as the main advantages of work in the state sector.)

Calculations from TsIRT Institute of Economics, RAN, 2000

Despite differences in strategy between employers in the state and private sectors in their choice of wage structures, in determining the scale of wages paid out to concrete workers, the factors that count for most are the objective characteristics of their human capital. A worker's qualifications are basic determinant of his wage. At the same time, such factors as education and experience are used only half as often in the private sector as in the state (or privatised) sectors to fix the wage rate of workers.

Decentralization of work remuneration policy has led to an increase of flexibility of wages. The cancellation of rigid state tariff regulation of wages has led to a sharp rise of “dependent” part of incomes of employees in the first half of the 1990s, which was perceived as market behaviour of management. However, in the next years this growth has stopped. The reason for that was the development of the overall crisis of non-payments, in conditions of which “the deficiency” of money funds on wages did not allow to pay big award fees. And enterprises began to use more actively the other, “innovative” methods for increasing flexibility of wages. Among such methods were: delays in wage payment, in-kind forms of payment, hidden wages.

In the context of the poverty alleviation strategy it should be noted, that the usage of such “innovative” forms of flexibility of wages makes ordinary employees even more exposed to the risk of falling into poverty. In spite of that the success of financial activity of an enterprise to a greater extent depends on work of top management (it means that they should have higher “dependent” part of wages), by RLMS data the usage of opportunities of flexible wages is more

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more than twice those in the state sector and exceeded earnings in privatized firms by more than 50 percent.

<sup>16</sup> Firms were divided into three groups: state-owned, privatised (i.e. having changed their form of ownership during the transition period) and new private (i.e. those which started from scratch.)

evident in relation to middle-level employees and workers.<sup>17</sup> If we talk about top management, one cannot but admit that they tend to “insure” their wages through the increase of a stable part of the salary, which is independent from economic situation of the enterprise.

*The Wage Differentiation.* The above-mentioned characteristics of work remuneration in conditions of reforms in Russian economy have resulted in that one of the main consequences of the reform of distributional processes has been the unprecedented growth in the differentiation of wages. For the period of 1991-1999, the level of differentiation in wages increased fourfold (Table 4). Data for March 2001 allows one to conclude that the growth in inequality has not yet stopped.

To a significant extent, growth in the differentiation of earnings was caused by the removal of those constraints on differentiation, which were a priority of the Soviet period. In this context, it is worth examining in some detail the sharp growth in differentiation that followed the August 1998 crisis when the mechanisms holding back differentiation were offset. Increases in wage inequality can be considered a positive phenomenon only insofar as they lead to increases in labour productivity—and thus to economic growth. In Russia, however, for a considerable period of time increases in differentiation have not resulted in economic growth. Furthermore, the economic growth that occurred in the wake of the August crisis had little to do with increases in the productivity of labour. For this reason one should not consider the cumulative effect of increases in the differentiation of earnings as a success of the reform process.

**Table 4. The Differentiation of Wages and Incomes**

Indexes of Differentiation	1991	1994	1995	1996	1997	1999	2000	2001
Decile Coefficient of Earnings	7.8	23.4	26.4	24.0	25.0	32.1	34,0	39,6
Gini coefficient for Earnings	0.317	0.439	0.454	0.445	0.447	0.480	0,483	0,507
Decile Coefficient for Incomes	4.5	15.1	13.5	13.0	13.8	13.9	13,8	13,8
Gini coefficient for Incomes	0.260	0.409	0.381	0.387	0.401	0.400	0.399	0.396

Sources: *Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* Goskomstat Rossii, Moscow, 2002; p. 130-132.

*Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* Goskomstat Rossii, Moscow, 2001; p. 135.

*Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* Goskomstat Rossii, Moscow, 2000; p. 162.

*Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* Goskomstat Rossii, Moscow, 1997; p. 372.

*Intersectoral Differentiation of Wages.* Wage differentiation, in turn, results from both inter- and intra-sectoral wage inequality. The highest earnings are to be found in the fuel and energy

<sup>17</sup> In this case the question is statistically registered wage.

complex, non-ferrous metallurgy and the sphere of finance, credit and insurance. Minimum levels of earnings are characteristic of the budget sectors and agriculture. In 1999, average earnings in branches involved in the extraction and processing of natural gas (the highest in Russia) were 11.3 times average earnings in agriculture (the lowest in Russia). In March 2001, this ratio was as high as 25.<sup>18</sup>

*Intra-sectoral Differences of Incomes.* Intra-sectoral differences in earnings are usually larger than inter-sectoral ones. At the present time, differences are largest in the banking sector<sup>19</sup> where, in 2000 the earnings of the 10 percent with the highest pay were some 38 times as great as those of the bottom decile. Some of the low-paid sectors are also characterised by high levels of intra-sectoral differentiation: in agriculture, the decile coefficient of earnings was 36, in Culture and the Arts it was 28. At the same time, electricity generation, which is among the sectors with the highest average earnings stands out as the sector with the lowest level of intra-sectoral differentiation in earnings. In 2000, the decile ratio in this sector was only 9.

## **2. Regional Variations in Living Standards**

Regional variations in living standards are common in all countries where they reflect the unevenness of regional economic development. The greatest differences in living standards are to be found in developing countries which are “catching up” with the advanced countries of the west—including transition economies. In Russia, the analysis of such regional disproportions needs to start with those variations in regional settlement patterns that have been inherited from the Soviet period. At this time, the regions of the Russian Federation could be classified into three basic types:

- Recently assimilated raw material producing regions (the European North, the north of Siberia and the Far East), in which both nominal and real per capita incomes were highest as a result northern supplements to wages.
- Developed manufacturing regions in areas of old settlement in European Russia and the Urals. This is where the bulk of the population lived and where incomes were close to the average.
- Much more backward non-industrialised regions (particularly the Autonomous republics of the North Caucasus) with the lowest wages, particularly in Agriculture, the highest share of families on low incomes, with many children as a result of an incomplete demographic transition.

Differences between regional wage levels (the main source of income) depended on the structure of the regional economy and the geographical location of regions. In the 1980s, there was the greatest gap between the wages of employees in extractive industry in the Far North and wages of employees in agriculture in the North Caucasus<sup>20</sup>. Due to output of subsidiary agricultural holdings (private plots), in the South regions income exceeded average country income by a

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<sup>18</sup> It should be remembered that in this instance differentiation is calculated on the basis of monthly data. Differentiation calculated on the basis of annual data is usually lower—but 50 percent lower as in this case.

<sup>19</sup> Unfortunately, the gas industry is not one of the sectors for which Goskomstat RF publishes data on intra-sectoral differentials separately. But it is probable that differentiation in this sector is also substantial.

<sup>20</sup> *Trud v RSFSR* Goskomstat, Moscow, 1990.

quarter.<sup>21</sup> Real convergence was even greater since “grey” incomes were clearly underestimated: for example there were more privately owned automobiles in the North Caucasus region than in any other region of the RSFSR. Thus, point out, that levels of income were similar in most regions, as in case of poverty rate. Regions with extreme indicators were located in the north-east and the south of Russia. Due to the concentration of administrative employment in Moscow wage level was by 15-20% higher than in neighbouring cities. Basically, the level of wages in a city was determined by the character of its economic specialisation and its geographical location. For this reason, the average income of the population of northern cities exceeded the average income of the population of the south cities, at least formally.

In the Soviet period, the most important mechanisms for smoothing out territorial variations in living standards were:

- The planned redistribution of financial resources between regions;
- The unified pay structure for all industries and throughout the country;
- Control of prices and the enormous subsidies on foodstuffs and paid services (accommodation and transport);
- The unified system of social consumption funds and free services provision.

In the first place, these mechanisms influenced the level of wages and the structure of the population by income, but they succeeded in doing this only partially in under-developed agrarian regions. In addition to equalisation these mechanisms also ensured the development of priority regions. In the extractive regions of the North, the higher standard of living was guaranteed by means of supplements to wages which were larger than the higher prices for goods and services and by reduced transport tariffs. In major capital cities where the population benefited from better supply regime, the system of restrictions on registration (the propiska system) served as a barrier to inward migration. In the face of such regulations, it was difficult to assess regional living standards and poverty simply in terms of income since actual consumption was limited not only by the size of income but also by access to goods in scarce supply and by free services. But as a whole, Soviet mechanisms were relatively effective at equalising territorial incomes—but at a very low level.

In the crisis-ridden 1990s, however, these mechanisms for the territorial equalisation and redistribution were either overturned or very much reduced in scale:

- The market reform was accompanied by the liberalisation and sharp growth in the prices of goods and services with their consequent differentiation by region on a much greater scale than in the Soviet period.<sup>22</sup>
- Wage differentials in different branches of the economy increased<sup>23</sup>, and, as a result in regions with different patterns of specialisation; at the same time, in all regions the structure of employment changed with an increase in the share of low-paid employees in the budget sector (by 6-10 percent for the decade of the 1990s.)

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<sup>21</sup> *Narodnoe khoziaistvo SSSR v 1990* Finansy i statistika, Moscow; p. 112.

<sup>22</sup> Zonal prices for necessities differed by 1-1.5 times; the cost of regional minimal product baskets in 1998-99 by 4 times.

<sup>23</sup> The average earnings of those employed in the oil and gas industry in the autonomous regions of Tiumen oblast' are 10-15 times as large as the earnings of agricultural workers in the North Caucasus republics.

- Differences in the sources of income increased both between regions and types of settlement: for the populations of major cities entrepreneurial incomes came to play a larger and larger role; for inhabitants of the south and rural areas the products of the private plot became more important.
- With the exception of certain regions (Ulianovsk oblast', Tatarstan) subsidies for foodstuffs had disappeared by the middle of the 1990s, and the level of budgetary support for housing and utilities differs sharply between regions—depending on the politics of local authorities. Often, the most developed regions (Moscow) provide the highest levels of support, which tends to accentuate regional differences in the level of poverty.
- The reduction in the scale and number of unpaid services provided through social consumption funds has been uneven. In export-oriented regions, primarily those producing oil and gas, (Khanty-Mansiisk and Yamalo-Nenetsk AOs) and in some regions with a special budgetary regime (e.g. Tatarstan) a large volume of unpaid consumption has been retained as some of the services are subsidised out of enterprise revenues or the republican budget. In weak and depressed regions the quantitative and qualitative reduction of unpaid services has been greatest which has resulted in a growing differentiation in levels of poverty.
- In conditions of economic crisis, the volume of financial and budgetary resources redistributed so as to support the less developed and priority regions has fallen sharply.

As a result of the growth in economic disproportions in the 1990s and the break down in equalisation mechanisms, *regional differences in levels of income have become much larger*. Regional differences in average accrued earnings are between 8 and 12-fold and differences in the average level of incomes is estimated to be 11-19 fold.

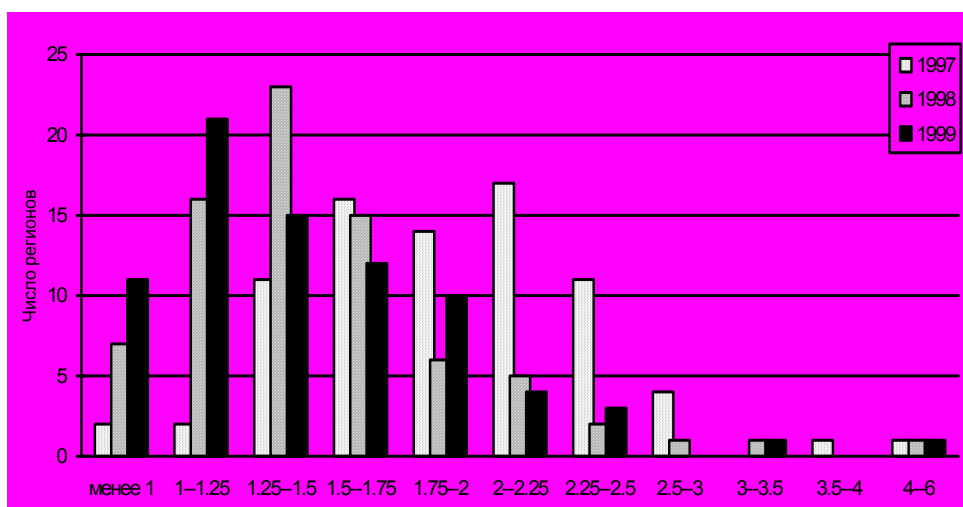
Territorial contrasts in the standard of living can also be assessed by looking at the relationship between per capita incomes and the subsistence minimum.<sup>24</sup> (Diagram 1). The purchasing power of the population's income in the poorest 8-10 regions of the Russian Federation is some 8-12 times less than in the richest—Moscow. A small group of relatively successful export-oriented regions follow behind the capital—the oil and gas areas of western Siberia, Samara, Murmansk, Lipetsk and Belgorod oblasti, Krasnoiarsk krai and the Komi and Tatar republics.

The majority of the subjects of Russian Federation have incomes below the average federal level. The middle group is particularly unstable. In 1997 it was more or less sharply defined but after the crises of 1998 middle group approached to outsiders. This group also consists of 10-12 problem regions.

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<sup>24</sup> The subsistence minimum is calculated separately for each region.

**Diagram 1. Distribution of Russian Regions (excluding autonomous okrugs) by ratio of average money income to the subsistence minimum**



The analysis of the structure of incomes also reveals regional differences. On average for the country as a whole, the share of officially recognised earnings in money income is about 36 percent<sup>25</sup>. But in northern and eastern regions it is much higher (50-70 percent) than in the agricultural regions of the south (20-30 percent) where the incomes from commercial private subsidiary agriculture play an important role. In the largest cities, earnings from secondary and hidden employment are poorly captured in the statistics and for this reason the share of earnings in income is understated (in Moscow, for instance, it is only 18 percent) while entrepreneurial incomes play a specially large role.

The basic summary indicator of regional differences in living standards is the head-count ratio—the share of the population in poverty—since it simultaneously takes account of both differences in the cost of living and incomes. As has already been pointed out, two methods of estimating the head-count ratio are used in Russia: by means of adjusted income from the balance of incomes and expenditures and by disposable resources derived from household budget surveys. Taking account of both of these indicators, it is possible to propose the following typology of regions:

1. *The least developed republics (and autonomous okrugs) with the highest level of poverty*—stand out as a result of the sharp fall in output and a deindustrialisation of the economy against a background of weak social modernisation, rapid population growth and a high proportion of large families. The regions in this group constitute clear outsiders with minimal GRP (gross regional product) and per capita incomes, with the highest head-count ratios (70-90 percent of the population in poverty) and maximal levels of unemployment (on ILO definitions) particularly among the young. But it is difficult to estimate the real levels of poverty and unemployment in such regions since employment in the informal economy within the region is substantially underestimated, as are incomes from private agriculture and the repatriated earnings of migrant labour either seasonally or permanently working in other regions of Russia. These regions contain some 4.3-4.7 percent of the total number of the poor.
2. *Less developed regions with high levels of poverty (where 27-31 percent of the poor live.):*
  - a. Republics that have completed the demographic transition, with a relatively immobile population, an elevated share of agricultural and state employment, resulting in relatively low incomes—and characterised by a relatively high share of families with children among the poor.

<sup>25</sup> Allowing for the underestimation of hidden earnings it was 65 percent.

- b. Poorly assimilated northern regions with depressed economies not oriented on exports, with the highest cost of living, high unemployment, a concentration of unemployment among the population of working age and families with children and a critical level of non-employment in settlements as a result of the closure of enterprises.
  - c. Depressed regions of old settlement in European Russia where production fell sharply in 1990-96, with substantial registered unemployment and high rates of poverty due to non-employment and low wages, characterised by the high share of the elderly among those with low incomes.
  - d. Depressed non-exporting regions in southern Siberia and the Far East with a sharp fall in output and a slow recovery from the crisis, without, on the whole, high levels of registered unemployment but with high levels of poverty due to hidden non-employment and low wages in all sectors of the economy.
3. *Middle Group* which contains a half of Russia's regions where the level of poverty is at or somewhat higher than the average. Regions with an average proportion of the poor are in transition to the relatively successful regions but either "have not yet achieved" sufficiently high incomes or have a higher subsistence minimum. 53-56 percent of the poor live in these regions.
4. *Relatively successful regions (7-9 percent of the poor population)*
- a. Regions in European Russia where most of the population live in large cities with diversified and "open" economies, with relatively low subsistence minima and higher real incomes. The reduced level of poverty is associated with a more regular distribution of families by income.
  - b. Northern and eastern regions with "open" economies (exporting raw materials), high nominal incomes, strongly polarised distribution of families by income. The relatively low level of poverty is associated with the concentration of the poor in the standard high risk groups (incomplete and large families; families of the unemployed).
5. *The Most Successful Subjects of the Federation* with maximal incomes, a low share of the poor and a concentration of poverty either among the older age groups (Russia's capital) or among incomplete families and the families of the unemployed (Oil and Gas extraction areas in Tiumen oblast'). Some 4 percent of the poor live in these regions.

In their scale, intra-regional contrasts in the level of income are comparable with inter-regional differences. They are particularly noticeable when large cities are compared with small towns or rural areas. A generalised scale of settlements in terms of the seriousness of the problem of poverty can be formulated as follows:

- 1. rural settlements outside of metropolitan areas. The highest level of poverty is characteristic of the Non-Black-Earth zone where small rural settlements are inhabited mainly by pensioners in the older age groups.
- 2. small and middle-sized towns with a single industry which is depressed, located in crisis regions. These are characterised by maximal levels of poverty in all population groups. The main causes of poverty are wage arrears (the non-payment of wages) and mass unemployment. Often poverty is persistent due to the lack of population mobility.
- 3. small and middle-sized towns—local centres outside of metropolitan areas. These are characterised by a concentration of employment in low-paid branches, the so-called budget sector and the processing of agricultural products, elderly structure of the population and a high proportion of pensioners in the poor population, minimal opportunities for the creation of new jobs as a result of weak inflow of investment. Poverty in these regions tends to be persistent.

4. Towns—local centres and rural settlements inside metropolitan areas. The low incomes of those living and working in such settlements are supplemented by the earnings of commuters. Thanks to this labour migration, the problem of unemployment among the young is less acute.
5. Large cities with higher, but strongly polarised, incomes; they possess more diversified labour markets and a more developed small business sector.
6. Small and medium-sized towns whose economies are specialised in export sectors, with the highest levels of earnings and highly polarised incomes between those employed in basic productive and budget spheres.
7. The largest cities—regional centres which concentrate human capital (the younger, more active and better educated strata of the population). In these cities one finds the most diversified labour market, minimal; levels of unemployment and sharply polarised incomes.

This scale has been constructed by means of expert evaluation, since it is impossible to measure the actual differences in the incidence of poverty due to a lack of appropriate statistics.<sup>26</sup>

The problem of rural poverty is not homogeneous. In terms of the level of income, the rural population is a long way behind the those living in towns: per capita disposable resources of rural residents in 1999 were some 31 percent lower than those of urban residents and their money income was 45 percent lower—that is it was little more than a half! But regional and settlement differences are fairly large. The economically active population in central settlements of agricultural enterprises have low earnings, but they offset a considerable part of the deficit in money incomes through well developed private subsidiary farming activity. In the small villages of the Non-Black-Earth zone the poverty of elderly pensioners physically incapable of undertaking private farming activity means that they are close to destitution. Poverty possesses a zonal character since earnings from private farming are higher in villages of the south. But all these differences can only be assessed by experts since data on incomes in rural areas in different regions are lacking.

### **3. Indicators of Poverty**

According to official Russian methodology for estimating the level of poverty, the poor are classified as all those whose incomes are less than the subsistence minimum. From the official figures provided by Goskomstat RF, the following years were most unfortunate—from the point of view of the scale of poverty: 1992, 1993, 1999 and 2000 (See Diagram 2 and Table 5). In 1992-93 this was a consequence of the liberalisation of prices, as a result of which real incomes fell by 40 percent. In 1999, the high incidence of poverty was due to the financial crisis of 1998.

In analysing official data on changes in the share of the poor in the population, particular attention should be paid to 1994 and 2000. In 1994, the share of the poor fell substantially (Diagram 1). In fact in this year Goskomstat RF changed the methodology used to estimate the incomes of the population. Up until 1994, incomes were estimated on the basis of figures from the household budget survey (see Table 5, line 2). From 1994, in estimating the share of the poor in the population, they started to model the distribution of income using data from **adjusted estimates** of income from the national accounts (Table 5 —Panel 2, line 1). This became necessary as in the transition period a substantial share of incomes were being generated in the informal sector. If the old methodology had been used, then the share of the poor in 1994 would have been 34 percent. Thus, the change in methodology resulted in a significant fall in estimated poverty. In 2000, there was a change in the methodology used to calculate the subsistence level. This, in turn resulted in an increase in the estimated numbers in poverty. If one had continued to estimate the

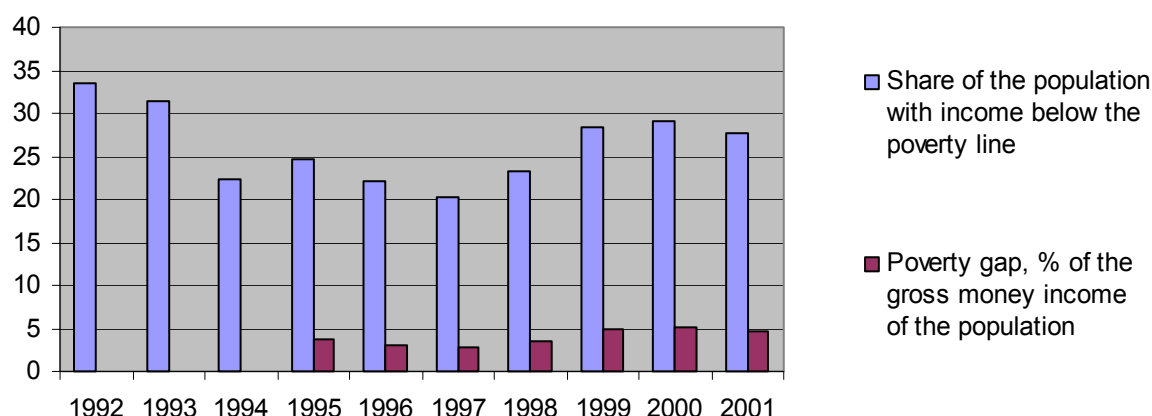
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<sup>26</sup> Indicators of per capita money income, the subsistence minimum and the share of the population that is poor are calculated by Goskomstat RF only at the level of subjects of the Federation.



scale of poverty based on the 1992 methodology for determining the subsistence minimum, then in the second quarter of 2000 the headcount ratio would have been 27.6 percent (whereas according to the 2000 methodology it was 34.7 percent.) We should add that estimating the scale of poverty in Russia during the transition period continues to be a controversial problem.

**Diagram 2. The Share of the Poor and the Poverty Gap: 1992-2000.**



At the present time, the state statistical authorities use **three indicators of the consumption possibilities of the household** in order to estimate the scale of poverty in Russia (Table 5):

- Adjusted data on household incomes derived from the balance of incomes and expenditures in the national accounts;<sup>27</sup>
- Data on expenditures (or incomes) of households derived from the household budget survey;<sup>28</sup>
- Data on current disposable resources—also from the household budget survey.

<sup>27</sup> In this instance the distribution of households by income is based on the lognormal distribution. In this model, per capita income is determined either from the balance of income and expenditure or from the national accounts (in the last two years the latter source has been used.) Dispersion for the model is estimated from the household budget survey.

<sup>28</sup> Whenever published estimates are derived from household budget surveys (budget statistics) this is always acknowledged with an appropriate reference to this source.

**Table 5. Share of the Population with Incomes less than the Subsistence Level (percent, average numbers per month):  
Comparison of Various Sources**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
According to Goskomstat RF—based on the balance of money income and expenditure(average, per year)	-	-	22.4	24.7	22.0	20.3	23.3	28.4	29.1	27.6
According to household budget survey, using money income (average per year)	33.5	31.5		42.0	34.5	35.9	47.9	59.3	49.3	-
Of which:										
Urban residents							41.7	54.3	43.5	
Rural residents							65.0	73.1	65.1	
According to household budget survey, using disposable resources						32.1	37.8	50.2	40.0	-
Of which:										
Urban residents							34.6	47.7	37.0	
Rural residents							46.7	56.8	48.1	
According to RLMS data		11.1 Sept.	13.1 Nov.	17.2 Dec.	29.5 Oct.	36.3 Oct.	39.0 Oct.		28.8 Oct.	18.9 Oct.

Calculated IISP by: 1. Standards of living in Russia. Goskomstat RF data. 1997, 1998, 1999, 2000, 2001.

2.RLMS data .

3. Incomes and expenditures Russian Households. Goskomstat RF data. 1998, 1999, 2000,

The indicator *current disposable resources* includes **all receipts—in cash and kind**, by the household. It includes the gross value of incomes used to cover current consumption, previously accumulated resources and loans, credit and, also, acquisitions in kind of foodstuffs and of gifts or special opportunities—in *natura*. These gifts, subsidies and special opportunities include both cash payments and also the possibility of purchasing foodstuffs at reduced prices. Housing subsidies include legally sanctioned reductions in rent and rents paid for out of the resources of enterprises and institutions. Subsidised travel on all forms of transport, the use of official (and company) cars etc. for personal purposes are included in travel subsidies. In estimating the value of subsidies for health care facilities and services provided for their employees by enterprises and institutions are taken into account, as are subsidies for the purchase of medicines. Subsidies for rest and recuperation include reductions in the cost of travel to and residence in rest homes, sanatoria and children's summer health camps provided by organs of social insurance, enterprises and institutions. In 1999, the structure of disposable resources was as follows:

- Money income—89.9 percent in urban areas (71.9 percent in rural areas);
- Value of foodstuffs acquired in kind—5.2 percent (24.7 percent);
- Value of subsidies and special privileges in kind—1.6 percent (0.8 percent);
- Value of attracted resources and dissaving—3.4 percent (2.6 percent);

It should be pointed out that the acquisition of foodstuffs in kind constitutes a serious addition to resources—particularly in rural areas. In the budgets of poor households, the acquisition of foodstuffs in kind accounts for a larger share of disposable resources (12-14 percent) than for those families with incomes above the subsistence minimum (8-10 percent).

Table 5 contains three estimates (state statistical authorities estimates) of the scale of poverty. The use of different indicators to assess the material circumstances of households leads to significant variation in estimates of the scale of poverty.<sup>29</sup> Thus, in 2000, according to the first estimate 29.1 percent of the population were considered to be poor; according to the second—49.3 percent and the third yielded the figure 40.0 percent.

As the results of the household budget survey show, in 2000, average per capita nominal money income grew by 37 percent over the figure for 1999 and was equal to 1383 roubles per month. Average per capita disposable resources of households were equal to 1597 roubles a month, thus exceeding money income by 16 percent; in urban areas they were equal to 1761 roubles (exceeding money incomes by 12 percent) and in rural areas they were 1152 roubles a month (some 35 percent above per capita money incomes.)

Restrictions on the incomes of less well off households to a significant degree are offset by acquisitions of foodstuffs in kind produced for the most part by their own resources on their allotment plots. In 2000, the share of such acquisitions in the disposable resources of the least well-off households was, on average, 12 percent, or approximately 15 percent of the value of money incomes. At the same time, where such acquisitions in kind amounted to about 5 percent of disposable resources for poor urban households, for those in rural areas they constituted almost 30 percent. In addition to these inflows, the budgets of poor households are supported by benefits and subsidies from the state, local authorities, and the enterprises for which family members may work. Further, the vast majority of poor households indicate in their responses to the survey that they regularly receive foodstuffs from friends and relatives.

Thus the estimated aggregate value of all forms of in kind accruals amounts to about 20 percent of the money incomes of poor households (in urban and rural areas 12 and 49 percent respectively.)

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<sup>29</sup> In this instance no equivalence scale is used. When such scales are used, the fact will be noted in an appropriate footnote.

#### 4. Poverty profile. Who contributed to the growth of poverty incidence?

The analysis of poverty profile shows that the increasing dependant strain considerably aggravates poverty risks.<sup>30</sup> Families with high dependant strain, as it was back in pre-reform period, still remain among those with elevated risk of falling into poverty.

Under new economic conditions life is the hardest for one-parent families and families with many children: the percentage of the poor among them reaches up to 60-80%. In this case, poverty is caused by both low incomes of the working family members and by heavy dependant strain. These types of households are certainly not the most common ones: according to the micro-census of 1994 one-parent families constituted 17% out of total population of households, while families with many children – only 9% of the total number of families with children under 18 years old.<sup>31</sup> However they are likely to suffer from extreme forms of poverty: limited access to food products; absence of necessary clothing and footwear; and etc. To make things worse the last decade percentage of single-parent families grew due to the increasing divorces, out-of-wedlock birth as well as deaths of men of active age. However, this household group belonged to vulnerable categories in Soviet period too.

*Families with many children* are more probable to fall to poverty not only because of dependant (children) strain, but because of insufficient gross incomes of the active family members. Here we witness the several poverty factors simultaneously at work. A big number of children in the family most frequently translates into limited labour opportunities for working mothers, thus aggravating the material provision of the families with many children. The data gathered by special research indicate that in 40% of such families mothers either do not work or are employed at unqualified and, thus, low-paid jobs.<sup>32</sup> Upon analyzing major professional career types for women in families with various number of children one can easily come to the conclusion that women with many children make a definite pro-family choice. Most frequently professional activity is guided by the necessity to provide for the family, but not by the professional drive. The professional status of married mothers with many children tend to go down along with their overall social mobility (50% as compared with 20% with mothers of 1-2 children), while career growth was reported among 14% as compared with 36% for mothers with few children. This tendency emerged back in pre-reform period and was aggravated in the 90s that brought about the lack of jobs and competition at labour market.

In *single-parent families* several poverty factors are simultaneously at work and families of this type often land among the poor categories. The number of children – as compared with two-parent families – is smaller (an average 1,37 per family as compared with 1,6 in two-parent families)<sup>33</sup>, in most cases these are the families with the only child. But taking into consideration that in half of two-parent families there is one child per two parents it is easy to understand why the dependant strain in single-parent families

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<sup>30</sup> According to the data of the Institute for Social and Economic Problems of Population Distribution (ISEPPD) of the Russian Academy of Sciences when more strict definitions of poverty are employed (see the details in Appendix 2) the poverty risk for the families without dependants is 2% and for the families with more than 2 dependants per one employed family member rises up to 15% (Appendix 2, Table 10). However, life is the most severe for the households without any working family members (pensioners, unemployed, sometimes with dependants). Nearly 40% of them find themselves poor as estimated by absolute, relative and subjective approaches of poverty definition.

<sup>31</sup> Household Types and Composition in Russia (according to data of 1994 micro census), M., Goskomstat of Russia, 1995, p.59

<sup>32</sup> Prokophieva L. Large Families in Low-Fertility Regions: A Social Partrait. – in: Demographic Trends and Patterns in the Soviet Union before 1991. IIASA, Routledge, 1994, p.223.

<sup>33</sup> Household Types and Composition in Russia (according to data of 1994 micro census), M., Goskomstat of Russia, 1995, p.59

translates into poverty. Private and state transfers are to partly compensate for this, but the way alimonies, allowances and loss-of-provider pensions are paid makes this compensation extremely insufficient.

Polls of divorced women and men indicate that alimony payments tend to decrease. In average, according to the polls of women in 1993, alimony covered only half of the food expenses for the child. It means that the second half of the food expenses plus other not less important expenses (clothes, shoes, education and preschool-expenses, medical services, etc) are borne by the mother. Only in 2% of all cases alimony turned out to be relatively high (at the level of average per capita income in the country for the poll period).<sup>34</sup> The poll of divorced men that was carried out in late 90es, did not indicate positive trends in alimony payments: only 1/5 of sums paid equaled or exceeded the subsistence minimum for the child, however, educational and medical expenses are not included. The minimal sum of alimony payments in 1998 was 20 roubles, and the maximum amounted to 3000 roubles.<sup>35</sup>

Growing number of active age men's death in Russia in the 1990s brought about a new problem – the material provision for the children after the death of a father. However, the currently existing type of loss-of-provider pensions - that in average amounts up to 366 roubles (for the end of 1999)<sup>36</sup>, and equals to 40% of the amount of the subsistence minimum for a child, is not to fully compensate the lowered family income.

In case a single-parent family emerges due to the out-of-wedlock birth state monthly allowances paid for children under 16 years of age are to partly compensate for the high dependant strain. For single mothers the amount of such allowance is set at the sum of 140 roubles or 12% of the subsistence minimum of a child. Such situation has a considerable impact on the dynamics of poverty growth among single-parent families for the number of out-of-wedlock birth has doubled in the last decade (from 12% of the total number of all children born in 1990 up to 27% - in 1998),<sup>37</sup> but is still lower than in western countries. There is a certain number of single mothers with children who actually live in two-parent families, for the marriage is not officially registered, however such cases are still relatively rare in Russia (according to the micro census in 1994, only 7% of married couples lived together with an official marriage).<sup>38</sup>

The second salary is not fully compensated through the system of state and private transfers, thus making women provide for her children by her own individual income. Judging by formal criteria (education and qualifications) single mothers share the same skills as married women, but presently the professional success and higher salaries are not determined by these factors only. Jobs in non-state sectors of the economy, additional employment are the key elements to rise incomes. From this point of view, the labour activity level is the highest among women heading single-parent families.<sup>39</sup> However, even in the most favourable period of the country's development, when the opportunities for multiply employment were expanded and the unemployment was relatively low (1993), the overall earned income of women from single-parent families in general did not equal to the income level of men and was slightly higher than the one of the women from two-parent families (for 18%). It can be explained by the limited number and types jobs providing extra earnings as well as by the objective difficulties arising when one switches to the private sector: the job positions in non-state enterprises, in private businesses demand for long

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<sup>34</sup> Prokophieva L., Festy P. Alimony, Allowances and Family Incomes Upon the Divorce. Population and Society, 1996, No 15.

<sup>35</sup> Prokofieva L., Festy P. Le niveau de vie des familles en Russie apres un divorce. – Politiques sociales en France et en Russie. Paris, INED, 2001, p.92

<sup>36</sup> Provision of Pensions and Social Protection of the Population of the Russian Federation in 1999. Collected Statistics. M., Mintrud of Russia, (the Ministry of Labour of Russia, intrpr.), 2000, p.35.

<sup>37</sup> Population of Russia in 1999. M., TzDECh, 2000, p.61.

<sup>38</sup> Marriage Status and Birthrate in Russia (according to the data of 1994 micro-census). M., Goskomstat of Russia, 1995, p.9.

<sup>39</sup> Living Standards of the Urban Population of Russia and the Social Problems of the Reforms. M., ISEPPD and INTERCENTER, 1995, p.92

hours and great efforts while neither social infrastructure nor everyday social services and childcare are enough developed. The necessity to care for children add up to the limited labour and professional capacities of women.

Next demographic group of households mostly prone to the risk to fall to poverty is constituted by the *single pensioners of senior age*, though official statistics does not show that.

In fact, the actual deep poverty of the senior is hidden behind the peculiarities of aggregation of the official statistic data. First of all, a group of single pensioners as a separately considered demographic household group is not homogeneous by age. High poverty risk is cushioned by the “young pensioners” among whom there are many who are working for the first 5 years upon retirement (55-59 years for women and 60-64 for men). The employment level among the men is considerably higher: 48,1% as compared with 36,7% for women.<sup>40</sup> From another point of view within gender and age groups we can not separate the pensioners who live in families and from those residing separately. The data of numerous research carried out in many regions of Russia during the last decade indicate large disparities in the poverty level of pensioners older than 65 years living separately and in families with working relatives: among single pensioners of this age group poverty level is higher.

According to the RLMS data (1998), out of total number of pensioners there about 2/3 live separately, among which one can single out married couples (sometimes with dependants) and pensioners living alone. Practically the same figures were obtained through polls on living standards and poverty of the urban population (cited by ISEPPD the Russian Academy of Sciences.)<sup>41</sup>

The outcome of this research allows to classify the group of aged pensioners living alone (90% of this group are women) as households with the highest poverty risk. According to data of representative research (RLMS, November 1998) while the average (general) poverty level of pensioners was 46,5%, the percentage of poor elderly women amounted up to 54%. At the same time, men’s average oldage pension is not lower than average pension of the rest groups of pensioners, because there are many veterans of the WWII, who get high pensions, among them.

The described above household types, that are mostly prone to fall to poverty, were identified by demographic factor (demographic family composition, age, gender), however, there exist a wide range of *social factors* that add up to poverty risks.

The next social factor, that lowers the combined family income and adds to the dependant strain, is the presence of *unemployed* in household. The budget surveys of the State Committee on Statistics does not dwell on total number of the households with unemployed, but only identifies the population group receiving unemployment benefits. However, even these figures indicate a high poverty risk for this population category: 69% of them have the possessed resources below the subsistence minimum, including those 29% with incomes twice or more times less than SM.

The family well-being is more affected in case a man loses the job than when it is lost by a woman: independently of the household type the probability to join the poor is 57% when the job is lost by a man, and 43% - in case it is lost by a woman, for men are better paid than women. It is worth noting that poverty is more often brought about in case the first provider – independently from his/her gender – becomes unemployed.<sup>42</sup> The first providers are mostly men in two-parent families, and women – in single-mother families. This population group constitutes a 1/3 of the total number of unemployed and remains the same in time.<sup>43</sup>

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<sup>40</sup> Roschin S.Y. Labour Activity of the Senior Population. – in: Demographic and Social and Economic Aspects of Population Aging. M., MGU (Moscow State University, interpr.), 1999, p.137.

<sup>41</sup> Poverty: Alternative Definition and Measurement Approaches. M., Moscow Carnegie Center, 1998, p.186.

<sup>42</sup> We consider the first family provider the one with bigger salary.

<sup>43</sup> Population Employment Survey, May 2000, Goskomstat RF, p.204.

The 90s in Russia faced the emergence of another group with elevated poverty risk, these are *the families of refugees and of the forced migrants*. The data about them can be obtained only through special research, for the state statistics lacks detailed information on them and does not include them into the list of households to be surveyed. This population category emerged with the collapse of the USSR and due to numerous regional conflicts in the former Soviet Republics. By the January 1, 2000, the Federal Migration Office of Russia (FMS) had registered 1.5 million refugees and forced migrants, 20% of them were from the Russian regions of local conflicts. The age of the refugees - as compared with the age of average migrants – differs, for among them there are more children and senior citizen.<sup>44</sup> If – under regular conditions – families with children, including one-parent families, are less prone to move, than under extreme circumstances they are the very first ones to escape in order to save children from danger or discrimination in rights.

Accommodation is one of the major problems for the refugees. Polls carried out in 1997-1998 indicate that before relocation these families mostly had a good accommodation, while now – only 23% of them are separately accommodated in big cities and 43% - in villages. The rest live in the shared apartments, rent some accommodation from private persons or share corners with relatives and friends, and sometimes do not have any shelter at all.<sup>45</sup> In the first years of reforms there was adopted a program to aid refugees under which they had the right to be provided with free accommodation. But when the state capacities do not correspond to the actual accommodation needs of refugees, distribution of such accommodation gets corrupted and the problem of refugees' accommodation has not been solved.

However, if in the mid-90s the very problem of accommodation was of a decisive impact on refugees' assimilation in new places, now employment comes first. More than 60% of the migrants quit their professions, and these numbers are even higher in villages. The professional status of the migrants gets significantly lowered at the new place: the number of unqualified workers raises 2.5 times in big cities, and 4.3 times – in villages. The migrant workers are less paid (their wages are 30-40% lower than the ones of the local workers), despite the fact that their education and qualifications are usually higher. Thus, job dissatisfaction is high (46% - in big cities and 55% in the villages). However many of them can't switch jobs for they are earning the accommodation (17-24%), or "housing registration" (6-8%).

The forced migrants face difficulties obtaining social support and it is vital for people who escaped their native places. They very often have to leave behind all their possessions. Nearly half of them had not got any support in Russia. 28% of them were accommodated, often temporarily, 24% received one-time money allowances, food and casual household items, 8% received privileged housing loans, 6% were aid in getting employed, 6% were assisted in individual accommodation (were provided with land, construction materials, cattle and cattle food), 2% received legal aid. Thus, weak assimilation opportunities and lack of state aid make this population category extremely vulnerable to poverty risks.

An extremely unfavourable dynamics of living standards of population at the last decade had a negative impact not only on the population groups traditionally prone to poverty, but on the families with favourable demographic distribution as well: *two-parent families with 1 or 2 children*. As it was noted above, *this household type constitutes a high percentage of poor families*, though their poverty is not as deep as for the one-parent families or families with many children.

Where does poverty root for this type of households? Our surveys indicate that in 60% of two-parent families with two children the heavy dependant strain and low incomes of working family members are aggravated by dependants of active age and pensioners with low pensions. The rest 40% are the families of so-called "*the new poor*" when two working spouses can not provide for one or two children. Being employed at the state-budget enterprises or at not profitable enterprise is one more poverty factor. The wages are considerably lower in such industries as agriculture (44% as compared with average wage level in Russia), light industry (57%), public catering as well as the financed from the budget fields (education,

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<sup>44</sup> Vitkovskaya G. Forced Migrants from CIS and Baltic Countries to Russia. Population and Society, No 18, 1997.

<sup>45</sup> Vitkovskaya G. Ten Years of Forced Migrations to Russia. Population and Society, No 32, 1998.

healthcare, culture – 53-58%).<sup>46</sup> Women constitute the majority of employed in these industries, and this becomes one more factor adding up to feminine poverty.

It is worth noting, that in general the families of “the new poor” (separately residing citizens of active age, families without children and families with 1-2 children) account for about 50% of the total number of the population of the poor. In the Soviet period such families did not land within this category. Thus, we conclude that the *poverty expansion entangles new types of families*, headed by active people. Low wages, inadequate (poor) state support to the children and the unemployed are the reasons for such poverty expansion.

The key poverty-aggravating social and economic processes - as provided by the above-rendered analysis of the social and demographic composition of the population of the poor and of the factors aggravating poverty – are as follows:

1. Limited access of the population of the poor to free services that results in social exclusion and lower living standards.
2. Growing number of the unemployed population of the active age.
3. The already emerged system of wages, that brought about an unprecedented number of workers with wages below the subsistence minimum.
4. Flaws in labour and social legislation, that limit the access of the poor to the resources.
5. The system of social protection is inadequate to settle the problems arising due to emerging labour relations. Such a system limits the access of the poor to social transfers.
6. High level of regional social and economic disproportions, that results in locally bound poverty.

The combination of the above-listed factors brought about the situation when 1/3 of the Russian population lives in poverty, while the poverty risk for the traditional categories of the poor 1.5-2 times exceeds the national level. Meanwhile, “the new poor” constitute the largest group of the population of the poor. Thus, poverty reduction strategy is to be effective only in case it is based on the very two directions:

- To create conditions for the working population to be able to earn enough to escape poverty
- To create effective system of protection for socially vulnerable groups of population (elderly, disabled, families with high dependency load, families in extreme situation – refugees, and etc.).

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<sup>46</sup> Economy and Life. No 51, December 2000.