

# Analysis: Economic Quandary Puts Life at \$199 Per Month at Risk

By [Howard Amos](#)

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**Andrei Romanenko**

Over Vladimir Putin's first two terms as president, the number of Russians living below the official poverty line dropped dramatically from 42.3 million in 2000 to just 18.7 million by 2007.

But then the sharp downward momentum came to an abrupt halt — and the figure has stubbornly refused to budge for the last five years.

In 2011, there were 18.1 million people surviving on less than 6,369 rubles (\$199) a month, the official poverty threshold defined by the State Statistics Service, which experts and some officials criticize as insufficient and even absurd.

Putin made it clear last month that reducing the number of very poor for the first time since

2007 was a priority.

“The number of those living below the poverty line is too big,” he told the State Council, amid the glittering gold of one of the Kremlin’s official rooms on July 17. “We are obliged to do everything necessary so that people have larger incomes.”

But the quantity of officially impoverished Russians actually increased during Putin’s presidential re-election campaign in the last months of 2011 and early 2012. According to the latest available data, 19.1 million people are currently living below the poverty line.

And few experts see how this number can be brought down as a battle rages around budgetary spending within the government and macroeconomic uncertainty prevails.

While today’s poverty rate of about 12 percent is low by global standards — and below that of some industrially and politically powerful countries including India and the United States — politicians, economists and foreign investors have kept a particularly wary eye on the dynamics of Russia’s poorest social group in recent months.

Even experts who dismiss the street protests that have been taking place since December as too dependent on a small, urban middle class to be able to force lasting political change point out that another economic crisis that generates mass hardship could create an explosive social mix.

The level of poverty is closely tied to government spending in Russia, as those most vulnerable are employed by the state in the low-paying health and education sectors or in other bureaucratic positions. Pensioners also fall into this category.

The amount of state expenditure on salaries and pensions is crucial to any further reductions in the poverty level, said Vladimir Tikhonov, chief economist at Otkritie brokerage in Moscow.

“[But] now they have a policy where they want to balance the budget,” he said. “Going forward, we are not likely to see a decrease in the poverty level.”

The World Bank predicts that Russia’s poverty rates will remain stable, or may see a slight decline, in 2012 and 2013.

These projections are based on an assumption of only modest income growth, a static unemployment rate, the disproportionate effect of food inflation on the very poor and the entrenched nature of poverty in specific regions and among specific social groups, according to Victor Sulla, an economist at the World Bank in Washington.

While incomes are notoriously difficult to assess accurately because of tax avoidance, poverty is particularly concentrated in rural populations and among the unemployed, families with children and those with a lower level of education.

There is also significant geographical variability. The North Caucasian republic of Ingushetia traditionally has the country’s highest percentage of people below the subsistence minimum, 36.2 percent in 2009, followed by the Altai region.

Of Russia's 83 regions, 58 have poverty rates in excess of the national average, according to a report published by the Organization for Cooperation and Security in Europe in March this year.

It is highly unlikely that the government would voluntarily curtail social spending, as this would force more people into penury and increase the likelihood of popular unrest.

In the face of an external shock, however, the government may not have a choice. A global crisis and a collapse in oil prices, triggered by an event such as the disintegration of the eurozone, would place severe stress on a budget that is heavily dependent on energy export revenues.

"Any major downward move in the price of commodities is bound to create macroeconomic problems, a rise in social tension and an increase in poverty," Tikhonov said.

The government's reliance on commodity exports has grown in recent years. The "break-even" oil price at which the budget is balanced has risen steadily since 2007, when it was \$23 a barrel, to reach \$115 a barrel last year.

"For some categories of people ... it is true that state spending brings [them] above the poverty line," said Ksenia Udayeva, chief economist at Sberbank, who was recently appointed to head the Kremlin's expert commission advising the president.

"So if we observe a certain type of public spending, you will see people becoming poorer," she said.

There are those, however, who see the debate about how many people are on one side of a subsistence minimum determined by federal and regional government as somewhat irrelevant.

Even in the face of a sputtering national economy or international financial problems, experts stress that one way of tackling poverty would be more flexible policies targeted at the very poor instead of hiking salaries or pensions across the board.

Means testing, in which a person's specific financial situation is assessed on an individual basis to determine the necessary social support, is one possible example of such an approach, Udayeva said.

The subsistence minimum used as the determinant of poverty is regulated by the Labor and Social Services Ministry and represents the supposed cost of meeting essential physical and cultural needs. Taking into account inflation, it is defined on a quarterly basis.

"The subsistence minimum is not designed for people to live off of, but for the state to manipulate figures," said Vyacheslav Ipatov, a local Duma deputy for the Communist Party in the town of Votkinsk in the Udmurtia republic, who took part in a stunt in which local politicians lived on the official subsistence wage for a month.

He lost almost 5 kilograms during the experiment in April, which permitted him to spend just 5,663 rubles, the local subsistence minimum.

A more viable amount would be closer to 20,000 rubles, Ipatov said, adding that he managed only by eating at friends' houses and taking food from his grandmother's vegetable garden.

"It's not enough to live, but to survive," he said.

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