Chapter 2
On the Transition in Russia

This chapter provides a description of the economic situation in Russia during the transition period, looking at the main macro-indicators. The chapter describes also the database used in this study.

2.1 Russia in Transition[1]

Russia differs from most transition economies because of its large geographical size, ethnic diversity and formally federalist structure (Solanko 2006). Russia is divided into 89 sub-national jurisdictions (that vary in size, composition and nomenclature), each of which relates to one of seven federal districts: Central, Far East, North Caucasus, Northwest, Siberia, Urals, and Volga. The jurisdictions include 21 republics, 49 oblasts (provinces), six territories, 10 autonomous regions, one autonomous oblast, and two cities (Moscow and St. Petersburg) with separate oblast status (FRD 2006). Its population decreased from 148.3 million in 1991 to 142 million in 2008 (Rosstat).[2]

The transition period from planned to market economy in Russia started with the dissolution of the USSR in 1991. The period that followed was marked by two profound crises: the industrial collapse and hyper-inflation in 1992 and the financial collapse in 1998. According to the FRD (2006) publication, during President Yeltsin's tenure (1992–2000) there was "a chaotic transformation that ended the dominance of communism and brought irregular reforms in the economic, political, and social realms… Economic reform was undermined by corruption and public suspicion as Russia nominally moved toward a free-market system. Judicial reform was piecemeal and ineffective". In addition, in the mid-1990s a government

[1]Note that the review covers the research period only (1992–2008) and does not describe the current situation in Russia.
[2]Available at http://www.gks.ru/free_doc/new_site/population/demo/demo11.htm.

© Springer International Publishing AG 2017

Z. Nissanov, *Economic Growth and the Middle Class in an Economy in Transition*, Economic Studies in Inequality, Social Exclusion and Well-Being, DOI 10.1007/978-3-319-51094-1_2

Table 2.1 Macro-indicators for 1992–2008

	GDP growth (percentage change)	Unemployment rate (percentage of labor force)	Inflation rate (end year)	Interest rate	Exchange rate (roubles per $)	Population (in millions)
1992	–14.5	5.3	2,506.1	–	0.5	148.7
1993	–8.7	6.0	840.0	210	1.2	148.3
1994	–12.7	7.8	204.4	180	3.6	148.0
1995	–4.1	9.0	128.6	160	4.6	147.5
1996	–3.5	9.9	21.8	48	5.6	147.2
1997	0.8	11.2	10.9	28	6.0	147.1
1998	–4.6	13.3	84.5	60	20.7	146.4
1999	6.4	12.9	36.8	55	26.8	145.6
2000	10.0	10.2	20.1	25	28.2	145.2
2001	5.1	8.7	18.6	25	30.1	144.4
2002	4.7	8.8	15.0	21	31.8	145.2
2003	7.4	7.8	12.0	16	29.5	145.0
2004	7.1	7.9	11.7	13	27.7	144.2
2005	6.4	7.1	10.9	12	28.8	143.5
2006	7.4	6.7	9.1	11	26.3	142.8
2007	8.5	5.7	11.9	10	24.5	142.2
2008	5.2	7.8	13.3	13	29.4	142.0

privatization plan (aimed at encouraging private enterprise) was "undermined by corruption, which concentrated significant economic resources in the hands of a well-connected elite rather than effecting true redistribution" (FRD 2006, p. 8).

Table 2.1 gives the main macro-indicators for the period 1992–2008, published by the European Bank for Reconstruction and Development (EBRD Transition Reports 2000, 2002, 2009 and 2010).[3]

It can be seen that in the first post-Soviet years, hyperinflation was a major economic problem: its annual rate reached 2,500% in 1992, after price stabilization it decreased to 11% in 1997 but in 1998 inflation rate rose to 84.5% due to the financial collapse and subsequent currency devaluation (FRD 2006).

Konstantinova-Vernon (2002) points out that in the first post-Soviet years, 70% of the country's productive capital was privatized. She writes "in 1992–1996, per-capita real GDP in Russia declined by 8.5% per year on average. Unemployment, essentially nonexistent under communism, rose to 11.7%. The rate of poverty at least tripled to 30%; the extent of human suffering is reflected in the simultaneous decline in life expectancy, increase in suicide rates and decrease in birth rates. By the year 2000, some positive trends emerged: per-capita real GDP was rising at a rate of 8.3% annually, unemployment was declining, poverty rates

[3]Available at http://www.ebrd.com/home.

were stable, inflation had abated, life expectancy was increasing, suicide rates were declining, and birth rates were stable, although the standard of living had not yet returned to the Soviet levels" (Konstantinova-Vernon 2002, p. 2). In addition, she claims that the transition affected the labor market through an increase in wage inequality and a decline in the relative wages of women and older workers.

Most of the studies devoted to this transition period (Lavrovsky 1999; Hanson and Bradshaw 2000; Westlund et al. 2000; Guan 2003; Galbraith et al. 2003; Solanko 2006 among others) agree that it has been characterized by a rapidly growing economic inequality among Russia's regions. This suggests that there is a strong geographic element in the rising stratification that was observed. In other words, choice of place mattered more than choice of occupation.

2.2 Data

2.2.1 Data description

This study uses the Russian Longitudinal Monitoring Survey dataset—Higher School of Economics (RLMS-HSE)[4] for the 1992–2008 period. The RLMS-HSE is a series of nationally representative surveys conducted by the National Research University Higher School of Economics and ZAO "Demoscope" together with the Carolina Population Center, University of North Carolina at Chapel Hill and the Institute of Sociology RAS.

This dataset is useful in the context of a research on transition, as it covers the relevant period and monitors the effects of reforms on the health and economic welfare of households and individuals in the Russian Federation. These effects are measured by a variety of means: detailed monitoring of individuals' health status, incomes, income sources, expenditures, state subsidies, service utilization and a collection of relevant community-level data, including region-specific prices and community infrastructure data.

The data have been collected annually since 1992 (with two exceptions: 1997 and 1999) and the survey has been conducted in two phases, each representing a separate panel. In phase I (1992–1994 [round 4]), data were collected among approximately 6000 households; phase II (1994 [round 5]–2008) covered about 4000 households. The RLMS dataset includes information at both the individual and household levels and it enables two types of analyses: repeated cross-section and longitudinal or "panel". Table 2.2 presents information on the original (cross-section) samples and the number of observations that were used in this research, i.e. the number of recipients who reported their incomes.

[4]More information can be found at http://www.cpc.unc.edu/projects/rlms-hse.

Table 2.2 The details of the samples

Year	Round	Survey schedule	Number of households[a]	Individual observations
1992	1	7/92 to 10/92	6167 (6333)	12,267 (16,623)
1993	3	7/93 to 9/93	5737 (5836)	11,642 (15,030)
1994	5	11/94 to 12/94	3861 (3975)	8481 (8893)
1995	6	10/95 to 12/95	3647 (3783)	8033 (8417)
1996	7	10/96 to 12/96	3594 (3750)	8050 (8342)
1998	8	10/98 to 1/99	3720 (3830)	8444 (8699)
2000	9	9/00 to 12/00	3887 (4006)	8831 (9074)
2001	10	9/01 to 12/01	4307 (4528)	9781 (10,098)
2002	11	9/02 to 12/02	4512 (4668)	10,221 (10,499)
2003	12	9/03 to 12/03	4532 (4718)	10,368 (10,636)
2004	13	9/04 to 12/04	4509 (4715)	10,430 (10,670)
2005	14	10/05 to 1/06	4370 (4572)	10,099 (10,337)
2006	15	9/06 to 1/07	5258 (5545)	12,151 (12,491)
2007	16	9/07 to 01/08	5095 (5427)	11,835 (12,301)
2008	17	9/08 to 01/09	5018 (5314)	11,517 (11,864)

[a]Original sample sizes (including those who did not report their incomes) are in parentheses

It should be noted that the results of the current research are not comparable to some other studies, which used the same dataset, because of the following reasons:

- In 1992 and 1993 the RLMS conducted two rounds of questionnaires: rounds 1 and 2 for 1992 and rounds 3 and 4 for 1993. In order to maintain consistency with the following periods (1994–2008), we use the rounds that were conducted during the second half of year, i.e. round 3 for 1992 and round 5 for 1993. This might lead to some discrepancies between our findings and those of studies that use other rounds than the ones we use.
- Some researchers used a regional CPI deflator to compute real incomes. In the current research the CPI at the national level was used, because (see the RLMS website[5]), "the RLMS sample has NOT been designed to be regionally representative, so that the researcher is cautioned not to interpret the data at the regional level".[6]

All the incomes used in the research are weighted total incomes (from all sources including transfers) net of taxes, expressed in June 1992 rubles using the national monthly CPI deflator published by Rosstat.[7] These weights are essential to obtain an unbiased estimation since "in RLMS data, the household characteristics that

[5]See http://www.cpc.unc.edu/projects/rlms-hse/data/documentation/faq.

[6]Moreover, we found that the available regional indices are strongly correlated with the total CPI for the Russian Federation; therefore, changes in the national index should be good proxies for changes in the local ones.

[7]Available at http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/.

Table 2.3 Number of observations in the panel datasets

Period	Number of observations (households)
1992–1993	5332
1995–1998	2879
1998–2001	2543
2001–2004	2547
2004–2007	2138

explain the greatest variation in weights are the geographic region and the urban/rural character of the civil division in which the dwelling is located. Variation in individual weights will reflect the geographic effects for households as well as differentials due to post-stratification of the sample by major geographic regions, age, and sex"[8] (see the RMLS website).

The OECD equivalence scale[9] was used to adjust household incomes for different household sizes and to obtain equivalent incomes. The analysis will mostly focus on equivalent incomes; in some cases, however, results for total household and individual incomes will also be shown.

The following statistical software will be used for the empirical analysis: the R-program (Chaps. 3, 6 and 7) and Stata (Chaps. 2, 4–6).

2.2.2 *Panel Dataset*

As mentioned previously, the RLMS-HSE enables a longitudinal (panel) analysis. This type of dataset will be used in Chap. 7. Table 2.3 gives the number of observations used in the between-groups analysis. The panel datasets in this case were obtained from the original cross-section samples by dropping the observations of the households that did not participate in at least two consecutive surveys.

For the within-groups analysis, a combined panel dataset[10] was used. As was mentioned previously, the period 1992–1994 corresponds to a different panel and cannot be combined with that for the period 1995–2008; as a consequence, these years were not included in the within-groups analysis.

Note that the combined panel dataset includes all the households which participated in all the rounds included in the period under study: 1995, 1998, 2001, 2004 and 2007. Therefore, the observations that were not included at least in one of these rounds were eliminated from the dataset. The number of observations in the combined panel dataset is made of 1463 households.

[8] http://www.cpc.unc.edu/projects/rlms-hse/project/samprep.

[9] This scale assigns a value of 1 to the head of the household, a value of 0.7 to each additional adult and a value of 0.5 to each child (until age 17).

[10] Note that in the panel dataset there is a higher share of poor households. This is because as reported on the official RLMS website, households with better economic positions and households in urban areas are more likely to drop out of the sample.

2.2.3 Summary Statistics

This section presents general results based on the RLMS dataset and three types of incomes (individual/household/equivalent) and provides information that will be used in the following empirical chapters.

Figure 2.1 gives the average individual, household and equivalent incomes for 1992–2008. The plot includes confidence intervals (95%) to show the differences between the individual and equivalent incomes (LB is a low bound and UB is an upper bound): both started from the same level in 1992, but since 1993 the equivalent incomes became larger. The incomes, regardless of the type, decreased between 1992 and 1998 and then increased.

Figure 2.2 gives the mean and median equivalent incomes, including confidence intervals (95%), and Fig. 2.3 plots the ratio of these two indicators for all types of incomes. This information will be used when computing the Foster and Wolfson (2010) FW index of bipolarization.

Between 1992 and 1993, when incomes increased, the distance between the mean and median increased and, since the relative change in the mean was larger than that in the median, the ratio of the mean to median increased. Between 1993 and 1996, when incomes decreased, the change in the median was greater and, thus, the ratio increased again. Then, in 1998 this ratio decreased but the change for equivalent incomes was not significant. Between 2000 and 2008, the relative increase in the median was greater, thus, the distance between the mean and median and the ratio of the mean to median decreased.

Figure 2.4 indicates that the share of the population with zero incomes increased between 1992 and 1996 and then decreased.

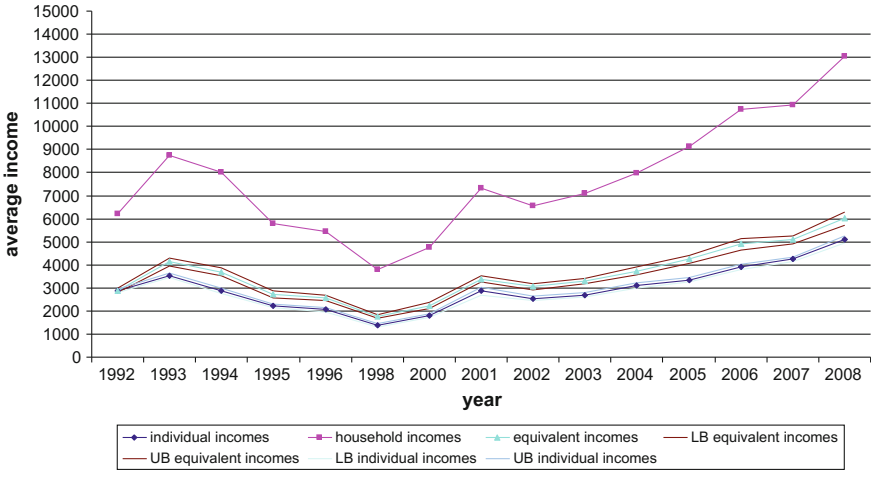


Fig. 2.1 Average incomes (in June 1992 rubles)

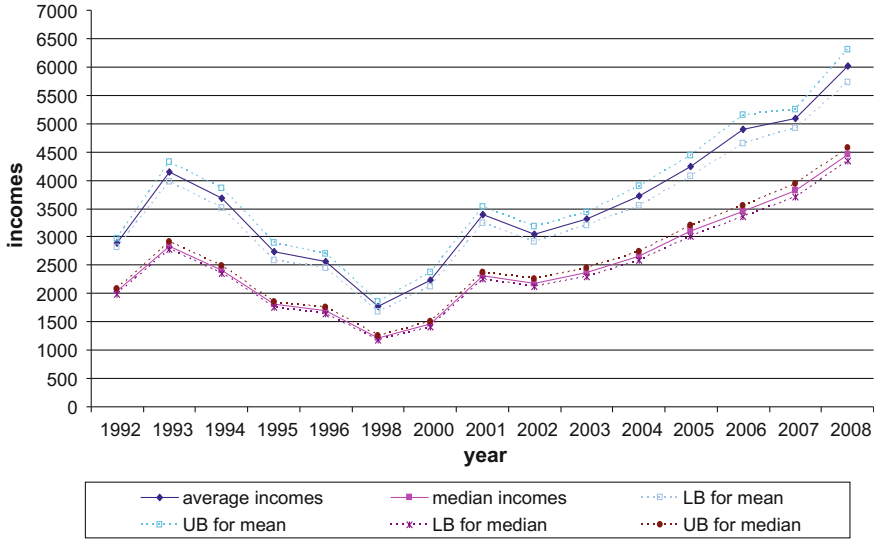


Fig. 2.2 Equivalent incomes

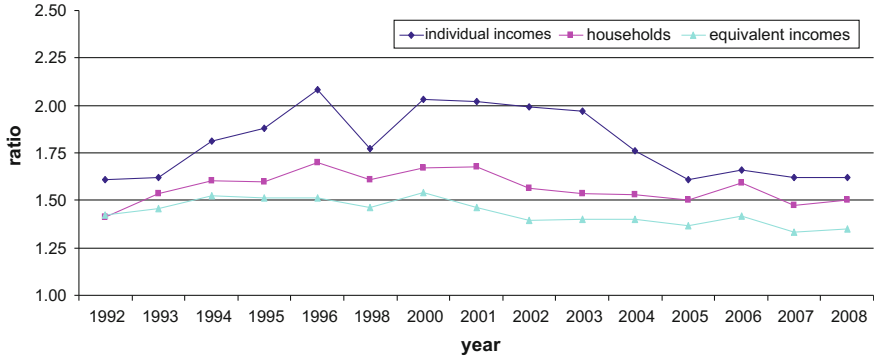


Fig. 2.3 Ratio of mean to median

Figures 2.5 and 2.6 give the value of two inequality indices, the Gini index and Theil entropy measure (the computation includes zero-incomes). Both increased during the 1992–1996 period and then decreased.

To decompose inequality (Table 2.4) into between and within-group components, the sample was divided into two groups of equal size, the "poor" and "rich", each one representing 50% of the population. The results are illustrated in Figs. 2.7 and 2.8. The detailed analysis of the changes in these components will be given in Chap. 4 which is devoted to income bipolarization.

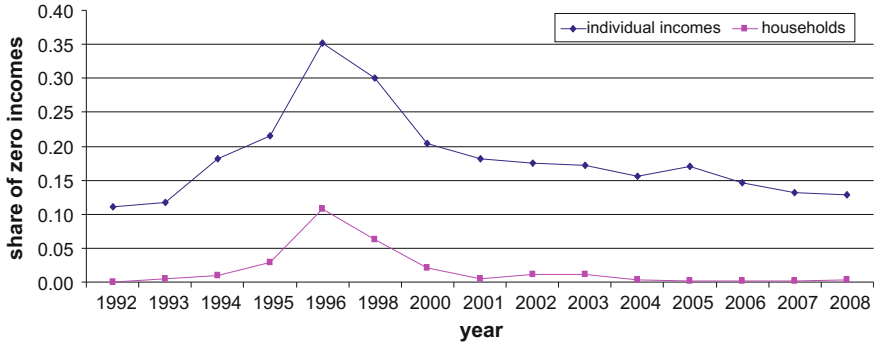


Fig. 2.4 Share of zero-incomes

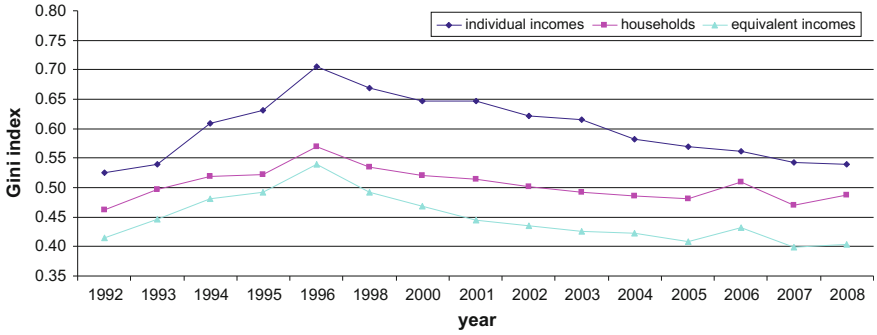


Fig. 2.5 Gini index

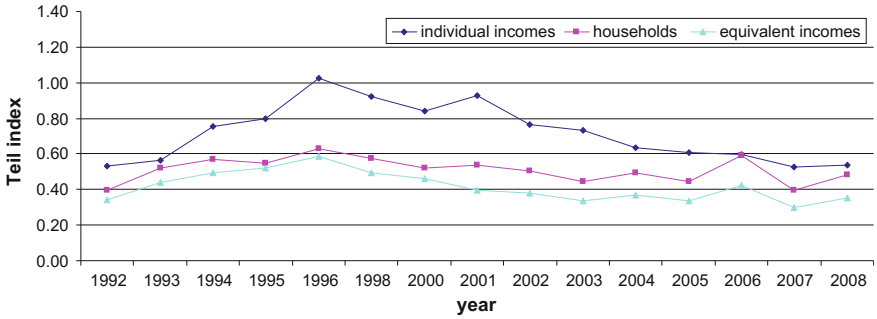


Fig. 2.6 Theil entropy measure

Table 2.4 Gini index

Year	Equivalent incomes [CI 95%]	Households [CI 95%]	Individual incomes [CI 95%]
1992	0.415 [0.403 0.429]	0.462 [0.452 0.475]	0.525 [0.515 0.535]
1993	0.446 [0.429 0.471]	0.497 [0.476 0.517]	0.539 [0.530 0.548]
1994	0.481 [0.461 0.502]	0.520 [0.499 0.540]	0.609 [0.597 0.621]
1995	0.492 [0.470 0.515]	0.522 [0.504 0.545]	0.631 [0.621 0.641]
1996	0.540 [0.522 0.559]	0.570 [0.553 0.584]	0.706 [0.695 0.715]
1998	0.492 [0.473 0.513]	0.534 [0.516 0.556]	0.669 [0.656 0.680]
2000	0.468 [0.447 0.495]	0.520 [0.504 0.541]	0.647 [0.636 0.658]
2001	0.445 [0.428 0.463]	0.515 [0.495 0.540]	0.647 [0.629 0.669]
2002	0.435 [0.416 0.456]	0.501 [0.480 0.534]	0.621 [0.610 0.633]
2003	0.426 [0.413 0.442]	0.492 [0.480 0.508]	0.615 [0.605 0.625]
2004	0.423 [0.404 0.446]	0.486 [0.462 0.518]	0.582 [0.573 0.591]
2005	0.409 [0.391 0.431]	0.480 [0.464 0.502]	0.569 [0.560 0.578]
2006	0.432 [0.408 0.461]	0.509 [0.484 0.542]	0.562 [0.552 0.572]
2007	0.399 [0.386 0.412]	0.471 [0.460 0.484]	0.543 [0.535 0.549]
2008	0.404 [0.382 0.432]	0.487 [0.466 0.515]	0.539 [0.530 0.548]

Note Confidence intervals (CI) are computed using bootstrap bias-corrected (1000 resample) method

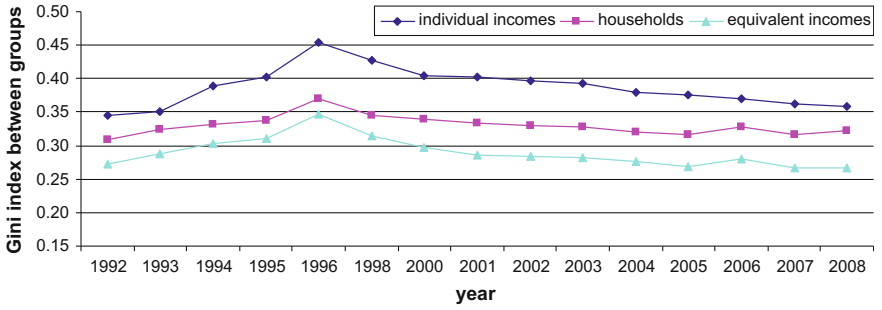


Fig. 2.7 Between-group inequality

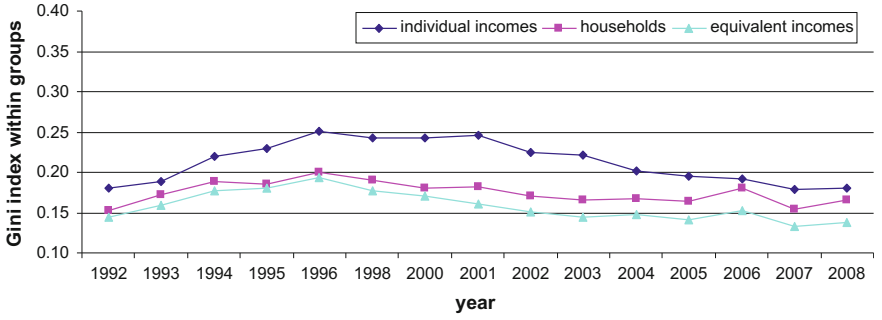


Fig. 2.8 Within-group inequality

Table 2.5 The share of the population belonged to the middle class

Year	75–125% of the median	50–150% of the median	60–225% of the median
1992	0.294	0.581	0.665
1993	0.276	0.559	0.638
1994	0.292	0.536	0.618
1995	0.278	0.526	0.607
1996	0.247	0.446	0.534
1998	0.301	0.507	0.599
2000	0.315	0.544	0.634
2001	0.314	0.548	0.648
2002	0.292	0.538	0.640
2003	0.290	0.543	0.629
2004	0.288	0.572	0.662
2005	0.291	0.584	0.677
2006	0.291	0.566	0.647
2007	0.275	0.582	0.646
2008	0.282	0.576	0.656

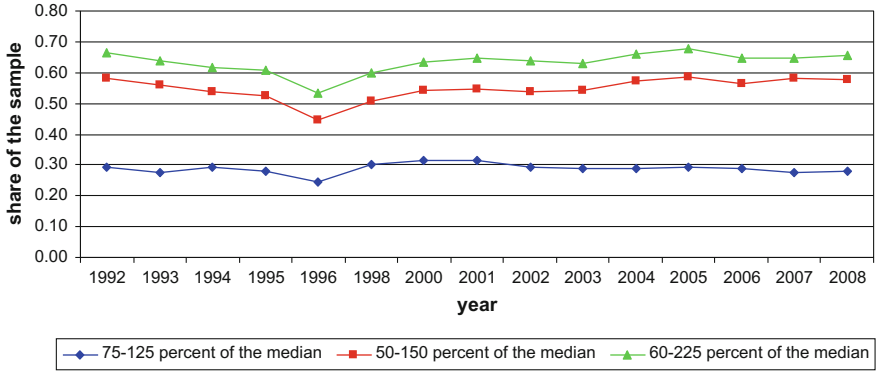


Fig. 2.9 The share of the middle class (equivalent incomes)

Although both between and within-group inequality moved in the same direction, the relative increase between 1992 and 1996 was greater for the within groups Gini inequality G_W and the relative decrease between 1998 and 2005 was greater for the between groups Gini inequality index G_B. Over the whole period, comparing 1992 to 2008, the two inequality components did not change significantly.

Table 2.5 and Fig. 2.9 give the results for the share of the middle class using three different definitions of the middle class, based respectively on the following income ranges: 75–125%, 60–225% and 50–150% of the median.

The percentage of the population belonging to the middle class, regardless of the range used decreased between 1992 and 1996 and increased afterwards. Over the whole period, the share of the middle class did not change significantly, whatever definition is used.

To sum up, both official information (Table 2.1) and the results presented above show that in general the economic situation in Russia improved between 2000 and 2008 (during President Putin's tenure). The following chapters will focus on changes in income polarization and in the relative importance of the middle class.

http://www.springer.com/978-3-319-51093-4

Economic Growth and the Middle Class in an Economy in Transition
The Case of Russia
Nissanov, Z.
2017, XVIII, 118 p. 48 illus., 29 illus. in color., Hardcover
ISBN: 978-3-319-51093-4