

# "Ruralization" of Poverty in Russia

The rural-urban poverty "divide" may reflect rural-urban labor market differences and be primarily driven by the working age population

*Christopher J Gerry, Eugene Nivorozhkin, John Rigg*

Since the dark days of Russia's 1998 financial crisis, economic growth has been impressive in both its breadth and persistence and has prompted a dramatic decline in the incidence of poverty for all socioeconomic groups. Taking the post-1998 reduction in poverty as our point of departure, and focusing in particular on the growing rural-urban divide, we examine the changing relative distribution of poverty. Aside from its relevance for economic efficiency, the incidence of poverty is also important from a social justice perspective since, if not all population sub-groups benefit from economic growth, policy interventions may be justified.

Our study is based on 53,970 observations drawn from the 2000-2004 rounds of the Russian Longitudinal Monitoring Survey. Our principal measure of poverty is constructed on the basis of a representative regional subsistence food basket, for a number of distinct demographic groups, adjusted for regional price variations.

Our analysis establishes that a substantial aggregate fall in poverty incidence has occurred — from 31.1% in 2000 to 10.6% in 2004 — and that the effect of the fall has been felt broadly across socio-economic groups. Indeed, irrespective of whether we divide the population according to gender, age, human capital, labor market status or household type, we observe a decline in poverty.

## Rural Population Accounts for over Half of the Poor

The decline though has been far from uniform. The improvements have been felt least strongly by the rural population, single adult households (with or without children), those without work or in low paid work and the less educated.

The most striking contrast is between those in urban areas, enjoying a 78.6% decline, and those in rural areas experiencing just a 47.3% fall. We find that, besides experiencing a higher poverty incidence, by 2004 the rural population accounted for over half (59%) of those in poverty (see Table). As a consequence, by 2004, Russian poverty had become a largely rural phenomenon.

Why might the rural population been unable to benefit equally from the rising tide of economic growth? Possible explanations abound. Rural dwellers have been faced with fewer economic opportunities, have faced restrictions in land use, have lost their brightest human capital to urban areas, have been neglected in relation to those in resource rich areas and remain surrounded by a decaying rural infrastructure.

## A Growing "Divide" between Rural and Urban Areas

Our analysis establishes that the shallower decline in poverty in rural settlements does not stem from changing population characteristics or shares; it is not dependent on the use of a particular poverty line; nor is it driven by the rapid expansions that have occurred in Moscow, St. Petersburg or other booming urban areas.

The proportionate poverty reduction across

all urban areas is found to be broadly similar and substantially higher than the aggregate rate. It is true that the sharpest decline was observed in Moscow and St. Petersburg but the overall impact of this on the growth in the urban-rural poverty differential is negligible, since poverty among individuals in Moscow and St. Petersburg accounts for less than 5% of total poverty.

## Divergence Driven by the Working Age Population

The labor market plays an important role in preserving and improving living standards. This being the case, the aggregate effect we observe may reflect urban-rural labor market differences. If so, then it is possible that elderly individuals in rural areas may not have fallen behind their urban counterparts. We do find that the decline in urban poverty among the elderly (85.9%) exceeds the corresponding rural decline (64.1%), and significantly so, though we also note that the difference in the extent of poverty reduction is closer than for working-age individuals. This is important since it indicates that the growing divergence we observe is primarily, though not exclusively, driven by the working age population.

Understanding the different dynamics of rural and urban poverty and their distinct relations with aggregate economic growth is crucial if Russia is to develop evenly and avoid those policies of "urban bias" associated with embedded pockets of poverty and social exclusion. In particular, such a comprehension is essential for the design of policy as well as for understanding the nature of Russia's economic development.

*Christopher J Gerry and Eugene Nivorozhkin are Economists at the UCL School of Slavonic and East European Studies. John Rigg is affiliated to the LSE Centre for Analysis of Social Exclusion. Full text of the paper is available at: <http://www.ssees.ac.uk/wp76sum.htm> and a revised version is forthcoming in the Cambridge Journal of Economics (2008). BT*

Poverty Rates in 2000 and 2004

	Poverty rate		% change in poverty rate 2000/2004	% of all individuals in poverty by sub-group (total=100)	
	2000	2004		2000	2004
Rural	39.3	20.7	-47.3	40.8	59.0
Moscow and St. Petersburg	18.4	2.7	-85.4	2.9	3.6
Other cities > 500,000	24.3	5.6	-77.1	20.8	12.5
Cities < 500,000	28.9	7.2	-75.1	35.5	24.9