



Special points of interest:

- The ideological shift away from communism shocked the economy, creating a large class of the poor.
- Poverty in Russia is shallow, with a large number of people located just above and just below the poverty line.
- Poverty is more likely to occur in regions with below-average output, high unemployment, and lower wage rates.
- Russia is home to the second largest number of billionaires in the world, yet in 2005 the minimum wage covered only 27% of what is needed to sustain a working-age adult.
- Russia's two largest cities, Moscow and St. Petersburg maintain poverty rates below 10% since 2002.



Where Did It All Begin?

Russia's economy drastically changed with the beginning of the disintegration of the Soviet Union in 1985. Gorbachev started this process with the introduction of the ideas of *glasnost* (openness) and *perestroika* (restructuring). The Soviet Union's economy became stagnant and later collapsed with tremendous inflation, budget deficits, and shortages of goods. Once Yeltsin officially declared the end of communism, the transition toward a new ideology proved to be chaotic with rapid decreases in GDP and output contraction. Many economic reforms, such as privatization, trade liberalization, and abolishment of price controls were undertaken to promote the shift through economic "shock therapy".

Many Russians were thrown into poverty as only 1.9% were living in poverty in late Soviet years, but 39%-49% were living in poverty in 1993. To make matters worse, privatization shifted enterprise power from the government to those with inside connections. Therefore, corruption and organized crime grew rampant in the 1990s.

Profile of the Poor

As mentioned before, small economic shocks have a magnified impact in throwing many into (negative shock) or pulling many out of (positive shock) poverty. However, other specific factors affect the poverty population. For example, major causes of poverty include low wages and low productivity. Also, those in specific industries like agriculture and education are more susceptible to becoming poor. More demographical trends of those in poverty are highlighted below.

The highest rates of poverty occur within the following characteristics:

- are children
 - ⇒ children typically have higher poverty rates than the national average and are more likely to be chronic poor

Russia solely took the responsibility of managing the former Soviet Union's external debt. The combination of high budget deficits and the Asian Financial Crisis of 1997 led to the Russian Financial Crisis in August 1998. Russia was hit hard by declining commodity prices, since 80% of its exports were petroleum, natural gas, timber, and metals, and the non-payment of taxes by energy and



manufacturing companies. Later in 2000, under Putin's presidency, Russia experienced returned stability and progress. The economy also grew for nine consecutive years since the crisis with the help of high oil prices, increasing domestic demand, and foreign investment. Despite this progress, Russia still faces challenges such as diversifying the economy, promoting small businesses, and developing corporate governance.

Russia's Poverty Problem

Russia is a very large and diverse country. As a result, it is best to look at its poverty in terms of consumption rather than income. Since 2002, approximately 20 to 25% of all Russians live below the poverty line.

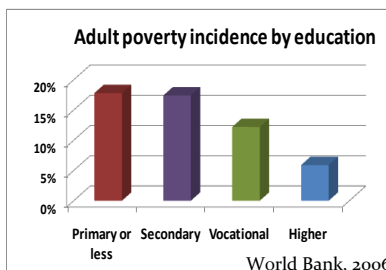
While Russia's poverty is widespread, it is still quite shallow. In reality, most of the country's poor are hovering around the poverty line. Because of this, changes in the country's economy can have very large impacts on the population. For example, if an economic crisis occurs, this could result in significant numbers of people falling into poverty. On the other hand, improvements in economic activity can result in a very large amount of the population leaving poverty.

Because Russia's poverty problem is neither deep, nor severe, the well-being of many citizens rely on the country's current policy and infrastructure. Russia has already seen significant improvements since the 1998 crisis. Much of this improvement can be attributed to increased government social spending under Putin's presidency.

The majority of the poor are included within the following characteristics:

- belong to working families
 - ⇒ 88% of the poor belong to families with at least one working member
- belong to families with children
 - ⇒ 2/3 of the poor belong to families with one or more children

Furthermore, disparities in asset ownership, returns to education, and access to publicly financed health and education bring about inequalities in income and consumption. Inequities also exist in access to basic infrastructure, such as running water and telephones. These inequalities aggravate poverty and reduce the positive impact of economic growth on poverty.

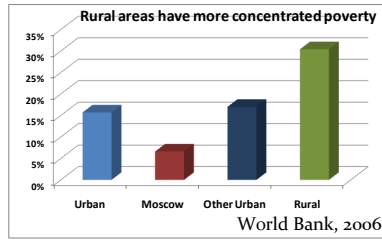
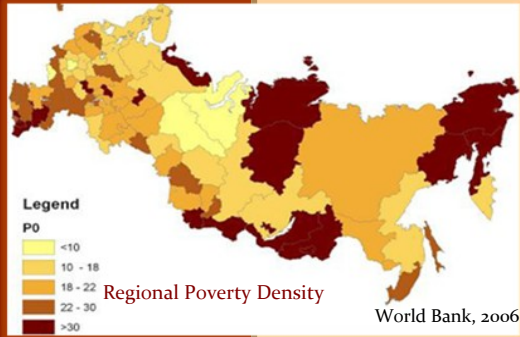


- has at most primary education
 - ⇒ The lowest income group has two to three years less schooling than the higher income group

Regional Aspects of Poverty

Poverty exists in both urban and rural Russia. Statistics since 2002 estimate that while 25% of the Russian population lives in rural areas, these areas account for 40% of Russia's poverty. Nevertheless, urban areas are more affected by policymaking and aid due to a centralized population.

The income gap in Russia varies between regions, with wider gaps in urban areas than rural areas. World Bank estimates that nearly 90% of the income inequality is within regions rather than between regions.



- Climate does not have as significant of an affect as perceived

Siberian regions rich in resources like oil, nickel, and coal generally have lower levels of poverty. Such regions include:

- Tyumen (Southwest)
- Kemerovo (South)

On the other hand, regions in Russia such as Dagestan in the Southwest corner and Tuva in the far South have poverty rates exceeding 40% and 70% respectively since Putin's economic plans began taking action.

Overall, the Russian poor are predominately located in the West as most regions in Siberia and the Far East are not very densely populated.

Regional poverty differences

Russia is the largest country in the world. As a result, its landscape is very diverse, including both desert and arctic regions. Analysis of the country's landscape finds two interesting poverty trends:

- Much of the regional variation is due to natural resources

"I think any citizen of Russia has a right to be proud of their country... I am not proud of so many people who are poverty-stricken"
-Vladimir Putin, 2006 BBC



Medvedev will face recurring economic challenges in his new presidency to improve the society's well-being.

What's Going On Today?

With Putin stepping out of office in 2008, his successor, Dmitry Medvedev, may not live up to his popularity due to potential economic troubles in the future. Due to Russia's undiversified reliance on oil and gas, the country could face downturns in consumer demand that has been driven by a natural-resources boom and lower commodity prices with a weakening global economy.

Russia also continues to encounter fundamental issues that prevent economic growth such as inadequate property rights, barriers to migration, inadequate competition, and weak public governance.

Corruption & Alcoholism

Corruption is a rampant problem in the economy with roughly \$37 billion each year being paid for bribes and unofficial fees. With the rich grabbing opportunities by money rather than merit, it is difficult for those in poverty to advance up the socioeconomic ladder.

A vicious cycle of widespread alcoholism and drug use is apparent in the country today as the impoverished feel helpless. In Russia, alcohol consumption and income are negatively correlated resulting in shorter life expectancy and poorer health status among the lower income groups.



Population Decline

Due to Russia's low fertility and high mortality rate as a result of economic turmoil, the population is decreasing at an alarming rate. Working-age men make up much of the dying population, putting further strain on impoverished families. To sustain a growing economy, such low population rates could be detrimental in the future.

Implications

The increase in government spending reduced Russian poverty in half to 20% between 1999 and 2002. Even though the country's improved infrastructure helped the standard of living, the gap between Russia's wealthy and poor has increased. Economic growth is increasing gross asset ownership and access to education. However, the country's

most wealthy are improving at much faster rates than those near the poverty line. For example, Russia's poor currently benefit from child allowance and social assistance programs. Yet, 50% of the allowance goes to the richest 60% of the population and only 30% of the allowance is reserved for the poorest 20%.

Given specific characteristics of Russian poverty, the following concerns must be addressed to continue improvements:

- The poor can be identified by location, demographics, and employment status with relative accuracy to design policies.
- Family policies should be a primary measure to reduce poverty as a majority of the poor are working families with children.
- Region-specific policies in combination of broader policies must be balanced to take into account specific regional disparities as well as cross-regional commonalities

