POVERTY IN RUSSIA

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ABSTRACT. This paper is intended to shed light on the extent of poverty in the Russian Federation. We present estimates of poverty lines and poverty ratios derived from subjective questions used in a data collection for a large household panel (RUSSET). We estimate poverty using a subjective approach, where the level of the poverty line is derived using the opinion of the individual, rich or poor, on poverty. This approach differs from the objective approach to poverty, which defines poverty according to the opinion of experts. Three subjective poverty lines are presented: one the Financial Satisfaction Poverty Line, two the Leyden Poverty Line, and three the Subjective Well-Being Poverty Line. The first two poverty lines are based on subjective questions regarding income and economic welfare while the last concept focuses on satisfaction with life as a whole. The results obtained are compared with each other and with results derived using objective measures and official figures.

KEY WORDS: poverty, subjective poverty, Leyden approach, well-being, financial satisfaction, Russian Federation.

1. INTRODUCTION

What is the true extent of poverty in the Russian Federation? This burning question is being investigated by a growing number of researchers (see, e.g., Frijters, 1999; Lokshin and Popkin, 1999; Popkin et al., 1996; Ravallion and Lokshin, 1999; Zohoori et al., 1998). The official estimates are 20.8% for 1997 and 23.8% for 1998. These figures contrast with the impressions of journalists and other travelers in the Russian Federation who see a lot of conspicuous poverty on the street. It seems that there is a lot of confusion about this subject. We do not pretend to give a conclusive answer in this paper. Our intention is to shed some light on the question using a large and informative household panel data set (RUSSET), which was started in 1993. Most of our colleagues will know of the existence of the RLMS-panel, run by the University of North Carolina; the RUSSET panel data, organized by the University of Amsterdam is less well-known, yet it is comparable in quality to the RLMS.

A question on the extent of poverty presupposes an operational definition of poverty; despite this, and for understandable reasons, there is not a generally accepted definition of poverty. In Section 2, we discuss a number of poverty concepts, which are applied to the RUSSET-data set.
Poverty concepts are divided into *objective* and *subjective* measures. The difference between the two approaches is that in objective measures the poverty line in terms of income is defined by experts, while the poverty line in the subjective approach is derived from individual opinions of a population. It is doubtful whether monetary income is a good determinant of well-being in a society where there are a lot of transactions in kind. More fundamentally, the question may be posed: is money the primary determinant of life satisfaction? The obvious answer is no. It follows that we may distinguish between welfare and well-being, the latter being a wider concept, which includes variables that cannot be bought by money. *Welfare poverty* is then a lack of economic welfare, while *well-being poverty* is tantamount to a lack of well-being or life satisfaction.

The main result of our study seems to be that depending on the definition used, poverty ratios vary. Poverty incidence depends on the measurement approach, on the unit of analysis, and the choice of equivalence scale (Atkinson, 1991). For example, a number of studies realized in Western countries show that subjective estimators tend to be lower than objective poverty ratios (see, e.g., Van Praag and Flik, 1992; and Van Praag et al., 1997). Our study shows that this is not the case for the Russian Federation. Additionally, we find that both subjective and objective poverty ratios are much higher in the Russian Federation than in Western countries.

We discuss the different concepts and measurement of poverty in Section 2. We describe the data set which we use in Section 3. We present our estimates in Section 4 and in Section 5 we discuss the results and draw some conclusions.

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2. POVERTY: DEFINITION AND MEASUREMENT

2.1. Definition of Poverty

The first assumption on which any poverty analysis is based is *interpersonal comparability* of welfare or well-being. If the welfare of households A and B, say $U_A$ and $U_B$, cannot be compared, we are unable to say whether A is equal to, or better or worse off than B. Welfare can be evaluated by individuals on a scale that may be numerical, such as a 1 to 5-scale, or verbal, say a scale ranging from ‘very dissatisfied’ to ‘very satisfied’. Interpersonal comparability means that individuals or