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Gur Ofer and Aaron Vinokur

Excerpt

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## Chapter 1

### Introduction: economics of the Soviet urban household in the 1970s

#### 1. Introduction

Much of our knowledge of the operation of any economic system is gained through the study of the records of individual economic units. Economists interested in household behavior (i.e., work, consumption, fertility), in the market behavior of wages and prices, and in distribution (i.e., wages, incomes, welfare) will turn to one of many available data bodies for records of household or firm behavior. This is so in many countries, including the Soviet Union, where household and firm surveys are conducted by both the central statistical authorities and individual social scientists. The government of a centrally planned system resorts more often to such surveys and records than do market economies. Nevertheless, in order to assure the secrecy of most results, there are severe limitations in the Soviet Union on the use of centrally collected records and on conducting independent surveys, and even more severe restrictions on the publication of detailed results (to say nothing of restrictions on access to the underlying data).

Secrecy and ideological inhibitions have also impeded the full development of theoretical models and statistical methods needed in the analysis of such records. Theoretical and statistical methods lag behind Western developments, as far as can be ascertained from published work. In most cases the analysis is confined, when information is released at all, to cross-tabulations of two or three variables. Secrecy also demands that in many cases no information is provided on the nature of the underlying data. It follows that in only very few cases do Western scholars gain access to the data sources, permission to conduct their own surveys, or an opportunity to reproduce the analysis done in the Soviet Union. Western scholars are thus almost completely deprived of one of the most important types of data needed to understand the Soviet system and the behavior of its main eco-

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conomic units. This is in sharp contrast to the increased volume of macro-economic information that was available to students of the Soviet economy between the mid-1950s and the early 1970s, when renewed restrictions were introduced.

The present study on the economics of the Soviet urban household sector is based on one of the few systematic micro data bodies that have become available to Western students in recent years (another is SIP, Millar, 1987): a full-fledged family budget survey conducted on a sample of 1,250 families who had emigrated from the Soviet Union during the 1970s. This survey deals with these families' economic situation in the Soviet Union prior to their having decided to leave, and covers such areas as work and wages, income from all sources, education, family structure, expenditures, housing, and wealth. The survey was designed to accommodate analysis through the application of Western economic theory and statistical methodology.

Such analysis can improve the knowledge and understanding of the Soviet economy in four ways: first, it provides additional basic information on the Soviet economy in areas where official data have been especially limited, e.g., on the extent of private economic activity, wage differentials across socio-economic vectors, and measures of income inequality. On the basis of the survey's returns, many figures already available from official Soviet statistics are independently estimated. These latter estimates are then used both as a check on the quality and accuracy of the sample's data and — vice versa — as a check on official Soviet statistics.

Second, the microeconomic data are used in the context of multivariate analysis to study the behavior of households in key aspects of their economic activity: for example, decisions on work and the amount of work provided, on consumption and savings, on 'second economy' activities, and on fertility. Microeconomic data add not only new information, but another dimension that provides an opportunity to understand better behavior under the particular conditions of the Soviet system. Likewise, the new data allow one to study thoroughly the determinants of key parameters in various Soviet markets. In this study we place special emphasis on the determinants of wages and wage differentials, but prices can also be studied in a similar manner.

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Finally, a number of macroeconomic topics are also studied, such as the determinants of income distribution and income differentials, the incidence of the welfare system, the importance and impact of the private economy, and the general issue of repressed inflation.

The main goals of the study are as follows: to study conditions of life and economic behavior in the Soviet Union of Jewish immigrants to Israel in order to better understand their absorption needs and problems; to compare the economic behavior of the Jewish minority in the Soviet Union with that of the general population; and to estimate family incomes and expenditures of Soviet urban families independently from official Soviet data and in greater depth.

Which economic theory should be applied to the study of Soviet household behavior? of the Soviet labor market? of the level of savings? An extreme (though not uncommon) view is expressed by Igor Birman. After presenting his evaluation of the dangerously large cash overhang, threatening to disrupt the consumer market at any moment, he states:

Why do most American Sovietologists disagree with me on the issue? Because they unreservedly believe in modern Western economic theories which, they think, are universal. Not true, since their *premises* are not universal, since the subject — a Western economy and/or an economy of the Third World — are very different from a Soviet-type economy. That is why scholars who follow the theory make mistakes in judgments on financial matters, standard of living, GNP accounts, etc. That is why a *special theory of the Soviet-type economy is badly needed*. (Birman, 1981, p. 162; italics added)

An opportunity is presented here to address the specific issue in dispute. It is not even clear that Birman really means that a different theory is needed, so that the quotation is used partly as a pretext for an exposition of the question. The absence of microeconomic data on the Soviet economy could have supported the assertion that Western economic models are inappropriate. It at least stood in the way of seriously testing such questions. Western economic theory is used in this analysis of both household behavior and market patterns under the working hypothesis that such a theory is indeed applicable and appropriate. The test of this proposition is another goal of the study.

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There is wide agreement that of the three major subdivisions of the Soviet system (the macro system, the production sector, and the household consumption sector), the latter is most similar to its counterpart under Western-type market systems. On the macro level, central planning and the market system in their pure forms are miles apart. Even so, several observers find some similarities between the *modus operandi* of Soviet production units and corporate production sectors in the West (see Berliner, 1959). In contrast, the immediate environment of the household in the Soviet Union is made up of market (or quasi-market) structures so that household members face choices and options that are similar in nature to those of households under a market system. They face set wages and have a large degree of choice regarding occupation, place of work, and even the amount of work. They are confronted with given prices and are free to choose how to spend their income — albeit with limitations — on goods and services available in the market or in the private sector. And they can make their own decisions on savings and on the size and development of their families. At least from the household's point of view, both the labor market and the consumer-goods market may be viewed as not too different in essence from those in a market environment (but see below).

One possible approach to the question of the applicability of Western theory to Soviet conditions is to check how every element of the economic optimization decision — the common element in all economic models of household behavior — fares under such conditions. We will limit the discussion to the question of possible differences in behavior under the assumption of *homo economicus* under both systems. We assume that Soviet households have a material utility function similar in its general characteristics to that of households in market systems, and that they seek to maximize it under their budget (and other) constraints. This does not mean that tastes need be identical in both systems — only that major wants have similar signs.

One abstract case where this may not be so is contained in the concept of the 'New Soviet Man'. Under full communism, such a new personality is expected to work out of inner conviction without or with less need for material incentives. If Soviet educational efforts succeed in pulling Soviet

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society in the direction of a higher level of altruism than is common elsewhere, then the basis for the market optimization model will be eliminated. In such a case, the efficiency in the labor market can be achieved with a somewhat lower level of wage inequality than realized in market systems. But the general formulation of the model remains unaffected.

This brings us to the examination of the nature of the constraints imposed on the decision-making units by different economic systems. In this area there is more room for the claim of a different model for the Soviet case. The absence of real markets, the central planning mechanism, the intensive intervention of the state in the determination of the product mix of prices and of rules of behavior are obvious grounds for such a claim. In weighing the burden of such claims on the nature of ordinary optimizing decisions, it is helpful first to distinguish between two kinds of constraints: (a) parametric constraints, specified mostly in terms of prices and wage rates given to the decision units in their decision-making process, and (b) institutional, administrative, and regulatory constraints that limit the field of choice allowed by the parametric constraints, or that over-ride choice altogether (e.g., rationing).

(a) Parametric constraints vary across countries, over time, and among different economic systems. The differences may reflect economic conditions, government policy, or the ways in which these are determined. Such differences result in different economic behavior, in different levels of the decision parameters — all other things being equal — irrespective of their initial cause. Government intervention in the determination of the level of the parameters cause changes in the economic behavior of families. Such interventions serve as indications that the authorities believe that some kind of optimizing model is working, and the resulting changes serve as proof that they are right. In such cases, government intervention supports the actual operation of the optimizing model and does not, as is sometimes argued, undermine its operation. If government intervenes, the final behavioral variables are expected to take different values than those arrived at in the absence of intervention. This is as true in the West as it is in the East, and governments in centrally planned economies use prices and other choice indicators as policy tools in many spheres to shape and influence economic

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behavior. In the Soviet Union, prices are set to affect consumption patterns, wage differentials are determined to create work incentives, minimum wages and welfare payments are set to influence work and fertility — all of which acknowledge rather than reject the relevancy of ordinary models.

(b) The second kind of constraint results in most cases from outside intervention or institutional structures that restrict action, thereby either changing the conditions under which individuals optimize, or strictly preventing them from reaching an optimal solution. But even here, the cases where optimizing behavior completely disappears cover only part of the entire range. In many cases, such constraints are merely another parameter that affects behavior according to the regular model: it must be taken into account, but does not alter the optimizing principles involved (see Portes, 1981; Pickersgill, 1980b). The equilibrium reached is said to be ‘constrained’ and the optimum points to be ‘second best’. In other cases, the constraint dominates the decision completely, leaving no room for maneuver for ordinary optimizing forces. An example may clarify the distinctions: a decision to limit the production of household goods that substitute for time needed to perform household chores will affect the decisions of women to seek outside work, household distribution of work, investment in human capital, and fertility — but not the model that must take the availability level as given. Thus, while the study of the supply of household goods does, indeed, require a different theory, the study of decisions on work, fertility, etc. will take that supply as given and go on to analyze these decisions with the regular model. It seems reasonable to assume that while such quantitative interventions also exist in the West, they are more frequent in the Soviet economy and impose more severe limitations on choices.

The case of savings that prompted the reaction of Birman is a case in point. What Birman is actually saying is that because of different conditions the level of voluntary savings by Soviet households should be lower than in a Western economy, when all other things are similar. In the Soviet Union, he claims, one does not have to save for a house, to pay for the children’s education, or for retirement, since these are all supplied by the state. In addition, investing in production assets is excluded and the rate of interest offered for savings is a mere 2 percent. From this Birman concludes that

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savings are accumulated involuntarily — and as such they jeopardize the stability of the system (Birman, 1981, Chapters VI, VII). We cannot go into a discussion of the substantive argument, but if one reads Birman's argument carefully one finds that it is based on an acceptance of the Western theory of saving rather than on its rejection. Birman assumes similar preferences but different conditions with different expected results — low savings — under optimal behavior. Finally, if savings in the Soviet Union are, indeed, mostly involuntary, then again established theories can analyze the potential pressures that they exert.

The same kind of argument applies to the analysis of wage differentials in the labor market. True, wage rates are determined in the first place by state organs. But considering that the supply of labor is largely in the hands of households, and that people can choose jobs and can, rather freely, change jobs, these facts exert pressure on the labor market to adjust wages in order to accommodate the supply and thus to come closer to a market situation. Therefore, the general human capital approach can be used to study wage differentials (as, indeed, suggested by some Soviet economists; see, for example, Rabkina and Rimashevskaja, 1972; McAuley, 1979, pp. 186–88). The results are expected to reflect special Soviet conditions, like the schooling system, as well as the possible impact of government intervention.

In conclusion, it should be emphasized that the application of Western economic theory to the study of Soviet household behavior is used as an hypothesis to distill those elements that fit the models and those that have to be accounted for outside the models.

**3. The sample, the data, and biases**

The data for this study come from returns of income survey questionnaires of 1,250 Jewish Soviet families who emigrated to Israel in the mid-1970s and reported retrospectively on their lives in the Soviet Union during their last 'normal' year there. This last 'normal' year, before life started to be affected by the decision to emigrate, turned out to be (for most families) 1972, 1973, or 1974 in about equal shares. Therefore, 1973 was chosen as the reference year for most comparisons with Soviet data.

The twenty-six-page questionnaire includes questions on place of



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residence; family size and structure; educational attainment; work status, experience, and position of all adults (17 years of age or more) in the family. Each family reported in great detail on the income of each working member from wages and on all other sources of family income; on expenditures by type, item, and place of purchase; on savings, possession of durables and other assets; and on housing conditions. All the questions were 'closed' and related solely to the life of the family being interviewed. They all related to facts of life — not to ideas or opinions.

The interviews were conducted by interviewers and all entries were recorded by them. An average interview lasted about 90 minutes. All the interviewers were themselves Soviet immigrants who had arrived in Israel a few years earlier, and most of them had academic degrees. This may explain why there were very few refusals to be interviewed and why, in the great majority of cases, the information was obtained with no difficulty.

With few exceptions, the sample was not preselected nor prestructured. Interviews were held 'randomly' in the lay meaning of the word, with only general guidelines formulated as the interviews were accumulated. One such guideline was to try and locate as many families as possible with blue-collar workers. As the fieldwork proceeded and 'enough' observations from certain occupational groups were accumulated, interviewers were instructed to discontinue interviewing families belonging to these groups.

The decision not to preselect the sample rested partly on budgetary and logistical considerations, and partly on the fact that the final sample was designed to represent more than one target population, each with a quite different structure: the population of migrants, the Jewish population in the Soviet Union, and the Soviet urban population — the sector which is examined herein. The survey compares the demographic, social, and economic composition of the survey population (SP) with the same characteristics of the Jewish population (JP) and urban population of the Soviet Union (UP).

The predominantly urban character of Jews in the Soviet Union precludes the possibility of studying the Soviet rural population in any systematic manner. The sample and study are therefore confined to the urban sector. Hence, two further restrictions were preimposed on the sample.



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(a) Only families of European extraction were included — because of the difficulties entailed in establishing reliable communications with Georgian and Bucharian families from the Asian republics. (b) In the first stage of the survey only two-parent families whose heads were of working age (15–60) and working were included (totaling 1,016 families). At a later date an additional 250 household units, singles and one-parent families, were interviewed, using almost identical questionnaires. Most of the present study is confined to the first stage, the exceptions being the discussion of income distribution, the welfare and social security systems, poverty, and women, topics where the exclusion of the latter population segment would seriously bias the results.

Clearly, the direct estimates derived from the samples are not accurate estimates of the Soviet European urban population (UP). Two types of problem arise: (a) to what extent the data collected truly describe the lives of the families interviewed, and (b) how can these data be used for inferences on the Soviet urban population at large.

Errors or biases of the first type could have resulted from imperfect recall, from difficulties in relating fully to a ‘normal’ year and of avoiding the interjection of various changes connected with the decision to emigrate, as well as from intentional misrepresentation of facts. The nature and structure of the interview, the emphasis on complete anonymity and on the academic (non-government) nature of the project may have reduced the incidence of some (but by no means all) of the most common reasons for misreporting. On the other hand, the fact that the survey was conducted outside the Soviet Union may have raised the level of reliability of answers (on income, for example) as compared with similar surveys conducted in the Soviet Union, either by the government or by academic agencies. Some errors, intentional or not, may be and have been detected through consistency tests in cases where the same data was sought through different and independent sets of questions. Still, possible biases remain, and their significance must be evaluated in relation to each issue under investigation.

Even if the information gathered is accurate, it clearly reflects the sample rather than the target population. The demographic and economic characteristics of the sample are reasonably similar to those of the immigrant

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population or the European Jewish minority in the Soviet Union; many remain far removed from those of the target population. In very general terms, the sample population (SP) has a much higher level of education, higher occupational structure, and higher earnings and incomes than the urban population (UP); and was concentrated in larger urban centers and in the western parts of the Soviet Union annexed since 1939. Demographically, however, the differences between SP and UP are much narrower, although SP families seem to have fewer children.

The main characteristics of SP and UP are presented in Table 1.1.<sup>1</sup> We will discuss this comparison further in the following sections and explanatory notes. Let us simply note here that the very high proportion of families from the post-1939 Soviet areas reflect the immigration structure to Israel at the time the survey was conducted. We consider this an oversight on our part — we should have obtained a much higher proportion of families from Russia proper. Still, it must be pointed out that so far we have failed to identify one equation in which the subject's residence in the post-1939 areas made any difference to the results.

How can the sample data be used to study UP? A distinction must be drawn between two situations: one in which the composition of SP is biased, but where all the characteristics represented in UP are also represented as non-zero cells in SP. An example is the distorted occupational structure of SP: proportionally, SP has fewer blue-collar families than UP (even though about a quarter of SP are blue-collar workers). In such cases the bias can be overcome in different ways, depending on the questions being studied and on the nature of the statistical analysis used. When the behavior of a certain subsection of the population is investigated, the structural bias becomes irrelevant — for example, when studying blue-collar workers in isolation. When the question being investigated lends itself to most kinds of multivariate regression analysis, the effect of the structural bias is sharply reduced because what mostly counts is the representation of all the relevant characteristics and not so much their relative weights or frequencies. Finally, when true UP averages or distributive statistics are sought, SP can be and has been reweighted so as to conform to UP, the target population. Reweighting can be done as long as the true distribution of UP by the relevant variables is