



independent institute for
SOCIAL POLICY

Social Policy in Changing Russia

Moscow – 2002

1. Dynamics of the main indicators of living standards

The drop in real incomes and increase of income inequality have been the main negative trends in the dynamics of welfare of Russian people of the last decade (see Appendix, Table 1). The result has been a surge in the poverty rate.

Real income decline. One of the main trends in changes of living standards of the Russian people for the years of reforms has been decline of average real income. It is worth pointing out, however, that the actual fall in real income started much earlier, in the Soviet period and that in conditions of repressed inflation there was an increase in the difficulty of buying necessities in state stores and an increase in the share of purchases made on the free market. But the rapid decline in real incomes began after the April 1991 price hike. The liberalisation of prices for goods and services in January 1992 resulted in a sharper decline in real wages and incomes. Data on changes in average wages and incomes, reported in Table 1, shows that increases in prices (as measured by the growth in the index of consumer prices) exceeded the growth in nominal wages and incomes; as a result, real wages and incomes fell: in the period covered by the table, real average wages fell by two thirds and real incomes by more than a half. Furthermore, the decline in wages and incomes continued until 1996, accompanied by an unprecedented increase in the non-payment of wages, pensions and social transfers.¹

But if a certain tendency towards growth in incomes was visible in 1996-1997, associated with the appearance of signs that the economy was coming out of recession, this was brought to a halt by the financial and economic crisis of 1998, which led to a sharp increase in consumer goods' prices. As a result of the heavy dependence of the consumer goods market on imports developed over the reform period and also due to the high import content of domestically produced consumer goods a threefold decline in the exchange rate could not but result in a rise in domestic prices.

The jump in prices (138.4 percent between August and September 1998 and 184 percent for the whole of 1998 as compared with December 1997) meant that real wages in December 1998 had fallen by a third compared with 1997.

The crisis of August 1998 and the devaluation of the rouble that followed had both negative and positive consequences for the Russian economy. On the positive side, for the fourth year in a row over the last decade the economy has experienced positive growth—119 percent for the period 1999-2001 (1999—5.4 percent, 2000—9 percent and 2001—5 percent). But it is still too early to talk about stable growth of GDP since growth is to be observed primarily in the oil, chemicals and petrochemicals industries, in engineering and the food industries. There is as yet no growth in other branches and in some there is even further decline. Moreover, if the primary stimulus for economic growth in 1999 was the effect of devaluation leading to import substitution, then, in 2000-2001 growth was to a greater degree a consequence of a significant increase in the prices of exported oil and electricity.

Rise in income inequality. As far as living standards are concerned, economic reform has resulted not only in a decline in real incomes but also in a sharp increase in differentiation. Table 1 and Diagram 1 contain figures on changes in the main inequality indicators. They clearly demonstrate the process of redistribution of money income in favour of non-poor population,

¹ The volume of overdue indebtedness for wages, pensions and social allowances was equal to 3.22 md roubles in 1994; 7.8 md roubles in 1995; 45.5 md roubles in 1996; 69.4 md roubles in 1997; 123.2 md roubles in 1998; 99.5 md roubles in 1999; 66.3 md roubles in 2000; and 54.9 md roubles in 2001, 2000 r.

that began in 1992 when the share of the 20 percent with the lowest incomes fell by almost a half — from 11.9 percent in 1991 to 6 percent in 1992.

It is worth mentioning that the share of the poorest quintile group in total income of Russian population continued to fall until 1996. But if the share of the lowest quintile remained stable in the last five years, the shares of the second, third and fourth quintiles continued to fall during the whole period covered by the table: in total they fell from 57.4 percent to 46.4 percent. These figures clearly show that the financial position of middle-income groups regarded by us as potential members of the middle class has deteriorated in the last few years. At the same time in 2000 the share of income accruing to the most affluent part of the population (the top 20 percent) had risen to almost a half of the total (47.6 percent as against 30.7 percent in 1991.)

Table 1. The Distribution of Total Money Income, Coefficients of Differentiation and Concentration of Income, 1991-2000² (in percent)

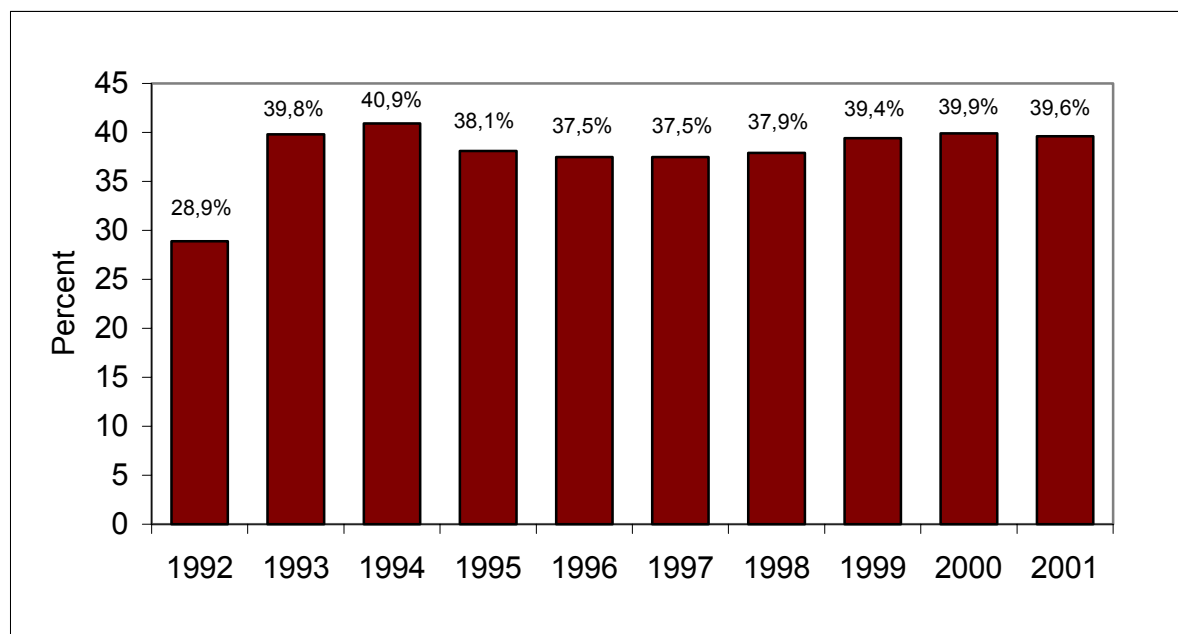
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Money Income	100	100	100	100	100	100	100	100	100	100	100
First Quintile (with lowest incomes)	11.9	6.0	5.8	5.3	5.5	6.2	5.9	6.2	6.1	6.0	5.9
Second	15.8	11.6	11.1	10.2	10.2	10.7	10.2	10.4	10.4	10.4	10.4
Third	18.8	17.6	16.7	15.2	15.0	15.1	14.1	14.8	14.7	14.8	15.0
Fourth	22.8	26.5	24.8	23.0	22.4	21.6	21.6	21.2	20.9	21.2	21.7
Fifth (with highest incomes)	30.7	38.3	41.6	46.3	46.9	46.4	47.5	47.6	47.9	47.6	47.0
Decile Coefficient of Differentiation	4.5	8.0	11.2	15.1	13.5	13.0	14.4	13.8	14.5	13.8	13.8

Source: *Rossiiskii statisticheskii ezhegodnik* Goskomstat Rossii (Russian Statistical Yearbook), Moscow; p. 187

Estimates of the dynamics of Gini index of income concentration also confirm the mass process of resources' redistribution in favour of the most affluent groups of Russian population. Diagram 1 shows official Goskomstat estimates for income differentiation, however, it should be noted that most of the researchers do not agree with these estimates supposing that the real differentiation is much higher. This problem has been considered in detail in Human Development Report for 2001, where authors have argued that the actual level of differentiation in Russia was two times higher.

² For 1996-99 the estimates were adjusted in 2000 as a result of changes to the methodology used to derive the estimates.

Diagram 1. The dynamics of Gini Index of Income Concentration



Living standards and employment. Even though market reforms open up new opportunities for using labour potential, the labour force participation rate was in decline until the end of 1998. Prior to 1999, reduction in the labour force participation rate was mainly caused by macroeconomic decline. Despite its well-known negative effects, the 1998 financial crisis created incentives for stepping up import substitution in the light and food-processing industries. As a result of an increase in both labour demand and supply, the number of the economically active population increased by 3 mln. people in 1999-2000, while employment grew by 6.2 mln. people.

Analysis of behaviour strategies³ shows that only a limited number of people used innovative strategies of economic activity successfully:

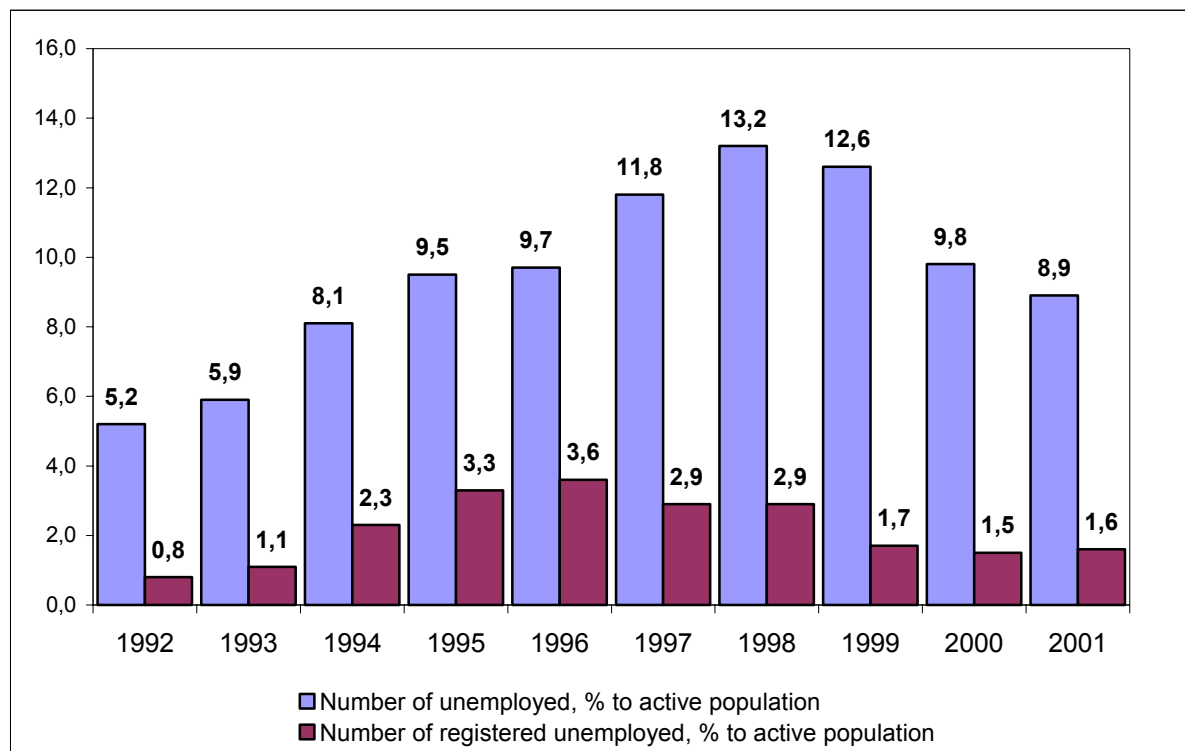
- 6% of respondents aged over 15 went into business;
- 5% of respondents combined full-time and part-time employment;⁴
- 2% successfully started a business of their own;
- 9% got a new job;
- 4% got a new, high-paid job in the private sector.

At the same time, 11% of respondents started to work harder on their own land plots or household farms, which cannot be regarded as an innovative economic activity. Over 60%⁵ did not undertake any activity at all to raise their living standards above the poverty line.

³ Calculations based on RLMS data (Russian Longitudinal Monitoring Survey) for 1998.

⁴ The survey only covers full-time employment and regular additional employment. If irregular additional employment is included, then the number of people with more than one job increases. The data from the survey conducted by the Institute for Social and Economic Studies of Population of the Russian Academy of Sciences suggest that over a 12-month period about 20% of the economically active population had additional employment at one time or another (for details of the database, see E. Avraamova, 'Prospects for Mortgage Lending in Russia', RECEP Working Paper No. 5, May 2001, Moscow).

Diagram 2: Total (based on ILO definition) and registered unemployment



The structure of the economically active population has changed considerably with the development of a market economy in Russia: the share of the employed has declined and the share of the unemployed has risen. This process slowed down by 1995, after the massive transformation decline had run its course. Russia is characterised by considerable difference between total (ILO-definition) and registered unemployment (see Diagram 2). This is explainable by tight restrictions on registration with the Employment Service, the tiny unemployment benefit, and long-standing benefit arrears. As a result, 12% of the economically active population were unemployed and looking for a job in 1999, while only 2% were actually registered as unemployed. In addition, about 8% of the economically active population are affected by so-called hidden unemployment (on long unpaid leave or working reduced hours).

⁵ One respondent may implement a number of strategies, so in this case the total of respondents is not equal to 100%. Some strategies are beyond the scope of this analysis.

2. Social benefits and privileges

Social transfers are the important source of incomes of Russian citizens; they are granted as monetary allowances, in kind payments and subsidies on payment for services. Social transfers paid in cash make up about 13-15% of income with 70-80% of its total allocated for pension payments (Table 2).

Table 2. Monetary Social Transfers

	1992	1995	1996	1997	1998	1999	2000	2001
Share of Social Transfers, as % of GDP	5.3	7.5	8.8	9.9	8.7	8.0	7.8	8.9
In aggregate money income	14.3	13.1	14.0	14.8	13.5	13.4	14.4	15.3
Of which:								
- pensions	12.2	10.2	10.0	11.1	10.1	10.1	9.4	10.8
- scholarships	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
- allowances, benefits	1.2	2.4	3.2	3.1	2.3	2.0	2.0	1.9

Sources: *Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* (Social situation and living standards of the Russian population), Goskomstat Rossii, Moscow; 2001 p. 154, 214.; *Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii* Goskomstat Rossii (Social situation and living standards of the Russian population), Moscow; 2002 p. 105, 214.;

All social allowances account for 1-2% of aggregate money income and for less than 1% of GDP (Appendix, Table 2). The tendency of an increase of allowances share in aggregate money income had been obvious before 1997; from 1998 the contrary tendency has been taking place. Still 36,7% of total sum of allotted allowances was not paid off in 1998 (in 1999 - 21%). Most of social benefits are allocated on the basis of social categories (veterans of war, children, disabled, pensioners etc.) not taking into account the income level of households. Only three kinds of social payments - monthly child benefit, housing subsidies and poverty benefit envisage means-testing or income-testing. About 70% of the sum of allotted allowances comes to three most prevalent forms of allowances:

- Temporary disability allowances,
- Monthly allowance on each child,
- Unemployment benefit.

It's important to note that the share of family and maternity allowances⁶ in the total amount of allowances has declined: in 1995 it was 54% of total amount of allowances, in 1999 this figure came down to 37.3%. In general such changes are caused by three factors. The first is refusal to pay this allowance to each child and transition to targeted payments for children from poor families. The second factor is the arrears in allowance payments: according to the Ministry of Labor and Social Development of the RF data by April 1, 2002 allowance arrears accounted for 22.3 billion Roubles. Third is keeping the low rate of allowances on the background of the absolute growth of the main types of income (wages, pensions).

Privileges on payment for essential social services and in-kind social payments are the important element of social support for the Russian citizens. In Russia there are more than 100 types of

⁶ Here family and maternity benefits include: pregnancy and birth benefit, allowance over the period of temporary leave to nurse a child until 1.5 years; allowance for disabled child care; monthly allowance for each child.

social privileges and subsidies on the federal level only. The basic in-kind social payments are as follows:

- Housing and utilities privileges⁷;
- Transport services;
- Resort;
- Medical services and medicines;
- To keep children in pre-school institutions.

The assessment of total amount of money necessary for financing all social privileges and subsidies is connected with great difficulties as the structure of financial sources and the system of control over its distribution is not transparent and very complicated. Besides the legislation covering the allocation of social privileges and subsidies is very contradictory, usually infringed and not provided by financial resources.

Statistics for the population taking part in social subsidies and privileges programs appeared in 1997 and is based on budget survey data of 147 thousand households by Goskomstat. According to this data 31,1% of households received some subsidies or privileges in 1997, 32% in 1998, 33,8% in 1999, 37,4% in 2000. Normative base under which social subsidies and privileges are being regulated has not changed throughout this period, therefore the increase in number of recipients has been caused by improvement of statistics and the reduction of arrears.

In 2000 the average rate of received subsidies and privileges was 107 Roubles⁸ per household, so it makes possible to assess the value of this income source in macroeconomic terms: expenditure on social subsidies and privileges accounts for 1,1% of GDP and 2% of the amount of population income. According to expert estimates⁹ its full financing would require about 5% of GDP.

The role of Federal budget in financing social transfers. The larger part of federal budget expenditure on social payments and privileges is financed through the "Social policy" article. This article was implemented for the first time in functional classification of the federal budget in 1995. Table 3 shows the share of expenditure on the article "Social policy" in aggregate expenditure of the federal budget from 1995 to 2001. Before 1998 the expenditure of the federal budget on social policy amounted to 3-4%, then its share reached 7% and stayed at this point until 2000. In 2001 we can see a great increase of the article "Social policy" once more.

⁷ Here subsidies on housing and utilities are not taken into account, as they are not allocated for population, but for municipal budgets. The municipal budgets in their turn subsidize the population by establishing a fixed price on housing and utilities, which is below market cost.

⁸ Sotsial'noe polozhenie i uroven' zhizni naselenia Rossii Goskomstat Rossii (Social situation and Living Standards of the Russian population), Moscow; 2000 p. 168

⁹ According to expert assessments (see Prelojeniya k strategii sodeistvia sokrascheniiu bednosti v Rossii: Analiz i rekomendatsii. Moskva, 2002. ILO Moscow Bureau publication. p. 65) financing all monetary and non-monetary social transfers requires 15% of GDP. Taking into account that financing of monetary transfers makes up about 10% of GDP, the financing of non-monetary transfers reaches approximately 5% of GDP.

Table 3. Share of the "Social Policy" article in total expenditure of the Federal budget, in percent

Year	Expenditure on "Social policy" article	Including		
		Social assistance	Pensions and allowances for the military and law enforcement employees	Other social policy measures
1995	4.19	3.23	-	0.96
1996	3.33	2.56	-	0.77
1997	3.37	2.6	-	0.77
1998	7.01	3.23	3.0	0.78
1999	7.28	3.2	3.36	0.72
2000	6.58	2.83	3.3	0.45
2001	9.24	3.57	3.75	1.92

An increase of nominal expenditure on "Social Policy" in mentioned period can be explained in the most part by the changing of a framework of this article of federal budget, by redistribution of financing within and between articles of federal budget as well as by appearance of other sources of financing e.g. by extra-budgetary funds. For example in 1998 the double increase of this article was due to additional resources for financing the military and law enforcement employees' pensions, earlier they had been financed by Pension Fund. In 2001 after Federal Employment Fund ceased to work the means for covering unemployment allowances and expenditure on the regional network of unemployment service was added to the article "Social Policy".

The role of government extra-budgetary funds in financing social transfers. Government extra-budgetary funds (GEBF) are among the main sources of financing social payments, which are guaranteed by federal legislation. GEBF are established by the Article 13 of the Budget Code of the RF as "monetary" funds formed "out of the Federal budget and budgets of regions of the RF" and designed for "the realization of the constitutional rights of citizens for pension guarantees, social insurance, social security in case of unemployment, health protection and medical service". In compliance with the Article 144 of the Budget Code GEBF are composed of Pension Fund of Russian Federation (PF), Social Insurance Fund (SIF), Federal Health Insurance Fund (FHIF) and State Employment Service (SES), which ceased to work.

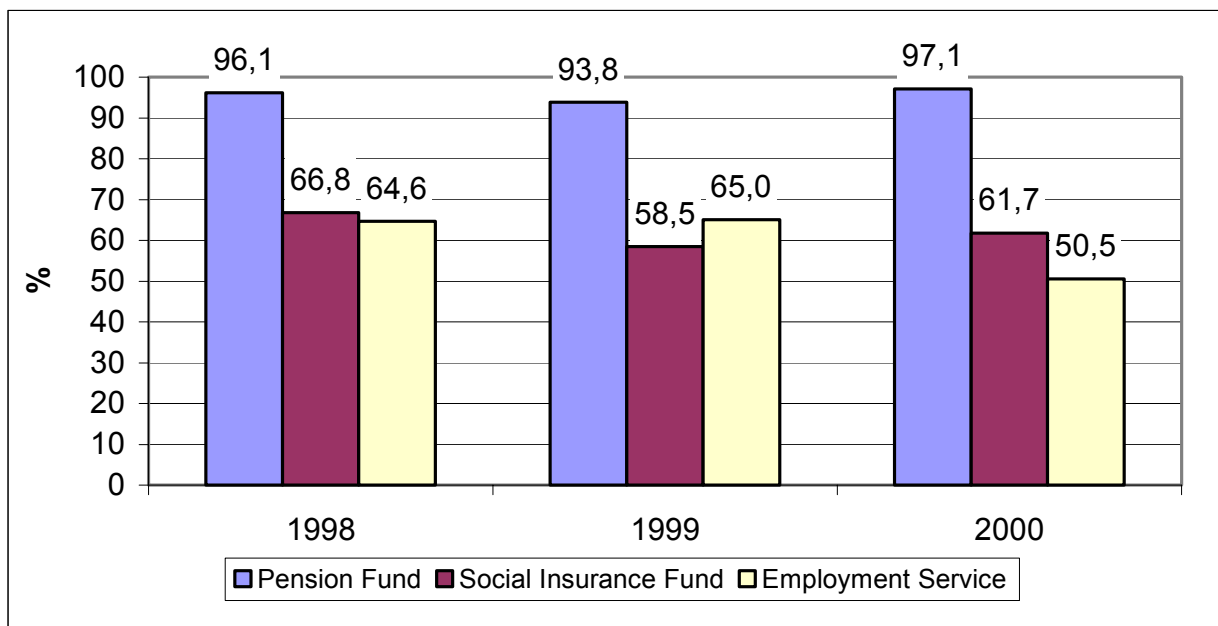
Table 4. Dynamics of income of Government Extra-Budgetary Funds, as percent of GDP, 1994-2000

	1994	1995	1996	1997	1998	1999	2000 ¹⁰
Income	9,28	8,52	8,97	10,03	9,22	7,94	6,79
Expenditure	8,50	8,22	8,66	9,71	8,88	7,87	6,73
Budget profit	0,78	0,30	0,31	0,32	0,34	0,07	0,05

¹⁰ Hereinafter is the data on SNBF for 2000 correspond to their budgets data, if another is not mentioned.

The assets of government extra-budgetary funds are mostly formed of assignments of employers, employees and the federal budget. The account of insurance premium from employers is based on wage fund. All GEBF work on the basis of similar principles, with their own specific features which influence both economic and financial results of their activity and the overall efficiency of government funds. Table 4 shows that GEBF income and expenditure presented as GDP shares has been on the decrease since 1997 and in 2000 were lower than in 1994. Share of expenditure on social payments calculated on their basis is shown in Diagram 3.

Diagram 3. Share of government extra-budgetary funds' expenditure on social payments, in percent, 1998-2000

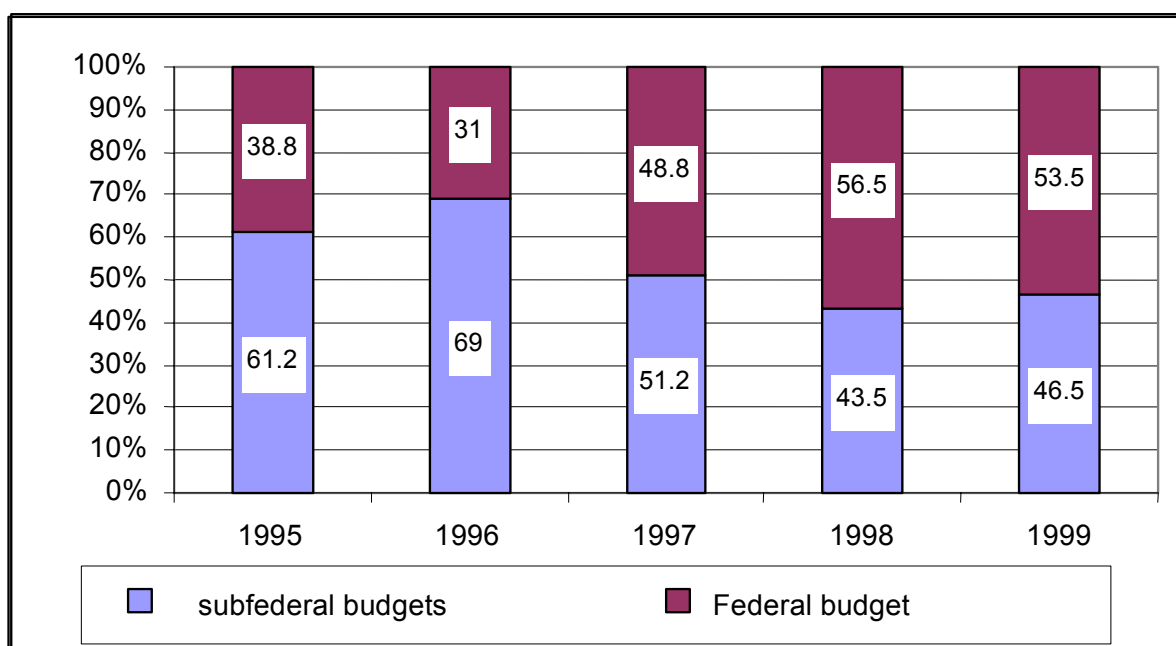


The expenditure of budgets of the RF subjects on social policy. Social policy financing in Russia is carried out at the expense of regional and local budgets apart from the Federal budget and government non-budget funds. Social expenditure of certain articles are divided between the budgetary levels in diverse proportions:

- the Federal budget bears the main part of social expenditure;
- the regional level carries the biggest share of expenditure on health-care and culture;
- the municipal budgets are responsible for the expenditure on housing and utilities, as well as education.

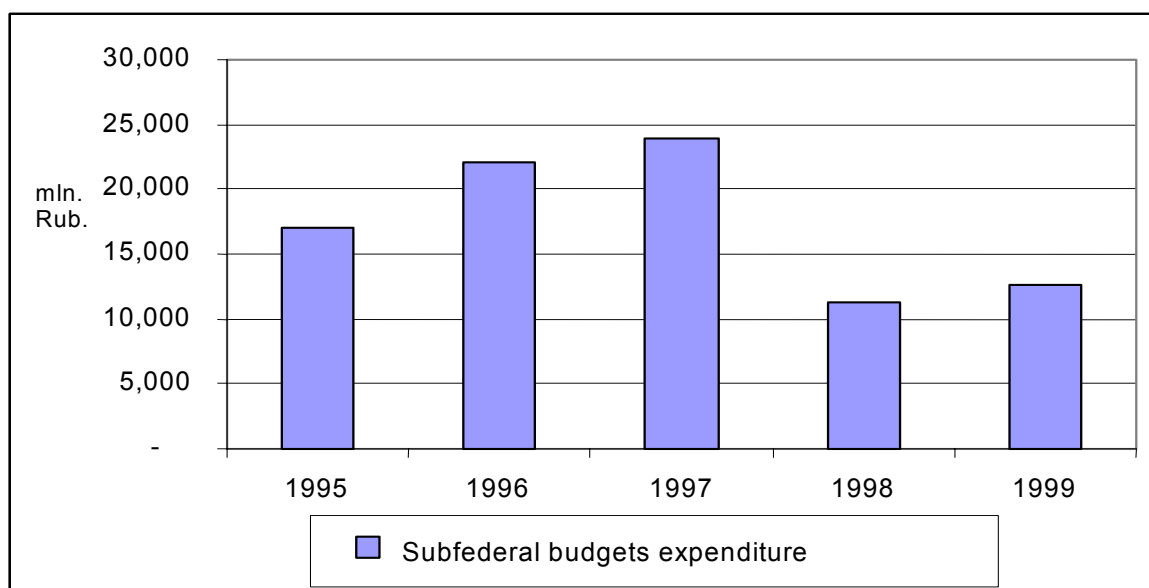
Financing social policy in the subjects of the Russian Federation before 1996 had been implemented mostly by the means of regional and local budgets. In 1995 the share of regional and local budgets in total expenditure on social policy of the federal and consolidated budget of the RF subjects was 61%, in 1996 – 69% (see Diagram 4). Starting from 1997 the Federal budget share had been increasing and in 1998 it reached 53.5% of the aggregate expenditure on social policy.

Diagram 4. Distribution of expenditure on social policy between Federal and subfederal budgets, 1995-1999



The analysis shows that regional and local budgetary expenditure on social policy was on the increase in 1995-1997 and reached 23.9 bln.Roubles peak in 1997. They abruptly decreased to the point of 11.2 bln.Roubles (in 1995 prices) in 1998 and slightly increased in 1999 (see Diagram 5).

Diagram 5. The dynamics of subfederal budgets of the RF expenditure on social policy in 1995-1999, mln.Rub. in 1995 prices



Lack of resources is the main problem of financing social policy as on federal, so on regional and local budgetary levels. But this problem is more essential for regional and local budgets, as

the responsibility for allocation of a great number of subsidized social services and also obligations for various allowances and benefits is transferred from federal to regional level without defining the sources of financing. The lack of funds in regional and local budgets led to accumulation of huge debts for allowances and subsidies specified in the Federal Law. And in some cases payments were delayed for months and even years. As a result in 1990s so-called unprovided social mandates have appeared and was widely used.

When we consider social expenditure in general not only through the prism of social allowances and privileges, the data of Table 5 show that the major part of education, culture and art, and healthcare expenditure is laid on consolidated regional and local budgets. The total expenditure is formed of consolidated regional and local budget according to the article of housing and utilities. This expenditure is mainly allotted for housing and utility service subsidies; housing and utilities privileges for certain categories and housing subsidies for poor families. Housing and utilities privileges and housing subsidies are considered as social allowances, that is why analyzing federal expenditure on social allowances and privileges apart from the expenditure on social policy, we must consider consolidated regional and local budgetary expenditure in compliance with the article "housing and utility services", in expenditure article on privileges and subsidies for population. The separate calculation of expenditure on subsidies for housing and utility services for all population, on poor family subsidies and privileges for certain categories has been put into practice of financial discipline only in recent years, when the question of compensation resources of all this expenditure actually arose. Representative data on expenditure on housing privileges and subsidies have appeared in 1998 and is being published with big delay.

Table 5. Share of budgets of all levels in financing basic social expenditure in Russia in 1998-1999 (%)

Budget system levels	Total	Education	Culture and art	Health-care	Social policy	Housing and utility services
1998						
Federal budget	16,9	13,2	10,2	8,7	56,3	0,0
Consolidated subfederal budgets, including	83,1	86,8	89,8	91,3	43,7	100,0
Regional budgets	27,4	20,7	37,3	38,5	23,3	28,0
Local budgets	55,7	66,1	52,6	52,8	20,4	72,0
1999						
Federal budget	17,4	14,2	16,1	9,8	53,3	0,0
Consolidated subfederal budgets	82,6	85,8	83,9	90,2	46,7	100,0
2000						
Federal Budget	18,4	17,8	19,3	11,3	52,7	0,0
Consolidated subfederal budgets	81,6	82,2	80,7	88,7	47,3	100,0

According to the data consolidated regional budgets expenditure on housing and utility services made up 7.6 bln. roubles in 1998 and 11.9 bln. roubles in 1999; housing subsidies for poor families - 1.2. bln. roubles in 1998 and 2 bln. roubles in 1999. Regional and local budgets have serious problems with financial resources for allocating housing subsidies as well as non-monetary social payments to the population.

3. Crisis of the social support system.

In Soviet times social support had three priorities:

- To support people who rendered prominent services to the State;
- To make payments which can, as a rough approximation, be referred to as insurance (pensions, medical benefits, etc.);
- To provide social services to people who are unable to work and do not get sufficient support from their families. This category also includes some types of benefits, e.g., child support benefits, benefits to families with large numbers of children, single-parent families, etc.

The first of the above objectives was regarded as top priority. It was a means of bringing about differentiation in Soviet society, since wages were oriented to the egalitarian distribution of wealth in compliance with ideological paradigms. Because support for people with special merits contradicted the goal of a society with full wealth equality, it was carried out through hidden mechanisms, mainly in the areas of housing and quality service provision (health, recreation, transport, etc.). As a result, financing of this area of social support was non-transparent. As well-being increased, the range of people included in the privileged group expanded. The second of the above priorities – to provide insurance-type payments – was based on genuine insurance principles so far as this was possible in a centralised economy (the amount of payments was a function of time worked). The third of the above objectives had the lowest priority and was financed according to a ‘residual principle’.

Since the start of market reforms, development of the social support system has been mainly based on the principle of prompt response to aggravation of socio-economic problems (a rise in the numbers of the poor and the unemployed, the emergence of refugees and migrants, wage and pension arrears, etc.). This resulted in the establishment of new types of social benefits at federal, regional and local levels. At the same time, all social commitments and principles of social support inherited from Soviet times were retained.

This strategy resulted in an unjustifiably wide variety of forms and types of social support. On the federal level alone there are about 150 types of social benefits and subsidies provided to 236 groups. According to the Labour Ministry, the number of benefit recipients is about 100 mln. Thus, over 250-300 bln. roubles is needed to finance benefit payment.

In most cases entitlement to social support depends on whether an individual belongs to an eligible social group, such as war veterans, certain groups of civil servants, disabled, etc. Only two types of social support are subject to means testing: housing subsidies for poor families and child support benefits. Even a very simple analysis suggests that the current system of social benefits and allowances has limited potential for redistributing resources in favour of those who are most in need. Only one third of social spending that is captured by accounting goes to the needy, while two thirds are allocated to those who could do without it.¹¹

An inevitable outcome of such development of the social support system has been failure of the government to meet social commitments to the population. Thus, in 1999 the government's commitments with respect to federal benefits alone were 15% of GDP. Real expenditure of the consolidated budget under budget items in the social policy section were 1.7% of GDP or 6% of total expenditure of the consolidated budget. Thus, the main flaw of the current social support system is that the government's commitments do not match its resources.

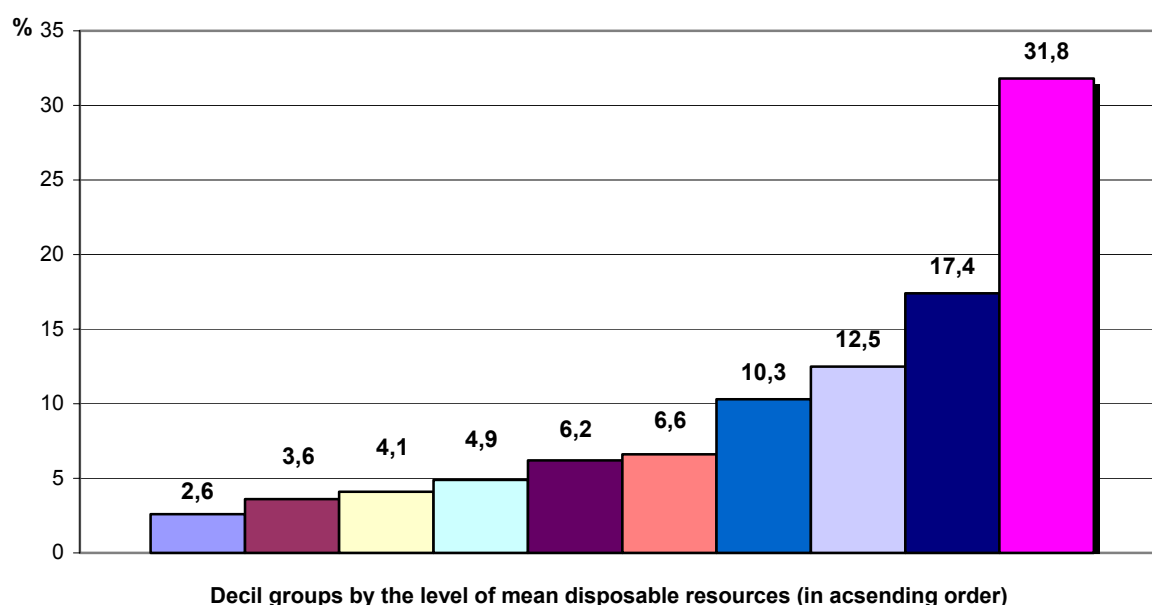
¹¹ Speech by Prime minister Mikhail Kasyanov to the Duma on May 17, 2000, *Rossiyskaya Gazeta*, May 19, 2000.

Social benefits are *the core of the entire social support system* and have been pinpointed as the central element of reform. The main arguments in favour of this reform strategy are as follows:

- Formally, over 70% of the Russian population are entitled to social benefits;
- The government does not have sufficient resources to meet commitments to the population under this mandate;
- Households with low income exposed to high poverty risks are not accorded high priority in receipt of benefit, which runs counter to the principles of social support in a market economy.

While over 70% of the population are formally entitled to all kinds of benefits, data from Goskomstat household budget surveys suggest that only 33-37% of households actually receive them. The most common (and largest in size) are transport and housing benefits. Benefit recipients are mainly concentrated in urban areas. There is clear discrimination against the rural population in this respect. Analysis of the benefit system shows that subsidies for accommodation in resort and rest facilities are clear leaders measured by amounts per recipient, although they are the least widespread type of benefits. Comparison of average amounts of the most widespread benefits with average disposable income of households showed the following ratios in the fourth quarter of 1998: food subsidies are 2.8% of household incomes, transport subsidies – 1.5%, housing subsidies – 1.4%.¹²

Diagram 6. The amount of in-kind subsidies and privileges



This shows that while social benefits are formally widespread, the role of actually received benefits in relation to total disposal incomes of the population is insignificant. It should be added that household budget statistics do not take account of the majority of hidden subsidies¹³

¹² 'Obzor ekonomicheskoi politiki v Rossiye za 1999 god', Buro ekonomicheskogo analiza, Moscow, TEIS, 2000, p. 337.

¹³ Expensive housing provided free of charge, free medical care in elite health facilities, tuition of children in elite budget-financed schools, etc.

received by 20%-25% of the wealthiest population group, as these benefits are not represented in the household budget sample.

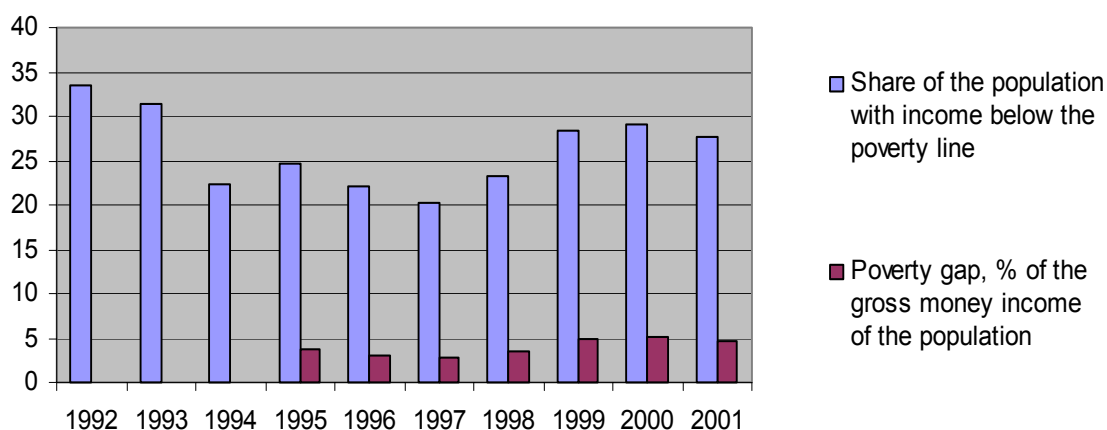
Our calculations show that in-kind privileges, as well as the majority of other social benefits, are to a greater extent available to non-poor population groups: 10% of the poorest households receive 2.6% of total amount of in-kind benefits, and the wealthiest 10% of households – 31.8% (see Diagram 6).

Under the Strategy of Russia's Economic Development until the Year 2010 (the so-called Gref Plan) the main directions for benefit reform will be abolition of unjustified benefits, transformation of a portion of benefits into their cash equivalent in wages, and reorientation of the social support system towards the neediest groups (targeted social support). In order to improve financing of social support, unfinanced benefit commitments will be abolished unless financing sources can be found and defined statutorily.

Poverty rate. According to the official methodology for determining the numbers of the poor, the group of poor people includes all those with income below the subsistence level. The worst years for poverty in the post-Soviet period were 1992, 1993, 1999 and 2000 (see Diagram 7). The poverty peak in 1992-93 was due to price liberalisation, which resulted in a decline of real personal incomes by 40%. In 1999, the high poverty rate was the consequence of the 1998 financial crisis.

In analysing the poverty rate indicators, it is important to take a closer look at the years 1994 and 2000. In 1994 the share of the poor declined dramatically (from 32% to 22%), apparently suggesting positive trends in the economy. In fact at this time Goskomstat changed the methodology of estimating household incomes. Prior to 1994, incomes were estimated using statistics based on household budget surveys. However, this failed to reflect the large share of incomes from the unofficial sector of the economy in the transition environment, and since 1994 the data of household budget surveys have been adjusted based on the macroeconomic balance of revenues and expenditures. If the old system of income estimation had still been used in 1994, then the share of the population below the poverty line would have been 34%. Conversely, in 2000 the change in the technique of calculating the subsistence level resulted in an increase in the poverty rate. If the methodology of estimating the share of the poor based on the 1992 subsistence level value had been applied to the 2000 data, then in the second quarter of 2000 the share of the poor would have been estimated at 28% (with the 2000 subsistence level it was 35%). Thus manipulation of the measurement technique has the effect of changing poverty rate figures dramatically.

Diagram 7. Share of the poor in overall population and the poverty gap in 1992-2000



Poverty gap. In addition to the share of the poor in the population, another important poverty indicator is used: the poverty gap, which shows the amount of money needed to bring the total income of the poor up to the poverty line (see Diagram 7). To estimate the poverty rate, we use the poverty gap indicator measured as a percentage of total income of the population. This enables the impact of inflation to be assessed. Analysis of changes in the share of the poor together with the value of the income gap makes it possible to estimate changes in living standards within the poor group. It is also important that the poverty gap indicator enables the main socio-demographic groups among the poor to be identified, thus helping to improve the efficiency of priority measures to alleviate poverty. Policy measures to reduce the poverty rate will only be effective if they help the broadest possible groups to escape from poverty and raise the living standards of the most needy.

Conclusions

The aims for the social policy at the current stage of transformation are wider than passive redistribution of limited goods and resources. Reduction of poverty and social differentiation, increasing effectiveness of social allowances, inducing complex character to social assistance which would take into consideration daily needs of the families, widening the market for social services and providing for the freedom of choice of citizens enjoying social services demand implementation of a range of institutional changes at least in two most important spheres.

1. Protection of the most needy families by:
 - Concentrating budgetary resources to help the most needy.
 - Changing orientation of budgetary flows from producers to those receiving help, that is gradual substitution of categorical privileges to compensational payments to population.
 - Perfecting the procedure of means testing.
 - Providing targeted social assistance including all types of social allowances and privileges previously offered to citizens (households).
 - Introducing responsibilities of those receiving assistance, e.g. to get a job, to use all opportunities of overcoming difficult situation.
2. Increasing effectiveness of social assistance and social services by:
 - Using market mechanisms in social services, developing competition and demonopolizing social sector.
 - Increasing the range of offered services.
 - Refusing to subsidize producers of services, introducing mechanism of payments under the condition of preserving compensations to families and people in need.
 - Providing for transparency of budgetary social expenditure, determining clear priorities of state support, developing control of the society over social sector institutions.

Appendix

Table 1. Changes in Real and Nominal Wages and Money Incomes in Russian Federation, 1992-2001*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1. Average wages in current prices (roubles, before 1998 thousand roubles)	0,548	6	58,7	220,4	472,4	790,2	950,2	1051	1523	2223	3240
2. Real wages, as % of 1991	100	42	43,7	51,3	47,8	65,5	70,4	42,3	45,1	54,8	67,1
3. Average per capita money income in current prices (roubles, before 1998 thousand roubles)	0,466	4	45,2	206,3	515,5	770	942,1	1012	1658,9	2281,2	3060,5
4. Real money income as % of 1991	100	33	39,6	56,4	61,3	75,1	82,1	47,9	57,7	66,2	74,6
5. Average pensions in current prices (roubles, before 1998 thousand roubles)	0,185	1,6	19,9	78,5	188,1	302,2	328,1	399	449	694,3	1024,1
6. Real pensions, as % of 1991	100	33,2	43,9	54,1	56,4	74,3	72	47,6	39,3	50,7	62,9
5. Consumer Price Index (CPI) (1991=1)	1	26,04	245	784	1803,2	2199,9	2463,9	4533,6	6165,7	7398,8	8804,6

* Calculated from *Sotsial'no-ekonomicheskoe polozhenie Rossii* (Social and Economic situation of Russia) December issues 1991-2002; section Tseny i Uroven' Zhizni (Prices and Living Standards)

Table 2. Expenditure on Benefits

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Expenditure on allowances - total, thous. Rub. ¹⁴										
Total, %	3 889	232 332	1 959 151	9 507 295	22 372 340	42 551 208	50 555 323	41 050 881	55 010 708	77 743 701
<i>including, % :</i>										
temporary disability allowance ¹⁾	21,3	26,9	44,6	38,9	32,3	34,3	33,4	36,7	35,7	42,8
from which industrial injuries and professional diseases	-	-	-	-	0,5	0,5	0,5	0,6	0,6	0,6
family and maternity allowances	77,3	55,7	49,4	52,4	53,6	49,6	46,5	35,3	37,7	33,8
from which:										
pregnancy and delivery ¹⁾	4,1	5,0	6,7	5,2	4,1	4,0	3,7	4,8	4,4	4,7
birth of a child ¹⁾	1,2	1,0	1,3	1,1	1,5	2,9	3,2	3,9	2,8	2,0
child care up to 1,5 of age ¹⁾	0,2	3,7	2,8	2,7	2,6	4,4	4,2	4,8	3,5	2,3
Disabled child care ¹⁾	-	0,02	0,05	0,06	0,07	0,1	0,1	0,2	0,1	0,2
monthly child allowance ²⁾	71,8	46,0	38,6	43,4	45,3	38,2	35,3	21,6	26,9	24,7
expenditure on prostheses and orthopedic shoes ²⁾	-	-	-	-	-	0,5	0,5	0,9
allowances and social aid for victims of radioactive contamination as a result of catastrophes on NPSs and other accidents ²⁾	0,3	1,4	0,3	0,2	0,7	3,8	5,5	8,8	6,7	5,1
compensatory payments for able-bodied taking care of disabled ³⁾	-	-	-	-	0,1	0,1	0,3	0,3	0,4	0,3
material aid ^{4); 5); 6)}	1,0	15,0	1,6	2,4	3,1	1,0	0,9	1,2	1,1	1,0
unemployment allowances ⁵⁾	-	0,8	2,0	4,4	8,3	8,0	9,6	12,5	13,6	8,0
lump-sum allowance for refugees and forced migrants ⁶⁾	-	-	-	0,02	0,02	0,01	0,01	0,03	0,02	0,01
transportation and luggage carriage of refugees and forced migrants ⁶⁾	-	-	-	0,01	0,01	0,01	0,0	0,0	0,0	0,0
funeral allowances ^{1); 3)}	0,1	0,2	2,1	1,6	1,8	2,6	2,8	3,5	2,7	1,9
other allowances	-	-	-	-	-	0,1	0,5	1,7	2,1	6,2
allowances expenditure share, as %:										
of GDP	2,8	1,2	1,1	1,6	1,4	2,0	2,0	1,5	1,1	1,1

¹⁴ before 1998 - mln. roubles

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
population aggregate earned incomes	4,7	3,3	2,5	2,6	2,4	3,1	3,1	2,3	1,9	2,0
Changes in expenditure rates for allowances, in per cent in comparison with previous year ⁸⁾	217,1	36,7	86,6	119,0	79,1	130,7	103,5	63,6	72,2	117,7
family and maternity allowances share, % of GDP	0,02	0,7	0,6	0,8	0,7	1,0	1,0	0,5	0,4	0,4
of population aggregate money income	3,6	1,8	1,2	1,4	1,3	1,6	1,4	0,8	0,7	0,7
Changes in expenditure rate on family and maternity allowances payment, in per cent in comparison with previous year ⁸⁾	963,9	26,5	112,8	126,4	80,3	119,3	97,0	48,2	77,3	106,5
monthly child allowance arrears, % of total sum of paid child allowances						225,4	181,0	103,4

¹⁾ Social Insurance Fund assets.

²⁾ Federal and local budgets assets.

³⁾ Pension Fund assets.

⁴⁾ Independent and other Trade unions Federation assets.

⁵⁾ Federal Employment Service assets.

⁶⁾ Ministry of Federation assets.

⁷⁾ Ministry of Labor data.

⁸⁾ Adjusted according to the CPI growth.

Sources:

Social'noe polozhenie i uroven' zhizni naseleniya Rossii (Social situation and living standards of the Russian population), Statistic articles / Goskomstat Rossii – Moscow, 2001, pp. 164-166.

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