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### Social Consequences of Economic Reform in Russia

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## Social Consequences of Economic Reform in Russia<sup>2</sup>

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### Abstract

The ongoing economic reform in Russia has in many respects proceeded without taking into consideration the social questions, which, however, are an essential part of the transformation from socialist planning to a market economy. In order not to exceed the limit, which the most suffering part of the population can bear, it is vital to mitigate the negative social consequences of the reform within the budget constraint. In our view it is possible to find a compromise between social and economic problems through prioritising the most acute social problems and the most vulnerable groups of people as well as optimising forms and methods of economic reform in order to minimize its social consequences.

The study is organised as follows: the chapter one stresses the actuality of questions related to social sector. The chapter two concentrates on statistical problems in analyzing the situation in the Russian social sector. The main social problems – poverty, unemployment, the situation in medicine, culture, science and education as well as the military, political and criminal insecurity – are analyzed in chapter three. The development of the situation in mentioned social spheres has been analyzed mainly in the period of 1992 – 1996 with the emphasis on the years 1995–1996. The chapter four consists of two parts. The first one gives a picture of the regional differences of social problems, which in Russia are large. The other part of the chapter is devoted to classification of Russians into groups according to their incomes and naming the most acute social problems for these groups. As a conclusion a table of the objective and subjective reasons for the critical situation in Russian social sector is presented.

Keywords: social sector, poverty, unemployment, medicine, culture, science, education, criminality, Russia

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### 1 Introduction

Transforming a planned socialist economy into a market economy implies extensive structural reform with profound effects on the lives of citizens. How a person is affected, though, depends to a great extent on the individual's abilities to carve out a niche in the new economic environment.

Recent years have seen the living standards of those Russians who have come to terms with the new set of challenges rise significantly, albeit often

at the expense of others, who, due to age, poor health, lack of education or other reasons are either unwilling or find it impossible to accommodate themselves to the new economic regime. Natalia **Rimashevskaya**, director of the RAN Institute of Socio-economic Problems, has divided Russians into three groups according to their abilities to adapt. In her classification scheme, *adapters* (early adapters) are those who have readily accepted the rules of the new society. They constitute about 15 % of the population. *Outsiders* (non-adapters) by

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<sup>1</sup> Tatiana Popova of the Fund "Reforma" in Moscow prepared this paper while a visiting researcher at the Bank of Finland.

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contrast, are those who do not adapt and have no aspirations of ever doing so. This group represents about a quarter of Russia's population and is strongly correlated with people who live below the "subsistence minimum" income level. An *undecided* (reluctant adapters) 60 % of the population is struggling to adapt, but as of yet have been unable to find their place in society.<sup>3</sup> If we accept Rimashevskaya's estimate, it would mean that about 85 % of Russians have either failed or find themselves ill-suited to face the requirements of the emerging market economy. Given that most of Russia's population has lived under the socialist planned economy that was in place for most of this century, this is hardly surprising.

On the eve of Russia's 1996 presidential elections, it was fashionable for candidates to speak of reducing the social costs of reform as well as increasing investment in the physical and mental health of citizens. Nearly every presidential platform was full of promises concerning the social sector. The popularity of social themes may tell us something about everyday life for citizens in post-Soviet Russia. For the "average" Russian citizen, the big questions are not the inflation rate or the budget deficit, but the price of bread, the size of their pension and unemployment allowances. The following sections provide a brief summary the major social problems confronting Russians in the 1990s.

## 2 Statistical problems in analyzing the Russian social sector

Any official analysis of social consequences of the economic reform in Russia is most likely based on statistical data from the State Committee of Statistics of Russian Federation (Goskomstat).

Goskomstat data quality has long been questioned. Soviet-period economists frequently joked that Goskomstat data offered falsehoods in all three of Mark Twain's famous categories of lying, ie white lies, damn lies and statistics. Recently the situation has shown little sign of improvement; official statistics are still deliberately bent to indicate the "best".

Such distortion is built directly into calculation methodologies and concepts applied to social data. For example, *subsistence minimum* is a common statistical reporting concept introduced in 1992. Today, one can find it mixed in with quantitative analyses, demographic studies, correlation with income etc. Indeed, people living below the poverty line are now defined as those with incomes less than the subsistence minimum, a figure calculated according to the methodology of the Russian Ministry of Labour. This methodology has been soundly criticized by independent researchers, who point out that because the methodology conveniently lowers the subsistence minimum, any conclusions based on it do not reflect reality. The theoretical subsistence minimum food basket, for example, assumes people are willing to live on a diet of bread and potatoes – and not much else! Apart from food, the subsistence minimum only includes expenditures on sanitary articles, children's clothes and footwear, minimum living expenditures (housing, heating, water), transport and taxes. It does not include cultural expenditures and other expenditures for everyday life, such as clothes and footwear for adults.

Nevertheless, most distortions involve exploiting peculiarities in statistical information. For example:

- the high degree of price differentiation among identical goods even in one town or city makes it possible to manipulate price data to improve inflation data;
- official statistics include virtually no "hidden" data (eg hidden unemployment is a significant and growing phenomenon, so that today many employees of financial distressed enterprises do not receive wages, yet officially are considered to be fully employed); and
- official statistics do not adjust for qualitative considerations (eg information on consumption of foodstuffs ignores the quality or dietary relevance, energy value, nutrients, vitamins etc.)

It is clearly a challenge to estimate the influence of the shadow economy. Even though all Russian economists will readily admit that the country's shadow economy is huge, from an official standpoint the shadow economy does not exist. Instead, the official statistics contain broad, almost embar-

<sup>3</sup> Rimashevskaya, Natalia (1996): Favority i autsajdery peremen, Politekonom, May 1996, 33–42.

raising, contradictions. How does one, for example, reconcile anemic or negative official per capita income growth with brisk growth in volume of durable goods at the population's disposal?

If one wanted to measure Russia's shadow economy, where would one start? Experts of the World Bank have proposed use of the volume of energy consumption for the estimation of the role of the shadow economy.<sup>4</sup> In Russia's case, this approach gives a highly unlikely fall in real GDP of 50 % for 1990–1995 (during this time energy consumption fell only 25 %). Other World Bank experts have developed a model describing changes in the efficiency of energy consumption in transitional period to estimate the size of the shadow economy.<sup>5</sup> According to these experts, the share of informal sector is about 40 % of the Russian economy. No matter what estimates you use, though, it seems fairly clear that indicators for per capita income should probably be higher if they included income received from the shadow sector of economy.<sup>6</sup>

The unreliability of official statistical data also allows various scientific schools of economic thought to draw convenient conclusions. For example, using official statistics, some economists now see evidence that the country is on the brink of social renaissance; others meanwhile discern that a full-blown social crisis is at hand. Two approaches may help discourage such wide interpretation.

The first approach is to eliminate altogether the use of official statistical data, and instead make analyses using unofficial, but better quality, statistical data from independent research organizations. The catch here is that presently there are no such independent research organizations in Russia of sufficient scale to provide a competitive alternative to Goskomstat, which has data collecting branches in all regions of Russia. Additionally, the independence of most research organizations deserves to be questioned – with little to protect the integrity of researchers, they often find themselves in the business of generating distortions favourable to

political interest groups sponsoring their work. If these groups are not beholden to those in power, they are most likely involved in supporting opposition positions.

A second, and more do-able, approach is to compensate for obvious errors in official statistics by taking into consideration other official "indirect" statistical data (ie demographic data, mortality rates, epidemiological data). In the following, we have attempted to correct dubious Goskomstat data with other statistical data. Unless otherwise stated, statistics used here are from Goskomstat.

### 3 Russia's main social problems in the 1990s

#### 3.1 Poverty

Substantial changes in Russian everyday life are connected with the growth of overt unemployment; the reductions in real income, pensions and social payments; and the consequences of rising poverty. The measurement of poverty effects during reform is difficult, however. Not only are there difficulties in defining poverty but also there are difficulties caused by unreliable or biased data. High inflation further complicates the picture. Finally, as the notion of poverty level itself is subjective, there are political implications wherever an economist decides to draw the line. Slight raising or lowering of the line can cause substantial differences in the number of people classified as poor.

The following analysis deals with the incomes of Russians based on official and monetized statistics. It does not take into consideration other sources of income; ie monetized income such as tips and bribes, and non-monetized income such as food grown in one's own garden. The sole use of money-based indicators to measure poverty in Russia may, however, be more misleading than is thought. According to the nationwide New Russia Barometer surveys of 1992 and 1994<sup>7</sup>, money income has, at most, only had a minor influence on the capacity of a household to get by. The surveys

<sup>4</sup> Dobozi, Istvan & Pohl, Gerhard (1995).

<sup>5</sup> Kaufman & Kaliberda (1995).

<sup>6</sup> It should be noted that the existence of shadow economy does not affect the *change* in living standard if its share in the economy stays stable.

<sup>7</sup> These surveys were organized by the Centre for the Study of Public Policy, University of Strathclyde and Paul Lazardsfeld Society, Vienna. See Rose & McAllister (1996) for further reference.

emphasize that "the strategy that a family adopts to get by might be described as 'household privatization', since it is outside official national accounts. In a society where the state has been distrusted as intrusive and oppressive, there remains at the microlevel a substantial capacity of households able to look after themselves". Thus, the following indicators of poverty should be regarded as only indicative.

The *structure of money incomes* illustrates the general importance of wages and salaries, social transfers, and all types of returns and dividends as sources of income. According to Goskomstat statistics, the structure of money incomes has changed quite noticeably since 1992, when up to 70 % of the money incomes of Russians was in the form of wages. Incomes from entrepreneurship and dividends on shares or bank deposits etc. played a growing, but not significant role. By the end of 1995, only around 40 % of people's money incomes came from wages; almost as much (38 %) came from entrepreneurship. The share of social benefit payments has also been rising steadily. In practice, these changes are not so clear due to peculiarities in the Russian tax system and in the methods which Goskomstat uses to calculate money income whereby certain private sector income is classed as profit.

According to Goskomstat, the *subsistence minimum income* (prozhitoshnyi minimum<sup>8</sup>) in Russia at the end of 1995 was SUR 327,000 (about US\$ 65) per month as calculated by the Russian Ministry of Labour method. For 1995, an average of 25 % of the Russian population had income below the level of subsistence minimum. The official trend has been towards reducing the share of those below the poverty line. At the beginning of 1995 the share was 33 %; at the end 20 %. This trend may have been affected by various non-recurrent payments such as payment of back wages. In 1995, an average of 19 % of the total monthly payroll sum had not been paid to employees on time, ie in 1995 Russian employers were an average of one week in arrears in salary payments to their employees. In agriculture this share was as high as 40 %, in construction 27 % and in industry

<sup>8</sup> There still exists so called *minimum consumption basket* (minimalnaya potrebitelskaya korzina) in Russia, which consists of 33 products (instead of usually mentioned 19). This basket is a part of subsistence minimum income.

22 %. In industry, the most affected sub-groups are machine building and coal and oil industries.<sup>9</sup>

The *real value of wages and pensions* started to fluctuate after the liberalization of prices at the beginning of 1992 (Fig. 2). Pensions, in particular, fluctuated considerably on a monthly basis due to the non-regular indexation intervals of pensions. At the beginning of 1992, the majority of pensioners, thanks to indexing, received only the minimum pension since skyrocketing inflation had all but wiped out their real value. In May 1992 several decrees were signed which tried to preserve the value of pensions with the help of different coefficients. The government and parliament raised pensions almost monthly via paying some price compensations or increasing the minimum pensions. The complexity of the new calculations, however, slowed correction for months, by which time most of the real value that would have been added by the correction had already eroded away.

Although the law on indexation of income and savings was approved in Russia in October 1991, it was never implemented. Compensation for savings lost in the price liberalization at the beginning of 1992 was not forthcoming, and many people – especially pensioners – suddenly found themselves living below the poverty line.<sup>10</sup> This situation encouraged people never involved in speculative investments to attempt to protect the value of their life savings and assets through risky investment. This combination of panic and greed helped fuel the unscrupulous misbehaviour of investment companies.<sup>11</sup>

<sup>9</sup> The total sum of wage arrears in industry, construction, transport and agriculture was in June 1996 SUR 28.7 billion. (Segodnja 10.6.96).

<sup>10</sup> The older generation has generally been more willing to save and make concessions in their present living standard in order to be buried properly. Many lived with the assumption that prices, wages and pensions would remain the same.

<sup>11</sup> Before the spectacular collapse of MMM, many of the investment companies operated without licenses and attracted the savings of many foolhardy Russians. Pensioners, in particular, enthusiastically invested in the shares of these companies. Although each individual in principle is responsible for the investments he makes, the Russian state could well have prevented the MMM scam by determining the range of operation of investment companies by law and by controlling them prop-

In any case, the law on increasing pensions stipulated of quarterly indexation of pensions from February 1993. While galloping inflation just before indexation caused problems, the real value peaks of pensions are clearly connected with indexation dates. As a result of stricter monetary and fiscal policies in 1995, real average wages and pensions deteriorated, then recovered. At the beginning of 1995 wages were about 80 % of the level in the 1992, but by the end of 1995 they had returned to the 1992 level. Pensions retained their value better than wages in 1995. Excluding April, they were about the same level as in 1992 or somewhat higher. Compared to 1994, real income overall for 1995 dropped over 13 % and social transfers (pensions and other) over 21 %. Wages in real terms declined most in agriculture (-32 %).

Compared to Western wage levels, wages in Russia as in other Central and Eastern Europe (CEE) countries are low. According to **Pinto** and **Ramakrishnan**, based on the 1993 dollar-per-capita GDP information, Russia would need real growth of 8.6 % a year to catch up with the income levels of Greece, Ireland and Portugal by 2010. The authors have also calculated the implied break-even growth rates if the 1993 capita incomes are bumped up by 25 % to account for the informal sector and underground economy. For Russia, as for other transition economies this, however, does not significantly reduce the growth rate calculated without the inclusion of shadow economy.<sup>12</sup>

Figure 4 shows *income distribution* of Russians. Average income for each quintile are shown. According to Goskomstat-based information, the differentiation of money incomes has been diminishing in 1995. This is confirmed by a diminishing *Gini coefficient*<sup>13</sup> and by almost identical *Lorentz*

*curves*<sup>14</sup> for 1994 and 1995.<sup>15</sup> According to World Bank data<sup>16</sup>, inequality in Russia and other Slavic countries of the former Soviet Union in 1993 reached levels of inequality as found in such industrial market economies as the USA. In other countries of the former Soviet Union, the Gini coefficient was higher than in CEE countries. For example, in 1993 it was 48, while in Hungary it was 23 and in Poland 30. By poverty headcount (percentage of population below the poverty line) calculated from a household survey data, 35–38 % of the population lived below the poverty line in 1993.

According to **Roxburg** and **Shapiro**, there has been a long-range trend towards wage inequality as measured by the Gini coefficient, which has risen from 0.3 to 0.4 in less than a decade and is estimated to be even higher nowadays.<sup>17</sup> The question of the magnitude of the change compared to the Soviet period is naturally dependent on the quality of data. It is very difficult to estimate the level of income distribution in the Soviet period. The only thing one can say for sure is that the differences in income distribution are now easier to notice – more wealthy people publicly display their riches and more poor people beg in the street.

The differentiation in income has been clearly growing between importing and exporting sectors of economy and between manufacturing and services. Although the speed of the growth in differences of wages has been diminishing, wages have remained higher in exporting sectors of economy. In the Soviet era, the role of services was not appreciated and wages were low. The explosion of information-intense fields such as financial services, has created service branches where wages surpass those of manufacturing.

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erly. Even today the stipulations concerning investment companies are insufficient, and MMM is still in business.

<sup>12</sup> World Bank: Transition -newsletter, January –February 1996.

<sup>13</sup> The Gini coefficient measures the distribution of income. When income is totally evenly distributed the coefficient is 0. The nearer the coefficient is to 100 (or one), the wider are the differences in the distribution of income.

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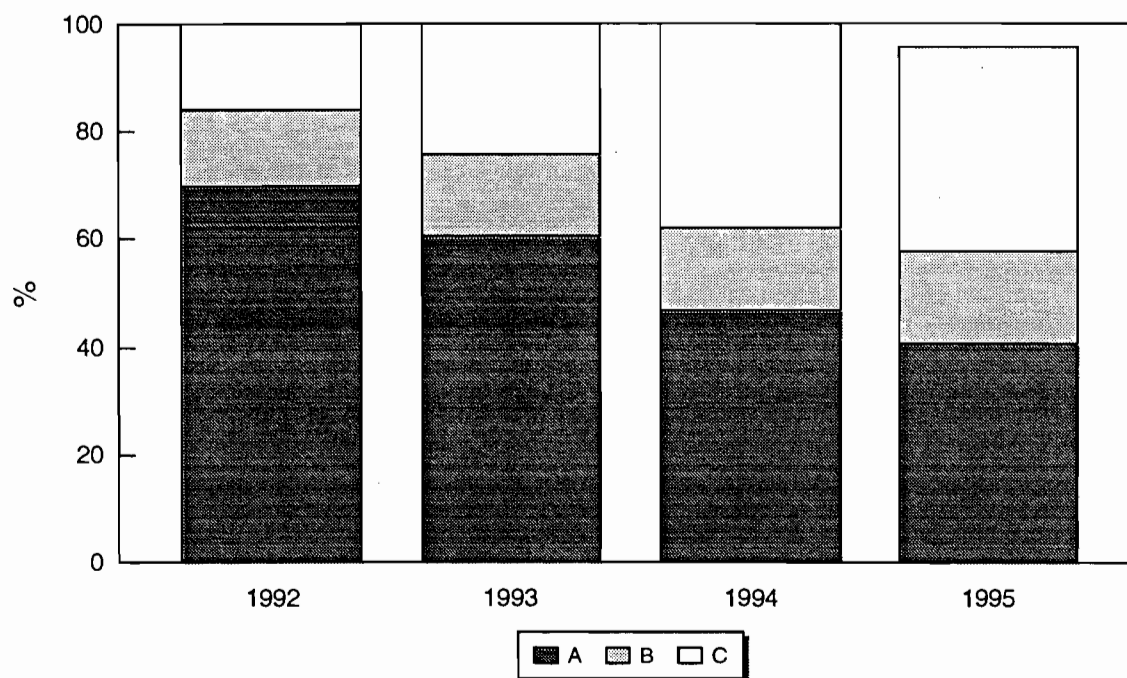
<sup>14</sup> The Lorentz curve illustrates the share of different groups of people in distribution of money incomes.

<sup>15</sup> Interestingly, the estimates of the State Economic Committee show the Gini coefficient has remained quite stable. Review of the Russian Economy (1995), 138.

<sup>16</sup> The World Bank notes that data for the NIS countries is especially subject to major statistical difficulties, so changes in Gini coefficients and poverty head counts should be regarded as only indicative. (World Development Report 1996: From Plan to Market, 69).

<sup>17</sup> Roxburg & Shapiro (1996), 18.

Figure 1 The structure of money incomes in Russia, %



- A Wages and salaries  
 B Social transfers  
 C Wages of self-employed, returns from small-scale retail activity, dividends

Source: The 1995 data is from the last quarter of 1995. It is also incomplete (i.e. sum does not equal 100 %).

**Consumption** is sometimes considered a better measure of welfare than income. According to the World Bank, information on expenditure per capita the highest income quintile equalled over 50 % of all consumption in 1993, whereas the lowest quintile accounted for less than 4 %. Goskomstat data for 1995 show that the consumption of many products has declined considerably since 1990 (fish -40 %, milk -35 %, meat -25 % and eggs -15 %). Bread and potatoes have increased their share in consumption. Total consumption declined by 6 %. For average- and low-income families, the reduction in consumption has been estimated at 16 %. The situation in 1995 was significantly different from 1992, when prices were liberalized. In 1992, consumption

held at former levels because of existing stocks of products.<sup>18</sup>

### 3.2 Unemployment

Compared to the CEE countries, mass unemployment has taken much longer to materialize in Russia. In CEE countries, the painful adjustment to international competition has meant steep drops of as much as 20 % in output and employment. Unemployment has in many countries risen significantly less than the fall in employment. In Poland and Bulgaria, which moved swiftly towards market economies, unemployment pea-

<sup>18</sup> INP RAN (1996), 43.



Figure 2 Real Wages and Pensions in 1985–1996 (1992 = 100)

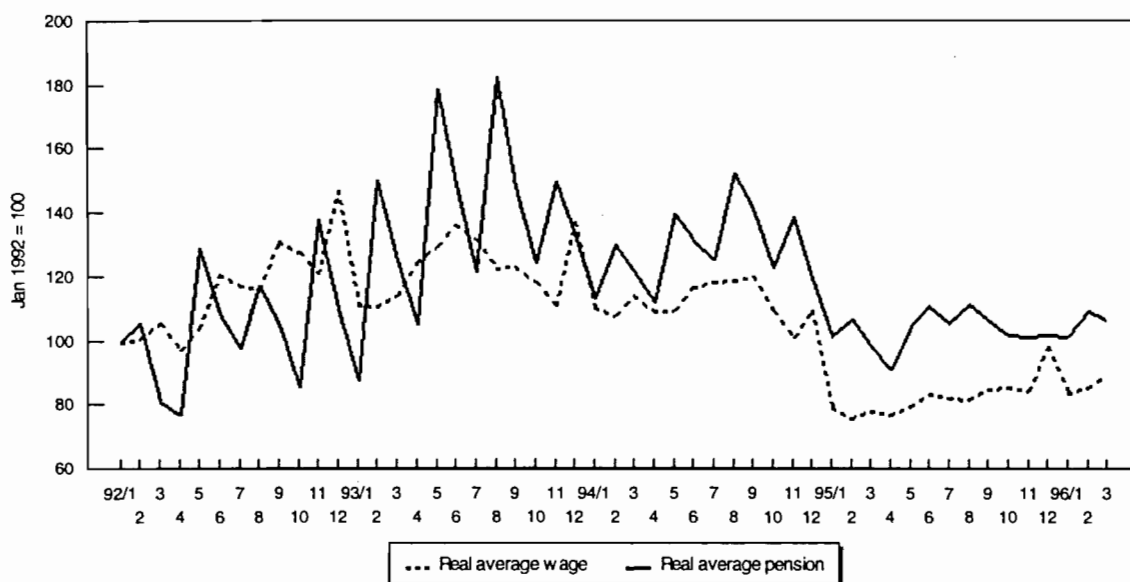
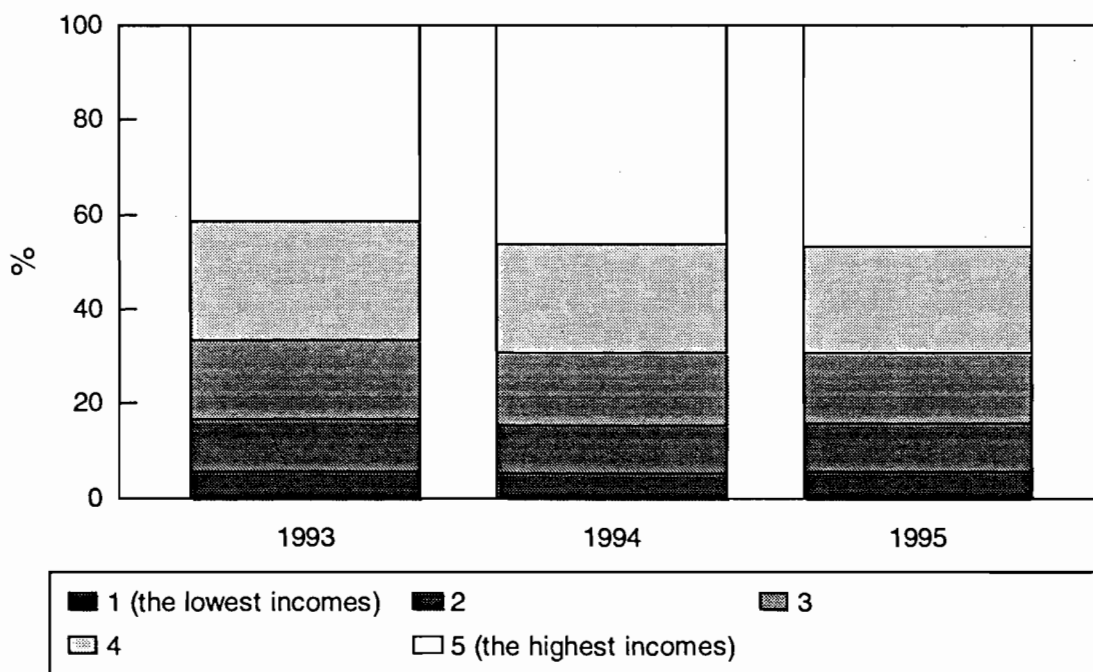


Figure 3 Income Distribution of Russians



ked at around 15%.<sup>19</sup> At the beginning of the economic reform in 1992, the registered (Goskomstat) unemployment rate<sup>20</sup> in Russia was about 0.1 % (93,000) of the economically active labour force. In the four years since, unemployment climbed to a still modest 3.7 % in March 1996, which corresponds to 2.6 million unemployed. According to ILO methodology, Russia had 6.2 million unemployed (8.5 % of the labour force) in Russia in March. Both figures do not include people on involuntary leave or facing hours adjustment, which would add to the number of unemployed about 4 million people.<sup>21</sup> So the upper limit of Russian unemployment according to this information is about 10 million people (13.7 % of the workforce).

Russia's ability to keep people at work is little short of remarkable given the huge drop in industrial output at the beginning of the reform process. Real industrial output at the end of 1995 was only half of the level in 1991. At the same period the employment apparently diminished only about 10 %. (Fig. 4)

The rise in unemployment has been fairly steady, with a slight acceleration in early 1994 (up to about 200,000 new applications per month) and a slight slowdown at the end of 1995 (down to about 100,000 per month by early 1996). The picture does not look much different if we take into account "out of employment" figures. So far in 1996, unemployment overall has been accelerating. Compared to December 1995, unemployment rose in the first two months by 10 %. At the end of 1994, there were about six persons per vacancy while a year later the number had risen to ten.<sup>22</sup>

<sup>19</sup> Jackman, R. (1995), 2.

<sup>20</sup> The Russian Federal Employment Service divides the unemployed to three categories: people out of employment (*nezanyatyi*), registered unemployed (*bezrobotnyi*) and those receiving benefit. Usually the number of registered unemployed is considered as the official one. The ILO definition is broader and takes into account also people out of work, but not registered in unemployment agencies.

<sup>21</sup> Segodnya, 30 March 1996.

<sup>22</sup> Review of the Russian Economy, vol.4 No.2 1995, 149; INP RAN (1996), 41.

From the end of 1994 the number of *people on involuntary leave or facing hours adjustment* has fallen substantially. According to Goskomstat statistics, about 4.8 million Russians were working shortened working days or had been placed on involuntary leave. In fall 1995, the corresponding figure was 3.7 million. During the same time period, the number of unemployed has risen by almost the same amount.<sup>23</sup> From the beginning of this year, the abolition of excess wages tax (see text below) should diminish this kind of hidden unemployment even further.

Some economists have argued that unemployment could be regarded as an indicator of the extent to which the restructuring process has proceeded in the society.<sup>24</sup> Such arguments, however, assume a demand for unemployed workers. In fact, most private firms recruit their workers primarily from state sector rather than from the ranks of the unemployed. By 1995, the number of people working in state enterprises had fallen to about half of the working force. The structural changes in the Russian economy are most evident in industry, where the number of employees has been diminishing (from 1992 to 1995 the number of people employed in industry diminished by more than 19 %). Other sectors of economy strongly affected by the economic reform in Russia are transport and communications (employment diminished by 21 % in 1992–5) and science (-22 %). The fastest developing branch of economy has been credit, finance and insurance (from 1992 to 1995 the number of people employed in the branch grew by 40 %). Because the number of employed in this sector remains small, the huge percentage increase had little impact on aggregate employment figures (Fig. 6).

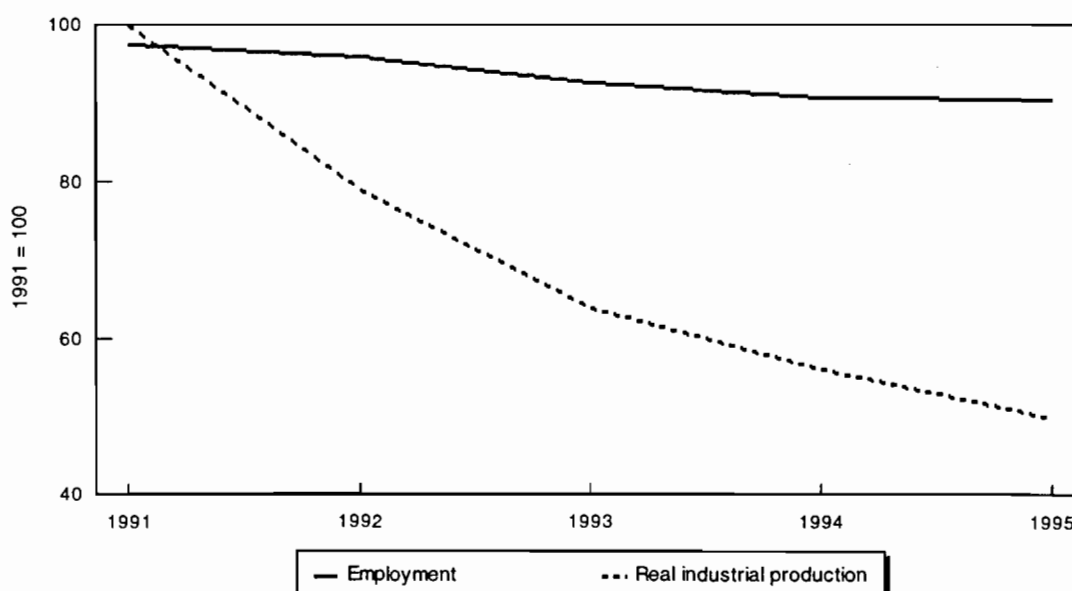
By region, unemployment is very unevenly distributed and regional differences are increasing. Generally speaking, those regions with the weakest economic base experience the highest unemployment (see section 4.1.).

The slow rise in unemployment in Russia may be explained by a number of factors. Perhaps the

<sup>23</sup> Review of the Russian Economy, vol.4 No.2 1995, 149.

<sup>24</sup> See McAuley (1991): The Economic Transition in Eastern Europe: Employment, Income Distribution and the Social Safety Net, Oxford Review of Economic Policy, Vol.7(4), pp.93–105.

Figure 4 Russian Industrial Output and Employment, 1991–1995



most important is **the low level of layoffs**. Until very recently subsidies to Russia enterprises were not so much based on the performance of the firm as the number persons the firm employed,<sup>25</sup> and thus, employment has been a major factor determining the size and distribution of subsidies.<sup>26</sup> Thus, the Russian enterprise has traditionally had very different priorities its Western counterpart. Keeping workers was a good thing in the former Soviet Union, and enterprises provided many perks and social services, eg day care for workers' children and discounted foods and home items. Given this collective approach, **wage adjustments** have been more common than layoffs. Wages have adjusted eg in the form of **involuntary leaves** (without pay) or **reduced working hours**, which constitute hidden unemployment. Additionally, laying off employees is expensive business – redundancy payments can be as much as three times the wage before redundancy.

Roxburg and Shapiro (1996) have made a rather thorough analysis of another major factor in Russia's low unemployment and layoff level – **the excess wages tax**. This tax was part of the

Russian profits tax and targets the average wage bill of an enterprise. The tax was paid when average wage bill exceeds a set threshold.<sup>27</sup> According to Roxburg and Shapiro, this tax was the main cause of the reluctance of Russian enterprises not to reduce their number of employees as it was much more profitable for enterprises to retain large numbers of low- or zero-paid workers, even if their marginal production was effectively zero. Companies saved in tax costs and could pay more to expert workers who actually did produce something of value. This behaviour is in line with the above mentioned fact that managers still consider the number of employed as the main determinant of state subsidies.<sup>28</sup>

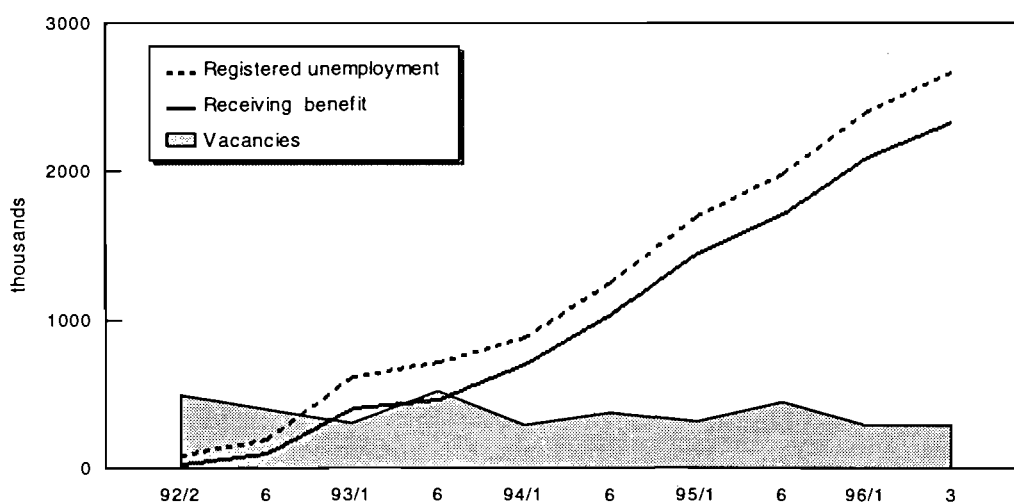
<sup>27</sup> Roxburg & Shapiro (1996). In 1992 the tax per employee was 32 % above four minimum wages. In 1993 it was 32 % on the excess of the average wage over four times the minimum wage and 50 % in the excess above eight minimum wages. In 1994 the tax had a threshold of six times the minimum wage, above which the rate was 38 %.

<sup>28</sup> On the other hand, with the abolition of the excess wages tax was at the beginning of 1996, one would have expected a more distinct increase in unemployment if Roxburg and Shapiro's argument was correct. In fact, there was little change in the unemployment situation.

<sup>25</sup> In 1994 regional governments, however, still used some 5 % of GDP on "national economy", which includes substantial subsidies.

<sup>26</sup> Layard & Richter (1995), 11.

Figure 5 Russian registered unemployment and vacancies in 1992/February–1996/March



The above background helps explain the importance of worker initiative in getting laid off. Roughly 10 % of those classed as unemployed left their jobs because of wage arrears. For them, it was more worthwhile to be openly unemployed and have at least regular, though minimal, unemployment compensation.<sup>29</sup> Another reason for quitting deliberately are poor working conditions. For example, 21% of industrial workers work in unsatisfactory sanitary conditions. About 80 % of energy equipment and 60 % of metallurgy equipment needs to be changed<sup>30</sup>. This is closely connected with the severe contraction of investments in Russia.

### 3.3 Medicine, culture, science and education<sup>31</sup>

Many current social problems in Russia stem from the poor situation in health, education, culture and science. These spheres of society are easily left aside and seem to be much more less serious than eg. poverty or unemployment. Certainly this is true in the short run, but in the long run the above

<sup>29</sup> Segodnya 22 Mar 96.

<sup>30</sup> Moskovskaya pravda 22 Feb 96, prilozheniye.

<sup>31</sup> Sections 3.3. and 3.4. have relied greatly on information in World Development Report (1996).

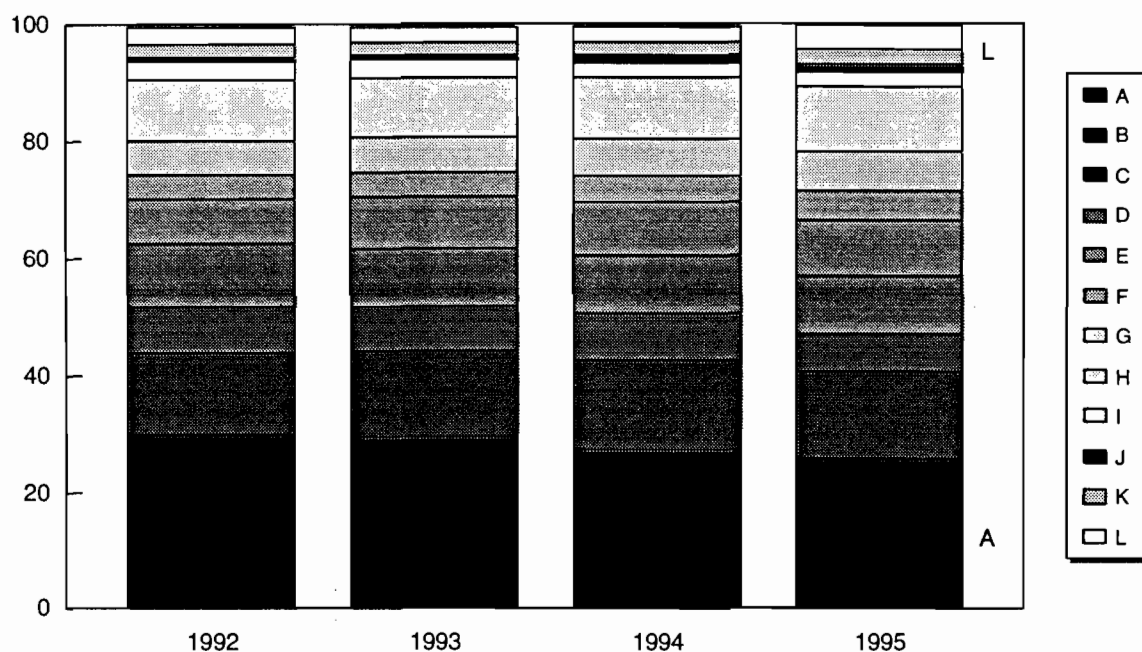
mentioned spheres of society play very important roles.

Some clear changes can be seen in Russian *health sector* since 1992 when the actual economic reform started. Among the most noticeable changes are the demographical ones. Russia is an extreme case in terms of mortality rates of CEE and NIS countries during transition. In Russia, the life expectancy of men fell from 64 to 58 between 1990–1994. In the same period the life expectancy of women fell from 74 to 71. In 1995, men's life expectancy stayed unchanged and that of women rose by a year. From 1992 onwards death rates have been higher than birth rates.

Explanations for this situation are various. According to statistics on causes of death, as much as half of "additional" deaths during the transition period are explained as cardiovascular, one-quarter due to increases in all forms of violent death (eg murder, suicide, alcohol-related death and accidents). The remaining deaths are connected with infectious diseases.<sup>32</sup> The statistics, however, do not show possible mental factors behind the reported causes of death. The market economy has brought a racier lifestyle and new responsibilities, which in turn may increase stress and adversely affect health. Naturally, the declining possibilities of ordinary Russians to receive good medical care and medicines have also had their impact. During the reform process, the access to free medical care

<sup>32</sup> Eatwell, John (1995), 80.

Figure 6 Sectoral Distribution of Employment, 1992–1995



A = Industry  
 B = Agriculture  
 C = Transport and data processing  
 D = Construction  
 E = Trade  
 F = Services

G = Health, physical exercise  
 H = Education and culture  
 I = Science  
 J = Finance  
 K = Administration  
 L = Other

and the quality of health care have worsened. One possible explanation for this bad news is that data collection has improved (although it is hard to believe that the difference would be of such magnitude). It is also hard to judge the impact of each of these factors separately.

Health care expenses as a share of GNP have grown considerably from 1990 to 1994. In 1995 budget financing of health care diminished by almost 27 % and was compensated by compulsory insurance payments of legal persons. The low wages in this sector have helped preserve old Soviet-style corruption, eg the custom of “tipping” medical doctors. In 1994 average wages in health care were 73 % of the average wages in industry. In 1995, the corresponding figure was 59 %.

The situation in *culture and science* could be characterized as critical. Between 1990 and 1995 the number of scientific and cultural organizations as well as their employees has been constantly

decreasing.<sup>33</sup> The indicators characterizing the level of cultural needs of people and their satisfaction, eg the number of books, newspapers and journals published and their circulation, the number of loaned books in libraries and the number of visits to museums and theatres has substantially declined. Many of the giant movie studios are closed. Homes to the world’s cultural treasures such as the Tretyakov Gallery in Moscow and Kunstkamera in St. Petersburg are in worrisome condition.

While a lack of state funds is the obvious reason for the catastrophic situation in culture and science, one cannot ignore the glaring absence of alternative sources of financing (eg well-heeled patrons). The share of expenses directed to science in GNP was 0.5 % in 1993, 0.4 in 1994 and 0.3 in

<sup>33</sup> With the exception of the number of theatres and museums, which increased. Even so the total number of theatre and museum visitors fell.

1995. In practice the situation is not even that good as they assume the budgeted funds were eventually delivered in full. In real terms the expenses in science diminished by 77 % from 1993. The share of cultural expenses in GDP began to diminish substantially in 1994–1995.<sup>34</sup> In 1995, state funding for culture, arts and mass media fell in real terms by 27 % in comparison with 1994. The cut in this sector is about the same magnitude as the cut in expenses of other sectors of social sphere. However, the overall subtraction of expenses of the federal budget was over 40 %.

The lack of funds means that cultural and scientific organizations are faced with the task of trying to survive in market conditions. Some surely lack any basis for survival and will fail. For others, survival will mean a change in the sphere of activity or concentration on cultural products where there is demand. For fine artists whose specialist skills are no longer subsidized, the adjustment may be rather painful. In publishing, eg most books that make it into print these days are poor quality detective stories, war stories or escapist romance. Naturally the same recipes of sex, violence and populist beliefs that work in West, work in Russia as well. The problem is that there is very little high quality non-fiction, fiction or technical literature to balance it.

The crisis in culture and science extends beyond funding. The lack of attendance at museums and galleries, for example, may also indicate lower living standards, changes in lifestyle, and new priorities. Nor do Russia's *nouveau riche* provide the kind of patronage to the arts that characterizes eg French or English "old money". Ultimately, the ability to partake in the best of human cultural and scientific achievement is largely dependent on the quality of education. When the school system breaks down, culture and science are the first victims.

The Soviet system of *education* was created to meet the needs of a command economy, where the sphere of activity of one citizen was strictly limited. It was supposed that one would retain his job until the pension age. Education was free and equal for all Soviet citizens. Children were taught to listen and obey, not to question authority, and to know about the culture and history of their land. The application of gathered knowledge in different

circumstances was not encouraged. Although the education system was centrally planned, it was inefficient and poorly coordinated.

The transfer to the market economy requires much from the education system. It should quickly react to completely new circumstances – not only teaching the new sets of needed skills, but also providing a wholly different kind of teaching. Mobility of people is encouraged by freedom to choose one's profession and change it (occupational and geographic mobility). People must be taught to think and decide independently, not according to communist ideology.

The share of educational expenses in budget spending has fallen from 5.8 % in 1992 to 3.1 % in 1995. Compared to 1994, real state expenditure on education fell by almost 27 %. The cuts are seen most severely in the wages of teachers, which in 1995 were on average 53 % of the average wages in industry. This situation has been additionally exacerbated by the fact that financial assets from government have often been wasted elsewhere rather than paid as wages to teachers. Overstaffing also is an unsolved problem. Lowering the number of staff might allow higher wages and perhaps encourage efficiency.<sup>35</sup>

Preschoolers are big losers in the present situation. The provision of preschool education has declined dramatically because of financial difficulties, growth of chargeable day-care and a lower birth rate. In five years, the number of children in preschools has gone down by about 35 %.

### 3.4 Insecurity caused by military, political and criminal activity

Problems connected with insecurity caused by military, political and criminal activities might be classified as socio-psychological rather than purely social. However, the acuteness of these problems in today's Russia is so high that without their satisfactory solution, it is impossible to speak of normal living conditions.

Russia's largest domestic military conflict is currently the war in Chechnya. This war not only created specific problems for the inhabitants of Chechnya itself, but has had repercussions all around Russia; eg refugees fleeing to other regions and thus causing new social problems when they

<sup>34</sup> In 1991 the share of cultural expenses in GDP was 7.2 %, in 1992 8.4 % and in 1993 7.3 %.

<sup>35</sup> Russian Economic Trends (1995), 144–5.

arrive; terrorist acts by Chechen rebels outside Chechnya; and news about the deaths of soldiers from other parts of Russia. In principle, every Russian citizen is expected to accept that their level of personal safety has become dependent on where they live<sup>36</sup>, their nationality<sup>37</sup> and even the prevalence of soldiers in the family.

Russian political conflicts, above all those involving the military and changes in political leadership, hold a good potential for violence and instability. Even the appearance of Russia as an independent state was connected with the coup-d'état in 1991, which demanded civilian victims. The following major political conflict was the parliamentary crisis of 1993. During presidential campaigns those in power as well as their opponents, the communists, discussed much about the probability of civil war. The breaking up of the society into two practically equal-size factions – supporters of communists and supporters of reformers – naturally, creates a rather complex political situation. Not surprisingly, then, Russians hoarded “strategic products” such as flour, salt, sugar, matches, soap etc. during the recent presidential campaigns. This may seem peculiar to citizens of Western democracies that have known decades, even centuries, of political stability; but is completely reasonable for people who have, in the course of their lives, experienced war, scarcity, hunger and fear for the lives of their children.

Even for those Russians fortunate enough to be insulated from the effects of military and political actions, it is hard to imagine they have managed to escape the scourge of criminal activity. Crime rates have risen rapidly everywhere in Russia. Indeed, the growth in crime rates has generally continued since 1988. (In the first years of Mikhail Gorbatshev's presidential term, the number of crimes declined. The reason for this has remained unclear, although some of experts have proposed a connection with the high hopes of

people for perestroika<sup>38</sup>.) Since 1993, the growth rate in the number of crimes has declined somewhat (Fig. 7).

Economic, or “white-collar”, crime has grown much faster than other crime. According to unofficial estimates, it now accounts for about 40–70 % of all crimes registered in Russia. For example, crimes connected with the privatization of property have become more usual partly because existing legislation does not envisage liability for offences in privatization. By some estimates, approximately 15 % of enterprises privatized in 1994 were established on the basis of unlawful property relations.<sup>39</sup>

Corruption, of course, was endemic long before economic reform – only now it is more visible. Transition encourages the growth of corruption because the structure of society has not yet “stabilized”. The laws and regulations are not well established, and may be unclear or even contradictory. Bribes, of course, have long been a way for public servants to supplement their low wages, and state officials responsible for sustaining law and order themselves often participate in corruption. Such behaviour diminishes public confidence in the state's ability to fight crime.

The most visible part of Russian mafia are various “security services” (ie protection rackets) for firms and contract murders of businessmen. The World Bank has stated that the “mafia” in Russia is actually a collection of 3000–4000 groups, and involves about 25,000 people.<sup>40</sup> According to Russian researches specialising in this field the number of people involved in mafia is, however, much larger.

#### 4 The priorities of social problems for different population groups

In the previous section we have attempted to answer shortly, what kind of social problems are the most acute in Russia today. The importance of

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<sup>36</sup> Maximum – in Chechnya, high – in the border regions of Chechnya, average – in large cities like Moscow, because of the high probability of terrorist acts.

<sup>37</sup> Because of the war in Chechnya, nationalism and negative attitudes towards Caucasian people are becoming more common.

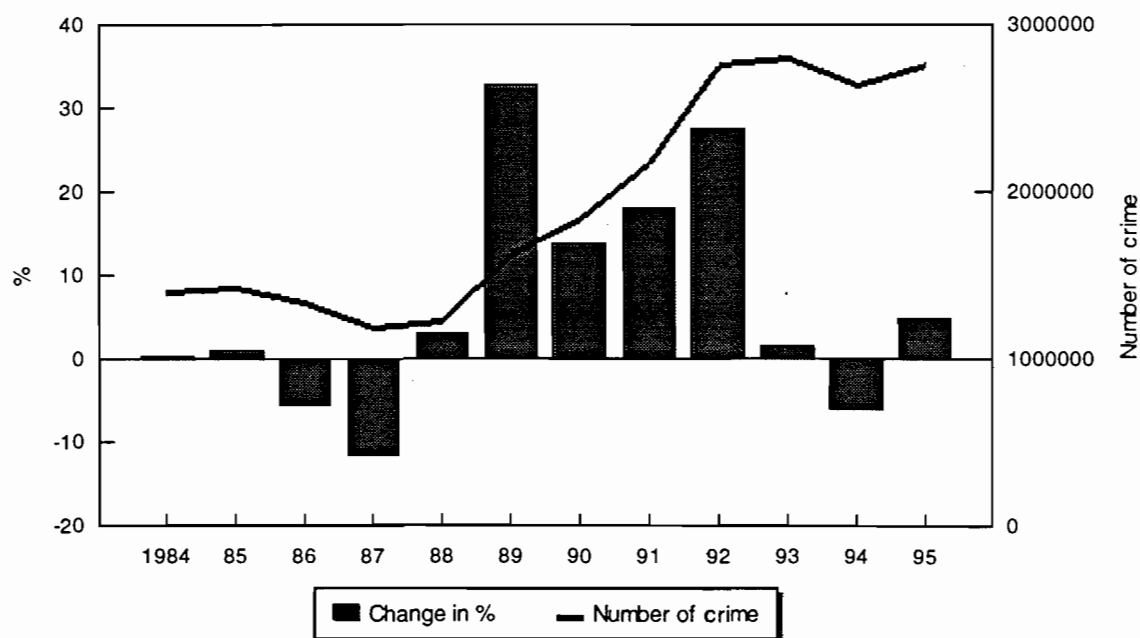
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<sup>38</sup> Gilinski, Jakov (1996).

<sup>39</sup> Menshikova (1995), 6.

<sup>40</sup> World Bank Development Report (1996), 97.

Figure 7 Reported crime in Russia 1983–1995



these problems is, naturally, different for every Russian. Russian society is characterized by large diversity, a great degree of differentiation of people not only by incomes but also many other characteristics. Hence, the importance of each problem for every Russian individually is dependent on place of residence and social group.

#### 4.1 Regional differences in social problems

Russia is a large country and its regions differ not only in terms of size, location and natural conditions, but also in terms of economic structure of economy, wealth and market conditions. Problems urgent for the inhabitants of Moscow or St. Petersburg, may be meaningless to village inhabitants in Central Russia, Ural, the Far East. A vivid illustration of the different priorities of problems was one meeting of Prime Minister Victor Chernomyrdin with the press. While the representatives of Moscow newspapers were mostly interested in the struggle against criminality and on threat of communists returning to power, the representatives of provincial mass media asked about wage arrears, conversion of defence enterprises etc. The importance of regional differences was emphasized

also in the result of presidential campaign. The voters were clearly divided into two camps: those for Yeltsin and in favour of reforms (mainly northern industrial cities) and those for communist leader Zjuganov (mainly southern countryside).

The main social problems for different regions of Russia are presented in Table 1. In Russia the regional picture of *poverty* (1) is strongly connected with branch-specific features of territories. Outside Moscow and St. Petersburg the most favourable situation is in regions where industrial enterprises are export-led, ie the Tiumen, Kemerovsk, Murmansk, Kamchatka and Chitinska regions and the Republics of Tatarstan and Komi. Agricultural orientation as prevalence of machine-building enterprises and enterprises of light industry significantly worsen the social situation in such regions as Ivanov, Yaroslavl and Kurgan as well as the Republics of Mordovia, Chuvashia, Udmurtia.

The possible future changes in the level of poverty in different Russian regions are most likely connected with the reduction of production volume. In 1995, the highest reduction rates were in the Republics of Dagestan and Kalmykia, in Khabarovsk Province and in Yaroslavl, Magadan, Pskov and Moscow regions.

The correlation of population income and subsistence minimum has large regional differences. In five areas (the republics of Ingushetia,



Table 1 Regions of Russia – “leaders” in terms of the urgency and acuteness of social problems

Main social problems	Regions where problem is most acute
1. Poverty	Kurskaya Oblast, Tambovskaya Oblast, Pskovskaya Oblast, Kirovskaya Oblast, Ivanovskaya Oblast, Iaroslavskaya Oblast, Kurganskaya Oblast, Republic of Adygeya, Republic of Marii-El+ Altaiskii Krai, Mordovian Republic, Republic of Chuvash, Udmurt Republic, Ingush Republic, Republic of Dagestan, Republic of Tuva, Chitinskaya Oblast, Republic of Kalmykia (in whole – North-Caucus Region, Volgo-Viatskii Region, Ural)
2. Unemployment	Republic of Dagestan, Karachai-Cherkess Republic, Ivanovskaya Oblast, Republic of Tuva, Arkhangelskaya Oblast, Tambovskaya Oblast, Udmurt Republic, Republic of Buryatiia, Republic of Kalmykia, Republic of Marii-El, Republic of Altai (in whole – some oblasts of Central Region, North-Caucus Region)
3. Military-political-criminal insecurity	Chechen Republic, North Caucasus, Moscow, Moskovskaya Oblast, Republic of Tuva, Republic of Altai, Republic of Kalmykia, Republic of Komi, Republic of Sakha (Yakutia), Kemerovskaya Oblast, Irkutskaya Oblast, Chukchi Okrug, some oblasts of Central Region.
4. Specific regional problems	Region of the Far North

Dagestan, Tuva and Kalmykia, Chitinskaya Oblast) this correlation was less than 100 % in 1995, in five regions (Krasnoyarskii Krai, Kamchatskaya, Orlovskaya, Kemerovskaya Oblasts, St. Petersburg) it was 200–250 %, in Moscow and Tiimenskaya Oblast – more than 250 %. In the first quarter of 1996 the purchasing power of population did not reach one set of subsistence minimum in 14 subjects of Russian Federation.

One example of the distortions in official statistics because of the existence of shadow economy is illustrated by a comparison of the regions, which are successful and unsuccessful with a view of poverty with the regions having the largest wage arrears (Tiimenskaya, Kemerovskaya, Irkutskaya, Cheliabinskaya, Sverdlovskaya Oblasts, Krasnoyarskii Krai, Republics of Bashkortostan and Sakha (Yakutia). The small correlation between these regions may be explained besides by other factors also by the influence of shadow economy to the level of incomes of the population.

Apart from regions named in the table as those where *unemployment* (2) is a priority, it is necessary to mention regions, which have serious problems with ensuring personnel by job during the year. At industrial enterprises of Vladimirs-

kaya, Ulianovskaya, Ivanovskaya, Iaroslavskaya, Kurskaya, Penzenskaya Oblasts, Republics of Chuvashia, Mordovia, Udmurtia, Marii-E 36–52 % of employees were on shortened workday at the end of November 1995.

It is possible to debate on what social problem is the most urgent for inhabitants of , for example, Ivanovskaya Oblast. But undoubtedly, the main problem for inhabitants of Chechnya and the whole North-Caucus region is the problem, which we have cautiously named – “*military, political and criminal insecurity*”(3). For Caucas’ inhabitants this problem is simply and terribly – the war.

Questions related to the growth of criminality worry, for sure, all Russians. But the most acute these problems are in large cities, first of all in Moscow and St.Petersburg. More than 24 % of all economic crimes are committed in such regions as Republic of Tatarstan, Moscow, St.Petersburg, Krasnoyarskii Krai, Sverdlovskaya and Moscovskaya Oblasts.

We single out regions of Far North as those having *specific social problems* (4). These regions are characterized not only by very difficult climatic conditions, unfavourable for living, but also specific kind of social vulnerability. The regions of Far North are in complete dependence on the

supply of all necessary resources for vital activity from central parts of the continent. As a result of the aggravation of supply would be not only reduction of the living standard of the population, but also elementary hunger. The situation in these regions in 1995 did not arouse optimism. In 1995 the supply of canned meat, vegetables and fruit, butter, flour and cereals was in these regions 76–83 % of the volume of supply in 1994. In some of these regions the supply of meat and milk products, oil and sugar formed less than 50 % of the volume of supply in 1994.

#### 4.2 Classification of population by principle of social protection

In Table 2 we classify the population in groups according to social vulnerability and try to estimate which social problems are most acute for these groups. Certainly, this classification is abstract, because in practice every person is a member of several groups (for example, an employee of an enterprise and at the same time a parent of a large family). As the classification criterion we have used income (wages, budget transfers, entrepreneur's profit).

In general, the likelihood of a person belonging to a group defined as poor is high if the person is:

- *working*, has children, and is single parent or in a young family,
- *unemployed*,
- *elderly* and dependant on a single income, or
- a member of a family with a *disabled* family member.<sup>41</sup>

Poverty, certainly, is the most important social problem for *pensioners* (A1). Before price liberalization, real average pensions in Russia were higher than average wages; afterwards they deteriorated much more quickly than wages. Since fall 1993, real average pensions have again surpassed the real average wages. Besides, it is by law possible and quite common in Russia to hold jobs

while receiving pension. The low retirement age (55 for women and 60 for men) makes it more possible to continue working. The work for wages in pension age is considered as a supplement to service years and thus raises the workers' pension. The fact that usually the representatives of different generations live together in some cases helps the pensioners to cope with the changes in society.

In this year, the situation of pensioners has been improved by many – although late – decrees of president Yeltsin aimed at raising the level of minimum pension or the supplements to it. The minimum pension in Russia still does not exceed 50 % of the subsistence minimum. Pension arrears worsen the situation of pensioners in many regions. President Yeltsin struggled decisively against these arrears, but unfortunately the measures were belated and came only after tens of thousands of pensioners had not received their pensions for months. In some Russian towns, elderly people organized protests.

The situation of pensioners who receive only the minimum pension and live alone is the most serious. Average pensions have retained their value better than minimum pensions. About 3.5 million (9.5 %) of all pensioners<sup>42</sup> receive only minimum pension, which in January 1996 was SUR 113,250 per month (for a monthly-based time series see Appendix 1). The average pension in March 1996 was SUR 267,700 per month, about 36 % of the average wage (Fig. 8).

Poor public health services worries pensioners. They often cannot afford to turn to private medical services and as a result become constant clients for free medical aid, the level of which not only is incomparable with that in Western countries, but also does not support recovery or even survival. The psychological problems of many pensioners (eg a feeling of having lived life in vain) are no less serious than physical ailments. Change of political regime and the switch to a new market ideology without any measures to buffer the psychological stress of adapting have hit pensioners in particular. Further, the socio-economic status of the aged has been degraded. In particular, the pension system and measures undertaken by the President and the Government

<sup>41</sup> World Bank (1995).

<sup>42</sup> There are about 37 million pensioners in Russia. Their number is roughly a little bit more than half of the economically active population.

Table 2 The Main Social Problems for Different Population Groups in Order of Importance

	<i>Problems</i>	Poverty	Unemployment	MPCI	MCSE
	<i>Grouping</i>				
A. Most vulnerable	1. Pensioners	●	-	☺	☺
	2. Disabled	●	☺	○	☺
	3. Parents of large families	●	☺	○	☺
	4. Single parents with children	●	☺	○	☺
	5. Unemployed	☺	●	○	☺
	6. Forced migration	☺	●	☺	○
B. Conditionally vulnerable	1. Employees in budget sphere	☺	☺	○	●
	2. Military	●	●	☺	☺
	3. Defence enterprise employees	●	●	☺	☺
	4. Agricultural workers	●	☺	☺	☺
	5. Employees of distressed companies/organizations	●	●	☺	☺
C. "Middle" class	1. Employees of in normal situation	☺	☺	●	●
	2. "Small" and "middle" businessmen				
	3. Employees of state and local powers	☺	●	☺	○
D. People, who have large and very-large incomes	Businessmen, artistic elite, criminals etc.	-	-	●	☺



= Most acute problem



= Second most acute problem



= Third most acute problem



= Fourth most acute problem



= Not a problem

MPCI

= Military-political-criminal insecurity; MCSE = Medicine, culture, science and education

of Russia in order to raise the minimum pension have resulted in constant reduction in the difference between minimum and maximum pensions. As a result, people who have worked hard all their life, held demanding positions requiring high education and special skills, and have given long years of service, now receive pensions only slightly better than the minimum pension. Apparently, social justice and the stimulative role of pension system have been forgotten.

The well-being of pensioners is especially dependent on their place of residence. Paradoxically, in Russia the most poor people live in relatively "rich" towns and regions. Moscow is a city of contrasts in this respect. It leads in terms of the general purchasing power of its population, but it is only 16th in terms of wage level and 60th in terms of the purchasing power of pensioners. That is to say Moscow is the most expensive, the richest and the poorest city in Russia. By contrast, the situation is more uniform in the Ural region – the population is generally poor.<sup>43</sup>

Pensions for *disabled* (A2) are low even for "normal" living conditions. The pension is no more than 50 % of the subsistence minimum for disabled of the first group of disability, less than 30 % for the second group, less than 20 % for the third group. As with pensioners, the most acute problems of disabled are poverty and the low quality of state-provided health care. However, the biggest worries of the disabled are unemployment and education. Under conditions where getting a decent education and good job are major challenges for sound people, such achievements demand monumental effort from a person with a disability.

By far the largest subgroup of the poor consists of the *working poor* (A3, A4). Almost 70 % are families, where the head of household is employed. Usually the family has at least one child. Indeed, the number of children in a family is a strong indicator of poverty in Russia. The more children the family has, the more probable it is that the family is poor. The probability is still higher if the family is headed by a single parent or if the household is headed by young parents.

For large and broken families, unemployment is the next biggest worry after poverty. Scanty allowances for children do not really compensate

for additional expenditures. The search of job for parents of large families and unmarried mothers (or unmarried fathers which are still very rare in Russia) is complicated by many factors. In accordance with legislation, nobody can dismiss an unmarried mother before her child is 14 years old. In practice, this stipulation is often ignored and the threat of losing one's job increases especially for single mothers with children.<sup>44</sup>

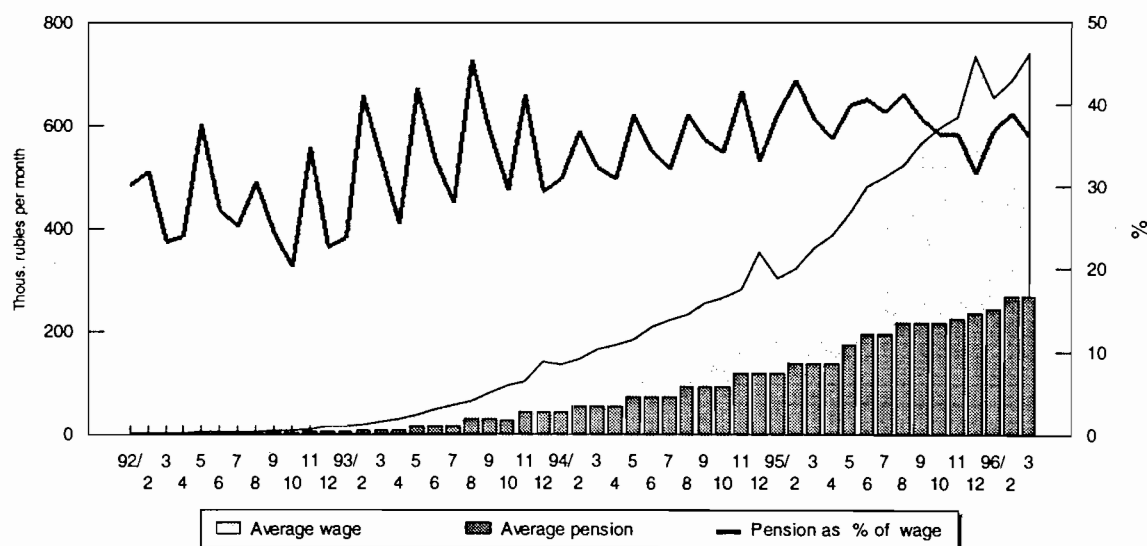
The situation of families with children has worsened the demographic situation in Russia. In Russia a family with three or more children is officially recognized as a large family, and such families have traditionally been accorded some social privileges. Nowadays such large families are rather rare, and those that do exist often have at least one parent suffering from alcoholism and constant unemployment, with little interest in finding a job. As a result, the growing numbers of children-orphans and neglected children as well as increasing criminality among children has become an urgent social problem.

In Russia, as elsewhere in the world, *unemployment* (A5) is closely connected with poverty. After being laid off, an employee has a right to receive full wage payment from his previous employer for three months. After that (provided that the employee has registered in with the Federal Employment Service in time) he or she is entitled to an unemployment benefit related to past earnings. Because of high inflation and the fact that many people stay on forced vacation or work shortened days, the benefit remains the minimum one, ie equals the minimum wage. In 1994, the unemployment benefit was on average 15 % of the average wage. Because of unclarified definitions of "unemployed" and the failure of the system to check the real situation, about 25 % of the unemployment recipients in October 1994 were estima-

<sup>43</sup> Tatiana Boikova: Pensionery – ne samye bednye lyudi, Delovoi mir, 13.05.95.

<sup>44</sup> Every director prefers to have employees without problems connected with small children. One real example: in one non-governmental organization the number of staff was reduced. All members of staff, including unmarried mothers, received notices about reorganization and possibility of dismissal during two months. When unmarried mothers asked about the legality of this threat, the representatives of administration answered: "If we want to dismiss you, we do it by declaring our organization bankrupt and register it afterwards by another name".

Figure 8 Average Replacement Ratio 1992–1996



ted to have secondary or even primary jobs.<sup>45</sup> Many unemployed are involved in informal sector activities.

The number of *refugees and forced migrants* (A6) in Russia continues to increase. As of October 1995, 915,000 persons had received status of refugees and forced migrant. Every fifth such person was registered between January and September 1995. Almost 30,000 forced migrants are people, resettled in other regions of Russia from republics of Chechnya, Ingushetia, North Osetia-Alania. The most difficult problems of forced migrants are poverty, impossibility to find a job, difficulties adapting to a new place, and, most of all, housing.<sup>46</sup>

The situation of *employees of the budget spheres* (education, science, culture and health services) (B1) has been dealt with in the section 3.4.

We have classified *soldiers* (B2) as the conditionally socially-vulnerable group of

population. During the Soviet period, soldiers and their families had rather privileged conditions. Whether their higher wages were adequate to compensate for the discomfort of life in far-away garrisons is hard to say, but certainly the prestige of soldiers in Soviet society was high and their financial conditions were better than civilian workers with the same level of qualification. At present situation is different: soldiering pays much less than before, and shows a yawning disparity with “hot” profession such as business and finance. The reduction of army personnel and the withdrawal of Russian forces from other countries has sharply aggravated housing problems of soldiers as well as their employment in a civilian speciality after they get out of the service. If further aggravated, the problems of soldiers could quickly escalate to a movement to block further economic reform in the country.

Many *employees of defence enterprises* (B3) find themselves in predicaments similar to those of members of the military. This is because many supporters of reform consider employees of defence enterprises as a sluggish workforce, enemies of all new and progressive. In reality, Russia’s defence enterprises and institutions were the organizations where you were most likely to find modern technologies and equipment being properly applied, an appreciation of good engineering and innovation, and an educated industrial elite working together: scientists, engineers, designers and highly skilled workers. The negative attitude

<sup>45</sup> World Bank (1995), 16,77.

<sup>46</sup> The seriousness of this situation can be seen in the squatter situation near Chernobyl, where refugees have settled in the deserted villages within the 30-kilometre radius that constitutes the Chernobyl zone of radioactive contamination. Families with children have evidently preferred to live with higher-than-normal radiation exposure than the constant risk of being shot or bombed.

of employees of the defence sector to economic reform must mainly be considered a normal reaction of people who have suffered because of the gross abuses of power.

One of Russia's biggest economic blunders to date is probably the failure to plowshare its defence industries effectively into commercially viable production. At present, conversion is being realized at more than 700 enterprises of the defence complex. Output in these enterprises has dropped more than in industrial enterprises overall, and about 92,000 persons were dismissed from defence enterprises in 1995. Thus, there has been a greater zeal to cut down defence enterprises faster than industry as a whole (15 % compared to 9 %), and wages for those who stay with these enterprises are low – 66 % of the industry average.

The economic situation in Russian *agriculture* (B4) is very difficult. The average monthly wage in agriculture does not exceed 46 % of the average monthly wage in Russia, and as mentioned before, on average 40 % of the monthly wages were not paid on time. About 19 % of all wage arrears in the Russian economy are in agriculture.

About 30 % of all enterprises in January–September 1995 were *unprofitable* (B5). This share increased in comparison with 1994 in the whole economy, especially in transportation, telecommunications, construction, municipal housing services, science and scientific services. Municipal housing services and the coal industry have the highest share of unprofitable enterprises (45 %). More than 30 % of enterprises are unprofitable in non-ferrous metallurgy, timber, pulp and paper, light industries, transportation, trade and food services. Enterprises in gas, coal and fish industries have the most serious problems with wage arrears (on average more than 100 % of the monthly wage per one employee). The most successful situation is in ferrous metallurgy, chemical and petrochemical industries, which are all export oriented. Forced leaves and shortened working days are used most often initiated by administrations of enterprises involved in machine-building and light industry and to a lesser extent by enterprises involved in municipal housing services, non-industrial support services, trade, food services, material supply and sales.

The maximum average monthly wages (over SUR 900,000) in January–November 1995 were found in enterprises involved in natural gas production, oil extraction and processing, coal and fish industries as well as non-ferrous metallurgy.

The lowest minimum average monthly wages (below SUR 400,000) were in light industry, machine-building, glass and faience industries.

We classify employees of state and local power bodies as “*middle*” class (C). Of course, in the Soviet era representatives of the bureaucratic machinery had privilege, and now their wages are low. But then, their opportunities to profit from corruption are excellent. Thus, we consider them “middle” class and not socially vulnerable as a group. The theme of malfasant bureaucrats plays well with the majority of the voters, so not surprisingly some campaigners have suggested that the struggle against bureaucrats is more important than the struggle against poverty or low output. So far though, elected officials have balked at correcting the situation, which in truth would require the simultaneous firing of those guilty of dishonesty, increasing the general wage levels of civil servants and raising the qualification requirements for potential bureaucrats.

The main problem of the *wealthiest* segment of the population (D), ie “new Russians”, is their vulnerability to military, political and criminal actions. According to official data almost 50 % of murder victims are businessmen. In Russia, it is very difficult to find a rich person who does not fear for his life and for the lives of his close relations. But it is no less difficult to find a person who feels undefended against unthoughtful actions of government or against political changes. During the presidential electoral campaigns a group of well-known Russian businessmen decided to address a letter to presidential candidates. This “Group of 13” appealed to different political forces for a compromise. They were worried about the growth of signs indicating the split of Russian society into two parts (rich and poor).

As seen from Table 2, there are no population groups which do not suffer from the problem of criminality. Even without being direct victims of criminality, it is easy for people to experience psychological insecurity. For Russians, having to worry security matters and being prepared for the possibility of criminal actions, is a new experience.

## 5 Conclusions

Few would dispute that the social price of the economic reform in Russia has been quite high. When examined in social terms, we see some

evidence of a social crisis brewing in Russia. However, in spite of major miscalculations and inequities in the reform process, as a whole, the Russian people have been enormously patient. Strikes have not been a major problem although wage arrears have been common and lengthy,<sup>47</sup> and workers have approved significant adjustments in wages in order to preserve their jobs. The anger aroused by eg declines in real pensions or wages have not snowballed into nationwide movements for the rights of people.

The rapid transformation from one economic system to another is impossible without certain negative social consequences. As shown in Table 3, there are both objective and subjective reasons for the present state of Russia's social sector. In our view, the most serious mistake of the Russian government was its failure to anticipate and take adequate measures to minimize the social consequences of the reform. Instead, the government chose the wrong tactics to implement its economic reform, which had deep consequences for many. It was sheer arrogance to ignore the psychological preparation needed to help people embrace change, especially with people who from childhood have been taught that their economic system and country were inherently superior. With the collapse of the socialist system, people first needed to understand that the new market system was superior to the Soviet one, and then, somebody should have shown them how they were supposed to behave in such a system. Instead, there was no open discussion on themes such as unemployment or inflation. The vast masses of people probably thought that there will not be any negative consequences in reforming the country and as they did there would, a part of the population suffering most, began to dream of Soviet days.

The mistakes of the social policy were recognized by president Yeltsin in his yearly speech to the Federation Council in February 1996: "We have for a long time urged people to tighten their belts. And that they also did. But the limit of trust

has been reached. We are at the border behind which exhaustion and dissatisfaction may overwhelm strength and hope. A socially acceptable tactic of reform is needed. The task is to develop market – and also to soften the social cost of the process. To soften – but not to blunt reforms themselves. What we were not able to do was to nurture the social and economic rights of people.

In social policy we remain passive, lag behind developments, often only reacting to open manifestations of social discontent. The social commitments are fulfilled badly, with failures and huge strains."<sup>48</sup>

Mr. Yeltsin's speech included the following tasks in the sphere of social policy:

- To fulfill the budget expenditures especially in the social sphere
- To solve the housing problems, to improve housing conditions for families with low and average income
- To support small enterprises
- To begin to compensate savings lost in 1992
- To create and introduce a system of bank account insurance

Mr. Yeltsin's estimates about the mistakes and the tasks presented are rightly directed in our view. However, the measures to minimize the negative consequences of the economic reform are still absent. Further, measures to combat the potential for an increase in the rate of unemployment will have to be the result of serious structural reforms. More must be done to help people adapt to the market economy, especially in terms of improving current systems for education and training. If such measures are not taken, solving problems in the sphere of social policy later will be much costlier.

<sup>47</sup> That confirms the results of the surveys by the Centre for the Study of Public Policy and Paul Lazardsfeld Society (see section 3.1.), which emphasize the minor role of the money income for Russians as a whole.

<sup>48</sup> Speech by President Yeltsin to Federal Council: Freedom and Democracy – the Main Preconditions for Progress and Recovery, Rossiiskaya Gazeta 24 Feb 1996.

**Table 3 The Impact of Different Measures of Economic Reform in Various Social Spheres**

	Poverty	Unemployment	MCSE	MPCV
Privatization	○ <sup>1</sup>	☺ ☹ <sup>2</sup>	○ <sup>3</sup>	☹ <sup>4</sup>
Liberalization of prices	☹ <sup>5</sup>	○	☹	○
Industrial, structural and investment policy (includes conversion)	☹ <sup>6</sup>	☹ <sup>7</sup>	☹ <sup>8</sup>	○
Development of entrepreneurship and small business	○	○	☺	☹ <sup>9</sup>
Development of financial structures and markets	☹ <sup>10</sup>	○	○	☹ <sup>11</sup>
Foreign and foreign economic policy	☹ <sup>12</sup>	☹ <sup>13</sup>	○	☹ <sup>14</sup>
Tax policy	☹ <sup>15</sup>	☹ <sup>16</sup>	○ <sup>17</sup>	☹ <sup>18</sup>
Agricultural policy	☹ <sup>19</sup>	☹ <sup>19</sup>	○	○

MCSE = Medicine, culture, science and education

MPCV = Military-political-criminal vulnerability

The table has been created in terms of each social problem or grouping of persons involved in this sector. The correctness of the measure has not been taken into consideration. For example, from the State's point of view, the growth of unemployment in agriculture has been positive due to minor improvements in productivity in this sector. For agricultural employees the impact has, naturally, been adverse.

☺ = The measure improved the situation in this social sphere

☹ = The measure worsened the situation in this social sphere

○ = The measure had no impact on this social sphere



1. In Russia, privatization was guided by socio-political considerations, in particular the idea of returning property to people. Privatization actions, interestingly, failed to reduce poverty.
2. Privatization was originally expected to cause at least a mild increase in unemployment. In practice, the legally mandated participation of workers and the Russian state as customer, resulted a slowing of growth in unemployment. Eventually, of course, the nonexistence of effective owners will lead to bankruptcies or mergers of the privatized firms, which in turn, will boost unemployment.
3. Privatization had no effect on these spheres of society. On one hand, the majority of organizations in this sphere were not privatized, and on the other hand, the funds from privatization of the rest were not as high as was supposed and were not directed to support this sphere.
4. Privatization in Russia has been associated with increasing corruption and higher crime rates, particularly white collar crime.
5. The liberalization of prices and subsequent inflation unvalued the savings of Russians and widened the gap between the subsistence minimum and incomes.
6. The nonexistence of a reasonable industrial policy and national structural priorities has led to ineffectual conversion attempts and an unfavourable investment. This has adversely affected employees in defence-related industries.
7. As a result of ineffective industrial, structural and investment policy, structural unemployment and bankruptcies have increased and led to growth of open and hidden unemployment.
8. The nonexistence of specified laws and often weak control of their implementation has led to growing corruption and white-collar crime.
9. The low level of development of small enterprises does not promote the solution of all social problems (eg. unemployment, poverty). The growth of the number of small enterprises has promoted an increase in crimes such as protection rackets, corruption, violations of sanitary and ecological norms, and fraud.
10. The increase of the number of distressed and partly dishonest enterprises functioning because of nonexistent or unsatisfactory regulations has led to greater amounts of investor fraud and damage to development of financial markets.
11. Heads of financial companies are often victims of white-collar and violent crime.
12. Indiscreet liberalisation of foreign trade has led to the disappearance of cheap domestic products on local markets and the growth of import products of poor quality. This actually represents a fall in Russian living standard, even though the impact of such liberalization should be opposite.
13. The break-up of economic ties between the former Soviet republics has led to worsening economic conditions for many Russian enterprises and the growth of open and hidden unemployment.
14. A lack of foreign trade statutes and regulations has led to increases in certain forms of white collar crime and corruption.
15. The existing tax policy, including a newly introduced tax scale, has improved the situation of the rich at the expense of the middle class and the poor.
16. Very high enterprise taxes have led to unfavourable conditions for industrial enterprises, and the growth of open and hidden unemployment.
17. Although some enterprises and organizations of this sphere have been given some privileges, the existing tax system does provide adequate stimulus for their development.
18. Hiding income to avoid taxes is common in Russia.
19. See section 4.2.

## Supplement 1 Wages and pensions, %

Year	Minimum wage	Average wage	Real wage index, 1985 = 100	Minimum pension	Average Pension	Minimum pension/ average wage	Average pension / average wage
1985	70	201	100	50	75	0.25	0.37
1986		206	101		77		0.37
1987		214	104		80		0.37
1988		233	113		83		0.35
1989		263	121		87		0.34
1990	70	303	132	70	102	0.24	0.34
1991	130	548	123	161	266	0.31	0.52
1992	714	6011	73	1102	1613	0.18	0.28
1993	5962	59285	83	11326	20601	0.19	0.34
1994	18050	217830	76	40663	74695	0.19	0.35
1995	42621	482217	55	89632	183533	0.19	0.38
1996	75900*	685000**		113250***	258967****		

\* From 1 April 96 (average of Jan.–Apr. 1996 66413)

\*\* February 1996

\*\*\* January 1996

\*\*\*\* Average of Jan.–Mar. 1996

Sources: Russian Economic Trends, Monthly Updates and various newspaper articles.

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