

Sources of Subsistence and the Survival Strategies of Urban Russian Households

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Much recent discussion of household subsistence in the transition economies has been centred on the notion of 'household survival strategies'. The notion of a 'household survival strategy' was introduced into development studies to draw attention to the diversity of sources of household subsistence and in particular to the role of informal and household economic activity, the domain primarily of women, the young and the old. The notion was important in moving away from the narrow perspective of the wage-earning breadwinner supporting a dependent family that is associated with a one-sided view of the young, the old and women as dependants on the wages of men. This approach provided the basis for powerful critiques of development strategies which had single-mindedly pursued the objective of expanding wage-earning or small business opportunities, even if this was at the expense of the contribution of other household members and of other activities to household subsistence. This is particularly important where households are not fully committed to wage-earning in the market economy, so that subsistence production and engagement in the informal economy play a significant role in the reproduction of household members. However, I would suggest that the notion is less appropriate to transition economies.

By the 1980s the vast majority of the adult population of the state socialist countries was fully committed to employment in the wage-earning economy, with a residual role for subsistence agricultural production in some rural districts and a limited amount of moonlighting in the urban economy, while those categories of the population who were not in waged employment (full-time students, the elderly, the chronic sick and disabled, women with young children) were supported by state benefits which, in general, were sufficient to provide for their basic subsistence. Age and gender were significant in determining differential labour market opportunities, not in determining differential commitment to waged as opposed to non-waged employment. Informal and subsistence activities were of marginal significance to household survival and the majority of people lacked the skills and resources to engage in such forms of activity.

The notion of a household survival strategy is also misleading in that it implies the determining role of agency: if survival is a matter of strategy more than of resources then households which adopt the appropriate strategies can survive the destruction of jobs and income-earning opportunities and the erosion of welfare benefits that have been a general feature of the collapse of the state socialist economy. It is only a short step from that view to the current attempts, encouraged by the World Bank, to slash welfare spending and to impose punitive systems of social assistance. While it is important to reject the view of the poor as passive victims, it is equally important not to divert attention from what should be the main policy priority of rebuilding the economy to provide new jobs and to finance the benefit system, through which to give people access to the resources which alone can enable them to provide for themselves.

Finally, the notion of a household survival strategy presumes that the household is a decision-making unit. Our own research on household employment decision-making suggests that it is more plausible to think about household members more or less

independently taking advantage of such opportunities as may present themselves within the framework of a limited range of opportunities and quite restrictive constraints. Prosperity, survival, poverty and destitution are not then the results of more or less successful household strategies, but express the greater or lesser good fortune of household members in the face of radical economic change. In this paper I want to give some indication of the range of opportunities facing household members by looking at the outcome of their 'survival strategies', as indicated by the composition of Russian household income. The paper is based primarily on analysis of the data of a household survey conducted in four Russian cities in April-May 1998,¹ but also draws on the data of the Russian Longitudinal Monitoring Survey (RLMS), the Russian Centre for Public Opinion Research (VTsIOM) and the official Household Budget Survey (HBS).²

The data suggests that, despite the severe erosion of money incomes, there has not been a substantial change in the sources of household income, which are still predominantly waged income from primary employment and welfare benefits, primarily pensions, received by household members. The notorious dacha, in particular, does not make any significant contribution to the ability of households to compensate for the decline in money incomes, and secondary employment makes only a marginal contribution to household survival.

In the concluding section of the paper I will briefly touch on the implications of the analysis for social policy. The preceding analysis suggests that social policies which attempt to relieve poverty by encouraging informal economic activity and subsistence agricultural production will be ineffective. The most economical and effective forms of poverty relief would be the establishment of an effective minimum wage and some form of social wage for those who are unable, for one reason or another, to find employment.

What are the components of household subsistence?

In the Soviet period household incomes comprised wage income from primary and officially registered secondary employment, monetary social transfers (primarily maternity benefits, child allowances, student stipends, disability benefits and age-related pensions) and private transfers. On the expenditure side, housing, fuel, utilities, transport, leisure activities and food were heavily subsidised, while health care and education and a range of other social and welfare services were provided free so that

¹ The survey was conducted by the Moscow-based inter-regional Institute for Comparative Labour Relations Research (ISITO) in April-May 1998 as part of a project on 'new forms of employment and household survival strategies', funded by the British Department for International Development, within the framework of a larger project on 'employment restructuring and the formation of a labour market in Russia', funded by the Economic and Social Research Council, neither of which bodies is responsible for any of the views expressed in this paper. The sample was a single-stage probability sample of 4,000 households in four Russian cities (Samara, Kemerovo, Syktyvkar and Lyubertsy, a satellite city of Moscow), drawn from the computerised databases of the city population. Details of the survey, sample evaluation and access to the data and working papers can be obtained from the project website, www.warwick.ac.uk/fac/soc/complabstuds/russia/.

² I am grateful to VTsIOM for making some of their data available to me. The RLMS data is available for downloading from www.cpc.unc.edu. The recent HBS data is published in Goskomstat, 1999b; Goskomstat, 1999a; Goskomstat, 1999c; Ministry of Labour and Social Development and Goskomstat Rossii, 1997. The results reported here are developed in more detail in a forthcoming book, *Making Ends Meet: the Survival Strategies of Russian Households*, to be published by Edward Elgar.

households could survive on very small monetary incomes. The main problem faced by households was not the shortage of money, but the shortage of goods on which to spend their money.

The collapse of the soviet system was followed by a dramatic and sustained fall in incomes and employment. According to the official estimates, GDP fell by 50% between 1990 and 1998. This reflects a fall in employment of around 25%, with unemployment rising to around 13% and a large number of teenagers and those approaching or beyond pension age withdrawing from the labour force, and a fall in real wages of over two-thirds, to reach a level about that of the mid-1970s (see Clarke, 1999, Chapter One and Appendix, for a review of the data), with the real value of the minimum wages and many welfare benefits being severely eroded. Many households faced a greater loss of income than even these figures indicate since wage inequality increased from Scandinavian to Latin American levels, while many of those still employed are laid off or put on short-time and wages and benefits have gone unpaid for months or even years on end. On the other hand, the demands for cash payment have escalated as subsidies for consumption have been removed and services that were formerly provided free are now only available for a charge.

The sources of household subsistence in post-soviet Russia are much the same as those in the soviet period: primary and secondary employment, domestic subsistence production and social and private transfers. The principal change has been in the decline of employment in the state sector and in the real value of social transfers, the growth of the new private sector, predominantly in trade and services, and the legalisation of self-employment, both of which provide much greater scope for casual and informal employment than was available in the soviet period. Social and private transfers may make an important contribution to the survival of a household, but it is difficult to envisage them as being the objects of a household survival strategy. But how extensive are the opportunities provided by informal sources of household income and subsistence?

The hidden economy

According to many commentators, the collapse of incomes in the formal economy has been matched by an explosion of informal economic activity which is not reported in official statistics, so that there has been a substantial growth in unrecorded money incomes in the 'hidden' economy. The proponents of this view typically cite the official data which purportedly shows that wages comprise less than half of the money incomes of the population. According to Goskomstat data for 1998, wages comprised 40.5% of money income, social transfers 13.3%, property income 5.6%, entrepreneurial income 16.5% and 'other' income 24.1% (the last category including unreported wage income). However, to cite this data as evidence for the existence of a hidden economy is somewhat disingenuous, since the categories of 'entrepreneurial' and 'other' income are themselves constructed to bring the income data derived from the budget survey into line with estimated macroeconomic aggregates which already include a very substantial but completely arbitrary allowance for unidentified informal economic activity that amounted to 20% of GDP in 1995, 23% in 1996 and 28% of GDP in 1997.³

³ This leads to massive discrepancies between the income and expenditure estimates, which are then

The concept of a 'hidden economy' is a very difficult one with which to engage, since if the economy is hidden there is by definition no evidence for its existence. Suffice it to say here that all the evidence is quite consistent in showing that the overwhelming majority of primary employment, including that in incorporated businesses in the new private sector, is registered and so is reported in official statistics and is subject to taxation. Both the employment and the income data derived from all-Russian surveys is very consistent and provides no evidence for the existence of a large amount of hidden primary employment or the large-scale concealment of income by survey respondents. While incomes in the new private sector may not be fully reported, new private sector employment could not be less hidden from view, for it is predominantly to be found in the retail trade and services that line the streets and fill the advertising spaces. Moreover, the earnings reported in surveys by employees in the new private sector are already substantially higher than those reported by employees in the traditional sectors of the economy, while the levels of income inequality are such as to leave little scope for a substantial concealment of income (the distributions in the various data sets are also very similar, and approximately log-linear). If hidden primary employment does exist, then it is extremely well hidden, but the onus is definitely on those who believe that there is a large amount of hidden primary employment to bring forward some hard evidence in support of their arguments.

Secondary employment

While it would seem that there is relatively little unregistered primary employment, the situation with regard to secondary employment is rather different. A much larger proportion of secondary employment is involved in forms of activity which avoid registration: petty trading and the provision of services by individuals or unregistered enterprises. However, the scale of secondary employment has certainly been exaggerated by many commentators.

The consensus that emerges from a review of the extensive survey data is that around 5% of the adult population admits to working regularly in more than one job, with around twice as many people involved in occasional secondary employment in any one month. About the same proportion of those of working age who are not in primary employment are engaged in some kind of supplementary income-earning activity. For some people the first job is purely formal, the second job is where they really work, but for most people secondary employment is subsidiary employment, a means of making additional income by working some additional hours – typically two or three hours a day after work, or through the weekend. A substantial proportion of secondary employment takes the traditional soviet forms of an additional job at the main place of work or 'individual labour activity', providing goods and services for friends and neighbours.

We would expect people to be liable to under-report secondary employment, even in surveys, since a substantial proportion of secondary employment is unregistered and unreported for tax purposes. In the ISITO household survey comparison of the

reconciled by Goskomstat estimating savings and financial investments and purchases of foreign currency at between 15 and 25% of income. According to the Goskomstat macroeconomic estimates for the fourth quarter of 1996, the latter supposedly accounted for 4% and 19% of money income respectively, but in the budget survey data for the same period net savings amounted to a total of 1%, including 0.1% accounted for by net purchases of foreign currency!

responses of the head of household and individual household members suggests that the incidence of secondary employment at individual level may be around double that which is reported in the survey data. Nevertheless, this still means that over eighty per cent of the population of working age does not have regular secondary employment while about two-thirds of all households are not involved in secondary employment at all.

Secondary employment tends to be much better paid than primary employment. However, it also tends to be unstable and irregular. This means that a substantial proportion of the adult population may engage in some kind of supplementary economic activity at some time or another but that few households can rely on supplementary earnings to sustain the household budget consistently.⁴

Surveys show that more people would like to have an additional job than in fact have one at present: having a second job is not just a matter of wanting an additional source of income, but it is also a matter of having the opportunity to have one. In the VTsIOM data, a quarter of respondents would like to have additional work, against one-eighth who in fact have it. Of those who say that they do not want additional work only 15% say that it is because they do not need it. Half say that they are not able to take on any additional work and over a third that they cannot get good work or work that brings in enough money. To undertake supplementary work it is necessary to have the time, skills, experience and resources necessary to do so, as well as the personal connections through which to find a supplementary job or, if self-employed, to get premises, find customers, etc.

All of the research on secondary employment is also quite consistent in showing that engagement in secondary employment is determined more by the opportunities and constraints confronting the individual than by anything else – there is little evidence that secondary employment is a response to economic hardship, it is rather an opportunity for earning additionally that is seized by those with the skills and motivation to do so. Those with higher education or professional skills have a wider range of opportunities for secondary employment. Adults of prime working age, having often acquired a variety of skills and experience, are much better placed than are young people. Those on administrative leave and those with flexible working hours are substantially more likely to engage in secondary employment, as are those who work shorter hours in their main job, although in the latter circumstance it is not easy to disentangle cause and effect.

Subsistence production

The impression given by many Russian and western journalistic sources is that Russia has become a nation of urban peasants, city dwellers surviving the crisis by growing a large proportion of their own food on their garden plots. In order to evaluate the ‘myth

⁴ There is also the question of the extent to which secondary incomes are available to the household budget. Culturally, there is a fairly well-established understanding in Russia that secondary earnings are at the disposal of the individual. This practice would appear to be confirmed by the fact that, in the ISITO survey, in households with declared secondary earnings, but not in those without secondary employment, the declared individual incomes of household members are significantly higher (by almost 20%) than the household income reported by the head of household. This would imply that on average only about a third of individual secondary earnings (of both men and women) are at the disposal of the household.

of the urban peasant' we asked some reasonably detailed questions about the use of land and household agricultural production in our survey. The findings of this research can be summed up quite briefly: although a majority of urban households have a plot of land on which they grow fruit and vegetables, and 40% of all household heads in our survey said that such produce was an important source of household subsistence, such activity makes little or no contribution to the household budget. In particular, the poorest households are the least likely to engage in such agricultural production, while those who do grow their own foodstuffs do not spend any less on food than those who do not use any land, primarily because the crops grown tend to be of low value so that there is very little monetary saving. Moreover, it takes an enormous input of time, and sometimes money, to produce a relatively modest amount of food. Finally, there is no evidence that urban households regard work on the land as a substitute for paid employment: those in paid employment and those with second jobs are significantly more likely to be involved in such work. The domestic production of food by urban households is an historical legacy of the insecurity of basic food supplies in the soviet period and is still more prevalent in regions in which commercial agriculture and the market economy are less highly developed, but it is an extraordinarily inefficient form of agricultural production which is only available to those with the money and the material and human resources required to undertake it. It is best seen as a by-product of a traditional leisure pursuit of the relatively better-off, which enables them to enjoy a more varied and, perhaps, ecologically purer diet, rather than an element of the survival strategies of impoverished households (Clarke et al., 2000).⁵

How do Russian urban households survive?

The only way to get a realistic picture of how households survive is by analysis of available survey data on income and expenditure. The principal published sources of such data are the official Household Budget Survey (HBS) and the more or less annual RLMS. The HBS stopped collecting income data in 1996, since when it has imputed household income from the reported household expenditure data. The disadvantage of the RLMS survey is that, although it asks very detailed questions regarding income and expenditure, its questions relate only to the period immediately preceding the survey (7 days, 30 days or three months, depending on the income or expenditure category), which can be misleading when wages and benefits are paid very irregularly and there is very large seasonal variation in incomes. In our household survey we could not ask such detailed questions, but we did ask our respondents to estimate their average levels of income and expenditure under various headings. While such estimates are bound to be approximate, they are consistent with the other sources and we believe that they provide a reasonably accurate impression of the big picture. The main points are summarised in the following tables.

⁵ It is important to stress that this analysis relates to urban households: domestic agricultural production is more significant for rural dwellers and the inhabitants of small towns. These results are replicated in the analysis of all of the available data sources. Some surveys (RLMS and the HBS since 1997) include the imputed monetary value of agricultural production (at local market prices) as a part of the household income. This can be very misleading since very little of this production is sold and it is likely that a significant proportion does not contribute to household subsistence because it is given to others, used as seed or goes to waste.

Table 1 identifies the proportion of households living below the regional subsistence minimum at the time of the survey.⁶ The contributions of income sources to the total household income in Table 2 are averaged across all households, whether or not they have that source of income, for those households within each income group for which we have complete data. Table 3 summarises the sources of household income for the designated income groups. For this purpose the sample was stratified into deciles by the average net household income per head reported by the head of household for each city. In Table 4 the contribution of each source for those who have that source is shown.

Table 1: Percentage of households with money income per head below the regional adult subsistence minimum.

Percent	Samara	Kemerovo	Lyubertsy	Syktyvkar	Total
Total individual incomes this month	36	52	43	44	43
Total average individual incomes	29	37	37	39	35
Reported Household income per head	33	43	38	40	38

I will only draw attention to a few significant points here.

First, over a third of all households, even in these relatively prosperous regional centres, had an average per capita money income below the local subsistence minimum even before the most recent crisis struck in August 1998. The subsistence minimum does not appear to be by any means generous: twenty-eight per cent of our household heads said that they did not even have enough money to buy sufficient food for their families. A further forty-seven per cent said that they had enough to buy food, but it was difficult to buy clothing.

Second, although our cities are relatively prosperous, a lot of households with wage-earners are in poverty. Almost one in five of those in employment earn a wage that is less than the subsistence minimum, without taking account of non-payment. Just over half the wage-earners in each city earn less than twice the subsistence minimum, so do not earn enough to support one dependent.

Third, the very high dependence of the majority of households on social transfers is striking. The heads of three-quarters of households which had such income reported that it was important for the household's subsistence. According to the RLMS data for 1998, in spite of extensive non-payment, over one-third of households depended on state benefits (pensions, child benefit, unemployment benefit and grants) for more than

⁶ The first row is the sum of income received the previous month from all sources reported individually by all household members; the second row is the sum of the average monthly income reported by all individuals; the third row is the average monthly household income reported by the head of household. Only households for which we have complete income data on each measure are included in this table. The subsistence minima for an adult for each region at the time of the survey were Samara 378 roubles, Kemerovo 423 roubles, Komi Republic 458 roubles, Moscow City 580 roubles and Moscow oblast 393 roubles. A figure of 480 roubles was used for Lyubertsy, where half our respondents worked in Moscow City. We have not applied any weighting for children and pensioners, for whom rather lower minima are defined, but the figures are only meant to be indicative.

50% of their money income.⁷ Overwhelmingly the most important benefit is pension income, which accounts for well over two-thirds of the total income from benefits – it is almost as important to have a pensioner in the household as it is to have a wage-earner (households with at least one pensioner but no working member have about two-thirds of the income per head of households with at least one worker but no pensioners – about the same as the differential between men’s and women’s pay). Pensions are still sufficient to pull twenty per cent of households above the poverty line. Pensions are almost as important for households with working members: pension payments are sufficient to pull ten per cent of such households above the poverty line: without pension payments, half of working households would have had a money income below the poverty line in the month prior to the survey. This should make it clear why the issue of the payment of pensions is such an emotive one and should make the World Bank think twice about current attempts, that it is vigorously sponsoring, to ‘reform’ the pension system.

Table 2: Household income and its components by income group

	First decile	Second decile	Second quintile	Third quintile	Fourth quintile	Ninth decile	Tenth decile	Total	N Households
Average reported net monthly household income per head excluding private transfers (roubles)	163	282	378	492	677	930	1588	606	3991
Average net total monthly income per head of all household members excluding private transfers (roubles)	271	356	416	535	724	960	1579	651	3746
Total net income per head of all household members last month excluding private transfers (roubles)	199	299	377	481	629	840	1320	561	4019
Average monthly monetary value of help received from others per head (roubles)	29	21	14	28	27	24	84	30	3460
Average monthly sum given as help to others per head (roubles)	4	4	5	9	17	41	74	18	3364
Average monthly expenditure per head (roubles)	322	329	395	500	636	830	1289	583	3013

Table 3: Components of household income as percentage of total net income of all household members, excluding private transfers

	First decile	Second decile	Second quintile	Third quintile	Fourth quintile	Ninth decile	Tenth decile	Total	N Households
Wage income	48	48	42	51	67	71	74	56	3669
Entrepreneurial income	1	1	1	2	3	3	7	2	3669
Income from secondary employment	9	7	5	5	5	6	9	6	3669
Pensions	30	37	49	38	22	16	7	31	3669

⁷ According to RLMS, social transfers had amounted to about 18% of household money income in 1996 (30% of the bottom quintile and 40% of the second quintile), which is fairly close to Goskomstat’s budget survey data which reported that social transfers amounted to an average 16% of household money income (25% of the bottom decile income group, 22% of the second decile) in the fourth quarter of 1996. As a result of non-payment, in 1996 11% and in 1998 6% of households reported a total money income to RLMS of zero in the previous month. These cases are omitted from the analysis in this section.

Grants	0	0	0	0	0	0	0	0	3669
Benefits	6	4	2	2	2	2	1	2	3669
Alimony	1	1	1	0	1	0	0	1	3669
Other	3	1	1	1	1	1	2	1	3669
Net private assistance.	9	6	2	3	2	-2	1	3	2871

Table 4: Components of household income by income group. Percentage of income contributed by each source for those households who have that income source and percentage of households with that income source.

		Wage income	Entrepre neurial income	Income from secondary employment	Pensions	Grants	Benefits	Alimony	Other	Net private assistance
First decile	% of income	72	53	39	64	27	23	29	37	24
	% of households	57	2	19	40	2	27	3	6	26
Second decile	% of income	70	47	33	68	11	13	24	26	16
	% of households	63	1	21	50	2	32	4	5	29
Second quintile	% of income	73	60	27	76	14	12	17	31	4
	% of households	55	1	16	61	1	21	3	3	30
Third quintile	% of income	75	68	25	68	14	8	20	36	8
	% of households	64	3	18	54	1	24	2	4	30
Fourth quintile	% of income	77	70	23	46	9	6	21	23	4
	% of households	81	4	20	44	1	25	4	5	38
Ninth decile	% of income	80	62	31	38	31	7	13	18	-4
	% of households	83	5	20	38	1	21	3	5	43
Tenth decile	% of income	82	71	27	24	6	3	13	32	2
	% of households	83	9	30	28	3	14	3	6	44
Total	% of income	76	66	28	61	15	10	20	29	6
	% of households	69	3	20	47	1	23	3	4	34

Fourth, the very small contribution made to household money income by other welfare benefits, notably unemployment benefit and child benefit which have shrunk to a derisory sum which is rarely paid. However, these benefits do make a significant contribution to the household incomes of those poor households who are fortunate enough to receive them, and are clearly progressive in making a proportionately greater contribution to the incomes of the poor than to the better-off households.

Fifth, secondary employment does not provide a substantial addition to the household budget overall, contributing only 6% of total income when averaged across all households, but it does provide a significant addition to household income for those

who have this source. However, since many of these households are already comfortably off, reported secondary employment only reduces the incidence of poverty by about two per cent. If we assume that every household which appears to have undeclared secondary employment earns as much as those who declare such incomes, the effect is to increase the mean household income by about 10% uniformly across all the income groups, reducing the incidence of poverty by about six percentage points: a significant, but not substantial contribution to the survival prospects of the Russian household. Twenty per cent of household heads said that such income was important for the subsistence of their household, 5% that it was not very important and 8% that it was not important, with 67% saying that they had no such income.

Finally, private transfers make a substantial contribution to the income of the quarter of the poorest 20% of households which report such receipts. Indeed, a quarter of all household heads reported that the help of friends and relatives was important for the household's subsistence. However, richer households are even more likely than poorer ones to be involved in exchange networks – we have found in our analysis of a variety of different aspects of household survival that the density of social networks in which the individual is involved has a very powerful impact on the ability to get a job, to earn more money, to undertake secondary employment and so on. However, net private help was still sufficient to reduce the poverty count by eight percentage points – a more significant contribution than secondary employment and second in importance, after wage income, only to pensions.

Note that monetary transfers are only a small part of the exchange networks in which our respondents are embedded. While 25% of households gave money and 10% made loans to others during the previous twelve months, 30% gave food and 20% gave goods. Two-thirds of all households reported their involvement in exchange relations, providing help to or receiving help from others, with about 25% giving help but not receiving it, 20% receiving help but not giving it and 20% both giving and receiving help.

According to the RLMS data, people in need are becoming increasingly dependent on private transfers, which made up an average of 4.7% of total money income of all households in 1993, 7.1% in 1996 and 12% in 1998.⁸ In 1993 such transfers comprised 20% of the money income of net recipients. In 1996 they comprised almost a third of the monetary income of the one in four households who reported receiving such transfers from friends and relatives, which was sufficient to raise the money incomes of one-third of these people above the poverty line. By 1998 net private transfers accounted for over half the money income (excluding sales of household property) of the quarter of households who received them, but by then money incomes were so low that the transfers only took fifteen percent of their recipients above the poverty line (my estimates from RLMS data). Private transfers are a part of the system of reciprocity between kin and, to a lesser extent, between friends rather than being an informal system of poverty relief. Thus, in the 1998 RLMS data, high income households were more likely than low income households to be beneficiaries of private transfers, and on average net recipient households in the top income decile received almost five times as much as did net recipients in the bottom income decile. The

⁸ According to the Goskomstat data such private transfers amounted for 4% of total money income and about 9% of the money income of the lowest decile, those in extreme poverty, in the fourth quarter of 1996.

growing reliance of households on private transfers is an indication of the deepening crisis of demonetisation of the household economy, but at the same time we can expect increasingly asymmetrical relationships to put such support networks under growing strain.⁹ Any attempt to incorporate an evaluation of private transfers into assessment of eligibility for social assistance, as is proposed by the World Bank, is likely to be counter-productive in destroying the social networks which play such a vital role in household survival.

Household Survival and the System of Social Support

I argued at the beginning of this paper that the idea of a household survival strategy distracts attention from the principal sources of household subsistence, which are waged employment and social transfers. We have now seen that subsistence production and engagement in the informal economy make only a marginal contribution to household survival, tending more to diversify and increase the incomes of the more prosperous households than to lift the less fortunate out of poverty. Moreover, these are retrograde forms of economic activity which should by no means be encouraged by policy-makers. In particular, domestic subsistence agriculture is an extremely inefficient method of agricultural production and distribution whose persistence undermines the development of an agricultural market and so impedes the development of a more efficient system of commercial agriculture. The informal economy is similarly the domain of extremely inefficient forms of economic activity which provide unstable and insecure employment, in which illegal, unsafe and unhealthy working conditions are endemic, in which extortion and other criminal activity is rife and the expansion of which can only exacerbate the fiscal problems of the state, because of pervasive tax evasion in this sector. The priority should, therefore, not be to encourage the persistence and even expansion of such retrograde and unsustainable forms of employment as the solution to the crisis of household subsistence, but to encourage the regeneration of a modern economy and to renew the system of social support.

In principle, the traditional system of social support largely remains intact, with the addition of unemployment insurance. However, this system is now in a state of virtual collapse as a result of the budget crisis of central government and regional and local administrations. This has been compounded by the chaotic transfer of assets and responsibilities from enterprises and from trade unions to municipalities which have neither the administrative capacity nor the funds to maintain such responsibilities. The result is that housing construction has ground to a halt, the maintenance of housing and municipal leisure and cultural facilities has stopped, the health service, while nominally free, is increasingly inaccessible to those who cannot pay (even for emergency services), while benefits are distributed haphazardly if at all.

Rather than rationalise the benefits system what in practice has happened has been that local offices have had to manage within the limits of the finance available. In the case of the payment of pensions, disability, child and unemployment benefits this leads to the widespread non-payment of benefit or payment at reduced rates and/or in kind.

⁹ This is one of the most seriously under-researched dimensions of the transition. For an analysis of the rather unsatisfactory first phase RLMS data see Cox et al., 1995. For a more detailed analysis of the ISITO data see Yakubovich, 1999, which has been published in Russian in Kabalina and Clarke, 1999.

Moreover, those regions which are most in need are also those which have the least resources to tackle the problem.

The key problem is that of the budget. The central issue is whether social policy should be reformed so as to reduce its cost to the limits allowed by the current budgetary system, as has been pressed by the World Bank and the IMF as a condition for their loans, or whether the fiscal system should be reformed in order to provide the funding needed to sustain an effective system of social protection. I will not go into the ethical and political aspects of the issue here, nor discuss any of the problems of fiscal reform, but simply look briefly at the practical aspects, using the data of our household survey to get some indication of the costs and benefits of various different welfare reforms, at least as regards the urban population.

Total local and national expenditure on social support is not high. In 1997, according to the official figures, the total cost of social policy to the consolidated budget and off-budget funds, including administration costs, amounted to 10.8% of GDP, comprising budget spending on social policy (2.4%) and spending of the pension fund (6.8%), the social insurance fund (1.2%) and the employment fund (0.3%). By 1997, according to Goskomstat estimates, social transfers had fallen from 17% of household income in 1993-4 to 13%, despite the considerable increase in poverty. The World Bank's 1994 poverty assessment noted that social benefits, apart from occupational pensions, were far too low to combat poverty, and since 1994 they have fallen even further in real terms. In 1997 the minimum wage was less than one fifth of the subsistence minimum and the bottom grade of the budget sector wage scale was even lower than this. The minimum pension was one quarter of the subsistence minimum, the highest rate of disability pension was only half the subsistence minimum, the social pension was 17% of the subsistence minimum. Child benefit was back to 15% of the subsistence minimum.

The most obvious first step in a realistic programme to reform the system of social protection is to make some attempt to restore the value of the social benefits paid to those categories of the population who cannot be expected to provide for themselves: children, the elderly, the chronic sick and disabled. The World Bank has proposed such a programme for Russia, driven primarily by fiscal considerations, the aim being to means-test benefits and move from fiscal to insurance-based financing with the introduction of a new system of rigorously means-tested social assistance to provide the social safety net. The World Bank's \$800 million Social Protection Adjustment Loan, announced in June 1997, was designed to support the implementation of a comprehensive package of reforms approved by the Russian government in February 1997. On pensions, the reforms proposed a guaranteed minimum pension at 80% of the subsistence minimum, adjusted for inflation, while shifting the burden of pension finance from the employer to the individual and from the state to the private sector. In the knowledge that such a reform would be deeply unpopular, the World Bank also proposed to finance a propaganda campaign to 'explain' the reforms to the population. In relation to unemployment, the reforms proposed a greater degree of regional redistribution of the employment fund, an unemployment benefit of 20% of the regional subsistence minimum (the present minimum benefit is equal to the minimum wage, which is approximately 20% of the subsistence minimum but which is not adjusted to the regional cost of living) but with tighter eligibility conditions. Child allowances would be transformed from a universal entitlement to a form of social assistance, with benefits means-tested for children over three. Finally, sick pay,

maternity and child-care benefits would be reviewed, with a cap placed on sick pay. Although all of these measures were agreed by Chubais on behalf of the Russian government at the beginning of June 1997, as a condition for the World Bank's extending their loan, not one had been through the Duma. When they were put to the Duma later in June, every single proposal was thrown out, except that to tax child benefit, most of which is not paid in any case. This was really an academic question since, with at least the tacit approval of the World Bank, the Russian government immediately spent the first \$300 million tranche of the loan to pay off pension arrears and proposed to spend the remainder almost as fast on paying off wage arrears to teachers and health workers (Reuter, 1.7.97; 7.7.97). Since then, there has been much talk, much spending of World Bank money, but no reform.

The overall effect of the World Bank's programme would be to reduce the already limited scale and coverage of categorical benefits to put the main emphasis of social protection on a means-tested social assistance programme, despite the fact that its own Poverty Assessment for Russia concluded that means-testing was impractical. In order to try to identify the 'best' system the World Bank has financed three experimental schemes in Russia. Under all three of these schemes social assistance will be paid to households, not to individuals, and eligibility will be based not on actual income but on an inquisitorial assessment of potential income sources, including the sale or leasing of household assets, access to land and potential private transfers (Ovcharova, 1997). First results of these experiments indicated that such schemes would substantially reduce the cost of social assistance not by relieving poverty but by sharply reducing the number of people securing assistance.

The alternative approach to poverty relief is to attempt to relieve as much poverty as possible by the allocation of income on the basis of categorical entitlements and minimum income guarantees which minimise the need for inquisitorial and punitive methods of assessment. This can be supplemented by means-tested social assistance or poverty relief to mop up the remaining pockets of hardship. Results of estimates of the cost and effectiveness of such policies for the population surveyed in our own project are shown in Table 5. Apart from the first column, the poverty line selected for the household is the subsistence minimum for those over 16 and 70% of the subsistence minimum for those under 16. The mean income per head gives a simple indication of the cost of alternative policies, the distribution in relation to the subsistence minimum gives an indication of their benefits from the point of view of poverty relief. We take half the subsistence minimum as the criterion of severe poverty. The income measure used as the reference income in this example is the normal household income declared by the head of household.

Table 5: Percent of households in poverty with different social policies

Percentage with income per head:	Present income. No weighting	Present income	No benefits	pension only	Replace occupational by social pension	Replace occupational by social pension non-working only	Minimum pension at subsistence minimum	Existing pension + 50% Child benefit	Minimum Pension and child benefit	Pension + child benefit + minimum wage	Pension + child benefit + non-employment benefit	everything
Less than half subsistence	6.3	5.1	33.2	6.7	5.7	7.4	4.1	3.7	2.7	2.2	1.0	.7
Below subsistence	29.8	26.6	20.0	28.2	23.0	24.0	20.6	25.6	18.1	16.2	16.5	13.8
Between subsistence and twice	44.5	43.9	30.2	44.6	51.0	50.2	53.7	48.1	55.9	57.6	58.5	61.1
More than twice subsistence	19.4	19.9	16.7	20.6	20.2	18.5	21.6	22.5	23.3	24.0	24.0	24.4
Mean income/head	618	618	461	608	608	590	635	640	656	668	677	689

The subsistence level for all but the first column is calculated weighting all children under 16 as 70% of an adult, using the regional subsistence minima as defined above. The individual poverty count would be slightly higher in each case since larger households are more likely to be poor, particularly if they have more than one child.

In these models the pension and minimum wage are set at the subsistence minimum, child and non-employment benefit are set at 50% of the subsistence minimum. The invalidity pension is treated along with the retirement pension for these purposes since there are relatively few people involved.

The first columns of our table show the costs and benefits of the present system of social protection by comparing the distribution of income and the mean income per head with the present system of benefits against those if no benefits at all were paid and if only pensions were paid. It can be seen that pensions comprise much the most significant component of the benefit system, as we would expect. Without any benefits one-third of households would be in extreme poverty and over half would be in poverty. The existing pension system takes over a quarter of households out of extreme poverty, it removes almost 20% from poverty and it allows 4% of households to move into relative comfort.

The World Bank, in all of its poverty assessments, makes great play of the fact that pensions are not efficiently targeted. This poor targeting arises primarily because the pension, which is much the largest component of the benefit system, is an earnings-related occupational pension, supplemented by a relatively low 'social pension' for those with no work record, and that the pension is payable to those who continue working. It is debatable whether the occupational pension should be considered a social benefit in any case, since most people still regard their pension as an entitlement that they have earned through decades of hard labour, so as a 'deferred wage' rather than as a welfare benefit. We can see that replacing the occupational pension by a social pension set at the level of the subsistence minimum does provide some improvement in the targeting of benefits, by coincidence at exactly the same cost (6% of those of pension age in our sample, most of whom are still working, do not appear to draw a pension. In our simulations we assume that these people will continue not to draw a pension). If this is paid only to those who are not working, there is a saving of about 12% on the pension bill, if we assume that nobody gives up work to retain their pension, but at the cost of an increase in poverty because so many older people are paid very low wages. It is very doubtful that such a change would be politically possible, and it is hardly worthwhile for what is a relatively small saving, particularly as many old people might give up their jobs to preserve their pension entitlement. On the other hand, raising the minimum pension to the level of the subsistence minimum, without changing any other entitlements, increases the pension bill for our sample population by 18%. The cost across the whole country would be more because pensions paid to the rural population are much lower, but in total we can guess that it would raise the cost of pensions from 6.8% in 1997 to about 8–8.5% of GDP, with quite a significant impact on the incidence of poverty.

The payment of child benefit at a rate of 50% of the regional subsistence minimum would cost a bit more than raising the minimum pension to the subsistence minimum, and, as we would expect, would turn out to be rather less well targeted on poverty, but would have a bigger impact on extreme poverty. Combining the upgrading of child benefit and of pensions shows that the impact of the two is reasonably complementary to one another.

The final two columns consider the impact of a minimum wage, set at the level of the subsistence minimum, and a non-employment benefit paid at the rate of 50% of the subsistence minimum to all those below pension age who have no income from primary employment.¹⁰ The minimum wage turns out not to be very expensive, since many of those on low pay are paid not far below

¹⁰ Only 10% of the ILO unemployed are entitled to benefit under the present system. Realistically, it is impossible in the Russian context to distinguish the 'deserving' from the 'undeserving' unemployed: in our survey exactly the same percentage of employed, registered unemployed and unregistered unemployed are engaged in secondary activity. We model a universal non-employment benefit as an example only. In practice such a benefit could be more efficiently targeted on those population categories who find it hardest to get work: for example by providing more grants for young people undergoing education, by providing more generous and broader maternity and child care benefits, by providing grants for those with lower educational levels who choose to undergo retraining and by providing benefits for those who choose to retire early.

the minimum, but it correspondingly does not have a major impact when added to child benefit and an uprated pension (although its impact is more substantial on its own). It has the advantage of having no immediate fiscal implications, unlike all the other reforms that we have considered. The payment of a benefit to the non-employed picks up well over half the households who remain in extreme poverty after the uprating of pensions and child benefit and is also complementary to a minimum wage in its impact.

This is only an indicative exercise, but the cost of this whole package of welfare reforms would amount to about 3% of GDP, which would be matched by some savings on social assistance, increasing the welfare budget to a not unreasonable 13–14% of GDP, while almost eliminating extreme poverty and cutting the overall poverty headcount by more than half. All of these benefit reforms would be easy to implement and administer, only the benefit to the non-employed involving any innovation, while massively reducing the administrative and financial burden imposed by any effective system of social assistance.¹¹ The cost of such measures is hardly unreasonable, even in the dire conditions in which Russia finds itself: in total they would only represent an increase in the fiscal cost of cash transfers to a level of those of Ukraine, less than Latvia and little more than half the rate in Poland (Milanovic, 1998).

¹¹ It is not possible realistically to model the impact of such benefit reforms on incentives. However, the willingness of people to continue to work for years on end with low or no pay in no or low productivity jobs has been a major barrier to the restructuring of the economy. This implies on the one hand that not many are likely to leave work because of the small increase in their benefits, but on the other that there is a strong case to be made for encouraging the low paid to leave work.

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