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978-0-521-14835-1 - The Soviet Household Under the Old Regime: Economic Conditions and Behavior in the 1970s

Gur Ofer and Aaron Vinokur

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This book provides the most detailed analysis to date of the economics of the Soviet urban household sector during the 1970s. It contains nine studies covering the size distribution of incomes and wealth, the incidence and causes of poverty, the labor supply of women, division of labor among household members, and saving behavior. All these studies are based on a unique source of information: the returns of retrospective income surveys of Jewish immigrants to Israel and the United States. In each study, Gur Ofer and Aaron Vinokur employ a cross-sectional econometric analysis of data on individual households and in this they are unique among all Western and Soviet authors on the Soviet household sector. Ofer and Vinokur conclude that socialist achievements in the sphere of economic equality were rather modest. They also show that, even under the peculiar conditions imposed on Soviet households by the socialist system, they responded to economic constraints in a way that is predictable by ordinary Western-type models of household behavior.

Although it is essentially an historical study, *The Soviet household under the old regime* makes an important contribution to current evaluations of the conditions necessary for the smooth transition of the Soviet system. It sheds light on probable changes in household patterns and in entrepreneurship as well as on the refinements needed in the welfare and social security systems. This book will be widely read by students and specialists of Soviet studies, comparative economics, income distribution and women's studies. It will also be an invaluable reference source for government officials and journalists.

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THE SOVIET HOUSEHOLD UNDER THE OLD REGIME

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Gur Ofer
and
Aaron Vinokur

CAMBRIDGE UNIVERSITY PRESS

Cambridge

New York Port Chester

Melbourne Sydney

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CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore,
São Paulo, Delhi, Dubai, Tokyo, Mexico City

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org

Information on this title: www.cambridge.org/9780521148351

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First published 1992

First paperback printing 2010

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data

Ofer, Gur.

The Soviet household under the old regime: economic conditions and behavior in the 1970s / by Gur Ofer and Aaron Vinokur.

p. cm.

Includes bibliographical references and index.

ISBN 0 521 38398 6

1. Soviet Union – Economic conditions – 1965–1975. 2. Soviet Union – Economic conditions – 1975–1985. 3. Households – Soviet Union.

I. Vinokur, Aaron. II. Title.

HC336.23.023 1992

330.947'085 – dc20 91-4224 CIP

ISBN 978-0-521-38398-1 Hardback

ISBN 978-0-521-14835-1 Paperback

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To Bella, Mania and Dalia with love

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Acknowledgments

We gratefully acknowledge the financial support over the years of The Ford Foundation; the Israeli Academy of Sciences; The National Council for Soviet and East European Research; The Rand Corporation; the Office of Net Assessment of the Department of Defence of the U.S. Government; The Russian Research Center, Harvard University; The Soviet Interview Project; the Research Authority of the Hebrew University; the Jay and Lonny Soviet and East European Center of the Hebrew University; the University of Haifa, and The Kenan Institute for Advanced Russian Studies of the Woodrow Wilson International Center for Scholars at the Smithsonian Institute.

Credits with thanks for permission to reproduce some of the studies in the book are listed below. Joyce Pickersgill co-authored the chapter on Saving (chapter 3) and Yechiel Bar-Haim co-authored the paper that appears here as the Appendix; we thank both of them, too.

Our special thanks for advice and comments on some of the individual studies to Abram Bergson, Abram Becker, Joseph Berliner, Paul Gregory, Gregory Grossman, James Millar, Jacob Mincer, and a number of anonymous journal referees. We would like to extend special thanks to Konstantin Miroshnik, who oversaw the interview effort in Israel, and to Yechiel Bar-Haim who served as research assistant in the project for a number of years. Etko Leibovitch served during the last year both as research assistant and as editor of the revised drafts. The project of turning the individual studies into a manuscript would not have been at all possible without the dedication and energy of Maggie Eisenstaedt of the Maurice Falk Institute for Economic Research in Israel, who edited the text and tables, and compiled the various drafts of the manuscript in a uniform style and form.

After all this, need we remind the reader that all responsibility for the contents of this book is still the authors'?

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Sources

- Chapter 1 Originally published in *Final Report to the National Council for Soviet and East European Research* (prepared at Harvard University), 1984
- Chapter 2 Originally published as *Rand Report*, No. R-2359-NA, August 1980
- Chapter 3 Co-authored with Joyce Pickersgill. Originally published in *The Quarterly Journal of Economics*, August 1980
- Chapter 4
- Paper prepared for the *Second World Congress of Soviet and East European Studies*, Garmisch, October 1980
 - Originally published in J. Millar (ed.), *Politics, Work and Daily Life in the U.S.S.R.: A Survey of Former Soviet Citizens*, Cambridge University Press, 1987
- Chapter 5 Originally published in A. Inkels (ed.), *State and Welfare, USA/USSR*, University of California Press, Berkeley, 1987
- Chapter 6 Presented at the annual conference of the AAASS in Honolulu, October 1988
- Chapter 7 Originally published in S. Rosefield (ed.), *Economic Welfare and the Economics of Soviet Socialism: Essays in Honor of Abram Bergson*, Cambridge University Press, 1981
- Chapter 8
- Originally published in *Journal of Labor Economics*, vol. 3, no. 1, pt. 2, 1985
 - Originally published in *Journal of Comparative Economics*, vol. 7, 1983
- Appendix Co-authored with Yechiel Bar-Haim. Originally published in *Rand Paper Series*, No. P-6015, July 1979

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Prologue

The classical Soviet-type ‘socialist’ system as a social, economic, and political option for the future development of any human society is no longer viable. This seems to be generally agreed upon in the East, West, North, and South, although the ways and means of how to descend from some of its highest doctrinal and institutional paradigms are still far from clear. The countries of Eastern Europe and the Soviet Union, as well as China and many ‘socialist’ countries of the Third World, are struggling with the transition from the old system into an as yet unclear new one, or are trying to shift to a social variant within the range of a mixed market economy and the democratic political system of the Western hemisphere.

The studies assembled in this book, dealing with different aspects of the economic realities and behavior of the household sector under the ‘old (socialist) regime’, might nowadays be considered a purely historical endeavour, part of an effort to better understand the effect of the system on the life and behavior of its people, and the extent to which the system was able to attain some of its most important economic, social and ideological goals. All the studies assembled here relate to the 1970s, a period that *post facto* became known as the ‘period of stagnation’. They may, however, also shed some light on factors and phenomena that may have contributed to the later demise of the socialist system.

At the present time much attention is focused on the process of transition out of the socialist system. While most of the discussion is directed at the shift from central planning and allocation to the market, and on the ‘destatization’ or privatization of productive assets, there is also a fair amount of interest in the social implications of the transition and its likely effect on the level of welfare of society as a whole, on various social groups, and on individual households. In both cases it is important to assess the likely response of the population to change, the probable adjustment in its behavior, and the needed level of support. Some clues on these questions are provided in the study of patterns of household behavior and of the economic

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environment around the household sector under the old regime. For example, a study of patterns of household saving under the rather peculiar conditions of a socialist economy can provide some estimates on what to expect when ownership of real assets is legalized, when interest rates rise, and when the level of economic security declines. Likewise, the established level of income inequality can provide a base for studying the probable reaction of the population to wider income differentials, and of the need to overhaul and adapt the present welfare and support system.

The main lesson emerging from most of the individual studies is that household behavior can be explained by ordinary 'Western' behavioral models, i.e., that Soviet households respond to economic (and other) constraints in the same way as household everywhere. Under the particular conditions imposed by the socialist system, these responses may seem peculiar, but when conditions and incentives ever closer to those prevailing in the West, so too will the responses. In this respect, the main conclusion is one of optimistic expectations as regards the transformation of the Soviet economy, as least as far as household behavior is concerned.

Even with these possible benefits, the studies presented in this book are first and foremost an attempt to better understand the working of the socialist economic system in the sphere of the household sector. Most of the studies were originally prepared long before 1985 and did not deal either directly or indirectly with the ultimate fate of the system. The studies took advantage of the windfall of new information on Soviet society provided by the immigration of tens of thousands of families from the Soviet Union, first to Israel and then to the United States, in the 1970s. The shroud of secrecy and the lack of information, especially in the form of cross-section data of individual households on ordinary matters such as work-supply functions, income differentials and poverty, saving habits, not to mention activity in the second economy, did not allow the kind of penetrating behavioral studies common in the West.

With the advent of *glasnost*, more and more data on previously secret topics are being published, but most of these data relate to very recent years (post-1985), and reflect, at least partly, the effects of recent developments and recent changes.¹ With time, there may be opportunities to gain access

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to older data sources which could reveal more of the still hidden facets of past economic realities. Even so, the studies presented in this collection, together with other studies based on the Israeli and the American Soviet Interview Projects, ISIP and SIP respectively (some of whose results are reported here), and other similar efforts, may for a long time remain unique opportunities to understand the economic and social processes of the Soviet socialist system.²

This book contains nine separate studies, mostly based on ISIP. They reflect the economic situation in the Soviet Union in the early 1970s. Two of the studies also include results based on SIP, which refer to the late 1970s. All the individual studies were prepared over the period 1979 to 1988 and are presented here with minor editorial changes, mostly in order to reduce duplication. Some duplication remains, in order to preserve the natural development of the presentation in each chapter. Some of the studies have been previously published in journals and in various compendia, and others were presented at conferences or issued as research reports. The acknowledgment paragraph gives the exact publication information.

The decision to leave the studies basically in their original form was taken in order to avoid infusion of hindsight from the post-1985 developments into what was originally a contemporary research effort. A case in point is the long debate over the extent of repressed inflation in the Soviet Union under the old regime. The studies presented here on savings (Chapter 3) and on the second economy (Chapter 2), take a minimizing stand on the extent of repressed inflation in the early 1970s, a view that seems to have been strongly vindicated by recent events. The evolving deep disequilibrium and crisis in the consumer markets and elsewhere during the late 1980s can be credited mostly to post-1985 actions (Ofer, 1990).

One of the drawbacks of the presentation of the studies in their original form is that each is based on a somewhat different sample of the original populations of immigrants, and/or on different variants of adjusted or reweighted samples. The need to adjust the original samples stemmed from the fact that due to their composition most Jewish families come from urban locations in the European parts of the Soviet Union; therefore, their structure does not conform to that of the target population of the Soviet Union. The

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adjustment or re-weighting procedures are described below. Some of the studies are based on non-adjusted samples while others use adjusted ones, some are based only on the active (non-retired) parts of the samples, others use the entire samples. Finally, as mentioned above, most of the studies are based only on ISIP and two studies also on SIP. In each chapter there is a clear definition of the exact nature of the sample or sub-sample used. Let us point out here that under ISIP two sub-samples were created in two distinct stages of the study, a sample of 1,016 'normal and active' households, made up of two-parent families whose head was under retirement age and worked in the public sector. Later, a second sub-sample of 250 households was added, including singles, retired people, one-parent and other 'incomplete' families, both active and not active in the labor force.

The studies collected in this volume cover the economic activities of the Soviet urban household in the sphere of the second economy (Chapter 2) its saving behavior (Chapter 3), and various aspects of the household's labor supply function. Chapter 8 is devoted to the labor supply of women, while issues of the division of labor among household members are also dealt with in Chapter 2 (on the second economy) and in Chapter 7. The size distribution of wages incomes and wealth are discussed in Chapters 4–7. Following a general study on income and wage distribution (Chapter 4), there are more focused discussions on the distributive effects of the Social Consumption Fund, the Soviet welfare system (Chapter 5), and the incidence and causes of poverty (Chapter 6). Chapter 7 addresses both the distributive issues and the general topic of the economic status of women and discusses pay differentials between males and females. In doing so, the chapter also presents earning functions for both sexes and thereby provides an analysis of the causes of wage differentials and the major characteristics of the Soviet labor market in general. For the sake of brevity, a study focusing on earning functions was not included.

Chapter 1 of the volume presents an attempt to integrate the individual studies into a conceptual framework of the economic behavior of the household under Soviet conditions, as distinct from its behavior in a typical market economy. In doing so it also provides a summary of the main findings. Chapter 1 also discusses the main methodological problems of how to use a

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sample of mostly Jewish immigrants to study the behavior of the Soviet population and the remaining biases. Finally the Appendix chapter describes in detail the nature, structure, and characteristics of the sample of active households used as the basic sample for ISIP and compares it with the corresponding attributes of the target Soviet population (the urban European population), and whenever possible with those of the Jewish community in the Soviet Union.

At this point it is far from clear where the Soviet Union is heading, as a state, a society, an economic system. Wherever it goes, we hope the studies presented in this book will be included among those that provide a general benchmark of the point of departure into the new era.

Notes

1. Extensive information on wage and income distribution and on poverty was published recently among others in *Sotsialnoye Razvitiye SSSR* (1990) and in *Sostav Semi* (1990) as part of a multitude of new data on the economic conditions of the household sector and on the economic behavior of households.
2. The basic results of SIP are reported in Millar, 1987. Other major studies based on interviews of migrants are the Berkeley–Duke project on the second economy (for an updated bibliography see Grossman, 1990), and the German interview project based on interviews with German immigrants (see Dietz, 1986, 1987).