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The Impacts of Transition on the Household  
in the Provinces of Kazakhstan:  
The Case of Aktyubinsk Oblast

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## **Abstract**

This paper discusses the main economic and social changes that have affected the well-being of households in Akytubinsk oblast in Kazakhstan and describes the general responses of the households to these changes. The analysis is based on secondary statistical data and on the results of a detailed household survey conducted in the oblast during 1996–1997. The paper suggests that the economic policies that were designed to bring about an improvement in economic efficiency in production and consumption units have, at least in the short-run, contributed significantly to the complete or partial withdrawal of households from the official socioeconomic structures. This withdrawal has occurred extremely quickly and has acute implications for further policy development. A number of these policy measures, aimed at accelerating the reformalisation of the local economy, are discussed.

**Keywords:** economic reform and structural adjustment, household responses, public policy measures.

**JEL Classification:** D1, D6, R2

# 1 Introduction

Few published studies appear to have properly addressed the issue of the impacts of economic reform in transition countries at the household and individual levels. In general, academic observers, as well as practitioners, have not provided a great deal of insight into the extent to which changes in the general socioeconomic environment affect the social and economic behaviour of the individual or household living within it. This paper attempts to provide a very broad outline of the main changes in the economic and social spheres that have effected the well-being of households and individuals in Aktyubinsk oblast, Kazakhstan and to trace the general responses of households to these developments. The paper concludes by presenting a number of general conclusions which highlight socioeconomic policy issues not yet adequately addressed by either local or international actors.

Aktyubinsk oblast, a vast territory located in the *Steppe* lands in the north-western part of Kazakhstan (Figure 1), was not socioeconomically unlike many regions of the former Soviet Union. With a total population of almost 800,000 in the 1980s, Aktyubinsk became an important agricultural area following rather intensive development by Stalin. Industrial activities were also relatively well developed, with textile and food industries together accounting for about 40% of the total value of industrial production in the decade before reforms began. Rich deposits of chrome, oil and gas began to be exploited in the 1970s and 1980s and the importance of these industries started to grow significantly. The oblast has traditionally been an important transport node linking Asian and European parts of the former Soviet Union. In line with most regions of the Soviet Union at the time, general economic indicators concealed an exceptionally inefficient allocation of resources (both functionally and geographically), poor labour productivity, low to indifferent quality, and low levels of innovation (Dixon, 1995).

The rationale given for the transformation of economic activity to market-driven practices most often relates to increasing efficiency in resource allocation and in the activity of economic agents and to satisfying consumer preferences. The mechanisms by which these objectives were to be achieved in Kazakhstan, as in other states of the former Soviet Union, were grounded in the release of prices, the privatisation of state enterprises and the formulation of a legal framework which facilitated market-driven economic activity. These reforms were initiated in earnest in the beginning of 1992 with the release of a whole range of prices of consumer and industrial goods. The process was reinforced in October 1993 with the beginning of the mass privatisation of state enterprises. In the period 1993–1996 consumer prices in Aktyubinsk oblast increased almost 25-fold and the prices of industrial



Figure 1: Location of Aktyubinsk oblast, Kazakhstan

products almost 31 times. By the end of 1994, almost 94% of planned privatisation for the period was complete in the oblast.

## 2 Structural adjustment of economic activity

Any attempts to provide an incisive overview of the restructuring of local economies in the Commonwealth of Independent States is fraught with difficulty. Firstly, the nature of the Soviet economy was such that production volumes (not values) were the over-riding factor in the monitoring of economic performance. The socio-economic policy instruments which are typically used in a market economy (such as taxation policy and other systems of financial incentive or disincentive) were not used to any meaningful extent in the Soviet system. Correspondingly, statistics which would contribute to the formulation and evaluation of these policies were not systematically collected. In addition, the growth in unofficial (or shadow) economic activities presents a special difficulty in accurately establishing the scale and scope of economic restructuring in the transition period. With these limitations in mind, a broad picture of economic performance can, nevertheless, be painted using the available data.

## 2.1 Agriculture

The value of agricultural production declined by over 40% in the period 1993–1995 and the area used for agricultural production halved. The vast majority of the decline in the value of agricultural output was due to a fall in the value of animal production which was in large part due to the growth in the frequency of barter transactions in the agricultural sector. Animals tended to be most commonly bartered for grain seed, fuel supplies, spare parts and services and livestock were often provided in place of monetary wages to employees. These barter transactions occurred as a result of the liquidity crisis suffered by many farms. The illiquidity of large farms was exacerbated by the general breakdown of trade relations between the farms and local food processors. In the period between the latter part of 1993 and 1997, farms increasingly tended to bypass the processors in the oblast and to sell their produce (unprocessed) directly on the city markets. This arose because of the inability of processors to offer prices which cover the production costs of the farmer, let alone allow him to make a profit.

Privatisation of state farms was almost completed in Aktyubinsk oblast in April 1996 but seems to have led to marginal short-term changes in the organisation and orientation of farm production. According to privatisation agreements made in the period between 1992 and mid-1996, production was to be maintained according to previous practices (range of products, etc.), social services guaranteed by public means, and environmental protection ensured. More importantly, perhaps, privatisation of farms did not give farm management the right to sell the land (land has remained state property) or, correspondingly, to use the land as collateral in credit arrangements. Poor access to even short-term credits for purchase of seed, fuel, machinery purchase or repair, helped to accelerate the decline of the sector.

In the process of privatisation of state and collective farms, individuals and families who had been employed on these farms were given the right to acquire individual plots of land from the main body of the state farm for private uses. According to the register of the Aktyubinsk private farmers association, there were about 850 such farms in the oblast in April 1996. The first private farms were established in 1991, and, for a period of 2–3 years, the conditions for such new farms were rather favourable. However, the high inflation of 1993 and, perhaps, the increasingly negative attitudes towards individual farmers have made the establishment of private farms quite difficult. Individuals may be apportioned land of poor quality in a remote location if the management of the privatised state farm does not support them and the practical impossibility of obtaining loans at reasonable terms acts as a severe obstacle to the development of private farms. A further

block on the development of small private farming is the lack of the general skills required for agricultural production at this level.

In 1996, the average salary in the agricultural sector was 3,229 tenge (less than \$45) per month or about 40% of the oblast average. It is not uncommon for many farms to have salary payment arrears in excess of two years. Household responses to the acute shortage of monetary income will be discussed in more detail later.

## 2.2 Industrial performance

At the start of the reforms, industrial production in Aktyubinsk oblast was dominated by light industries (particularly textiles), food processing, ferrous metallurgy, machine building and metalworking and fuel industries. The total value of industrial production in Aktyubinsk oblast declined by about 35% in the period 1993–1995 mostly as a result of large declines in the volume of output in the important light, food, and machine-building and metalworking sectors (Table 1). The collapse of the food industry, as noted earlier, is particularly serious in the context of its central importance to the economy as a whole and to the agricultural production sector. However, it has also impacted strongly on the economic geography of the oblast having brought economic activity in the formal economy to a standstill in small towns outside of the oblast centre heavily dependent on the food processing industry.

The fuel (production of oil, gas, coal, etc.) and ferrous metallurgy sectors have performed well in terms of output volumes as the release of prices and the international nature of the industries have served to minimise the short-term negative effects of the reform.

The narrow industrial base is a particular weakness of rural areas. Privatised state farms or agro-industrial companies, together with collective farms, are often the only enterprises paying salaries and taxes in some rayons. In the whole of 1996, for example, the total value of industrial production in the relatively well developed Oktyabrsk rayon<sup>1</sup> (excluding the local oil producer) was just over 0.5 million tenge (or about \$7,000). Clearly, alternative employment opportunities in rural areas, heavily dependent on a small number of economic units are minimal.

Average monthly salaries in the industrial sector were 10,322 tenge (approx.

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<sup>1</sup>A rayon is an administrative unit with a geographical area which is less than its national and regional (oblast) counterpart. Rayon authorities, in general, are below their respective oblast and republican authorities in the hierarchy of administrative structure.

Table 1: Index of the volume of industrial production by sector in Aktyubinsk oblast, 1990–1995

	1990	1991	1992	1993	1994	1995
Electrical energy	100.0	106.3	108.1	103.6	86.1	56.5
Fuel industry	100.0	105.4	102.3	101.7	102.6	96.0
Ferrous metallurgy	100.0	102.8	101.4	76.3	85.2	92.5
Non-ferrous metallurgy	100.0	85.3	109.9	116.7	123.4	132.2
Chemical and petrochemical	100.0	97.3	83.9	48.7	59.2	67.2
Machine-building & metalwork	100.0	104.4	96.6	97.1	54.9	42.1
Timber and paper industry	100.0	102.3	109.1	117.5	57.9	55.9
Building materials	100.0	90.3	80.0	69.7	39.2	35.9
Light industry	100.0	101.7	94.3	75.9	51.2	20.1
Food industry	100.0	88.5	61.2	58.0	36.6	21.5

Source: Regional Statistics Office, Aktyubinsk oblast

\$140) in 1996 or about 40% more than the average for the oblast. However, it is important to note that the average wage in industry is inflated somewhat by the higher than average salaries in the fuel and ferrous metallurgy sectors.

### 2.3 Transport and trade

The transport sector also appears to have been negatively affected by the reform process. The volume of cargo shipped declined by about 22% in the period 1994–1995 and has been suffering similar declines between 1993 and 1997 (Oblast Statistics Office, 1997). Passenger traffic declined less rapidly (by about 5% between 1994–1995). The decline in cargo transport is related to the fall in agricultural and industrial production, price increases and illiquidity problems in the sector.

The trade sector has shown signs of extreme change and development over the last 3–4 years. In 1995, the official value of retail turnover was about \$95 million, of which, 78% was conducted by the non-state sector. The equivalent turnover figure for 1993 was \$50 million. The value of trade in public catering outlets in 1995 was of the order of \$8 million of which 72% was conducted in the non-state sector. Perhaps the most important feature of the development of the trade and catering sector is the growth of unofficial activity within it. While this, of course, is not quantifiable, it is undoubtedly very significant. Some large farms, for example, consider that the unofficial sale of the product of household plots on the oblast markets is unfair competition for their farms. Also, the relatively low official unem-



ployment rate (discussed below) is unquestionably related to these unofficial trading activities.

### 3 Employment

Total employment in Aktyubinsk oblast has fallen from just over 300,000 to less than 293,000 in the period 1993–1995 (a decline of 2.5%). This figure, however, conceals some very important adjustments in the employment structure of the oblast over the period (Table 2). The shares of total employment in industrial production, construction and in agriculture and forestry have declined significantly (particularly after 1993 when the privatisation of these sectors began in earnest) and reflects, at least to some extent, the declining output within these sectors. By contrast, those sectors which had not been subject to extensive privatisation (e.g. transport and communication, and health and social security) have generally retained their previous shares of employment. Employment in the education, science and culture sector has, in relative terms, declined but this may be explained, to a large extent, by the closure of many cultural and scientific institutions and kindergartens rather than the loss of large numbers of staff from mainstream educational institutions.

Clearly, however, the development of the trade, public catering and wholesale sectors is the most significant development within the employment situation of the oblast in the last three years. The increase in trade turnover, as noted earlier, is reflected in the rapidly increasing share of the sector in total employment. The rapid growth of this sector is unquestionably related to its previously highly underdeveloped nature, to its relative profitability, and to the dearth of alternative employment opportunities in the traditional agricultural and industrial sectors. Most of this increase in trading and public catering has occurred in the oblast centre.

Employment figures also help to provide a good indication of the increasing importance of entrepreneurial activity. The number of self-employed workers, for example, increased from less than 18,000 in 1993 to about 47,000 at the end of 1995 (a very large proportion of which are engaged in trading activities).

Table 2: Structure (% composition) of employment in Aktyubinsk oblast, 1993–1995

	1993	1994	1995
Industry	18.8	16.1	14.4
Agriculture and forestry	22.5	21.6	18.6
Transport and communication	10.9	11.6	10.9
Construction	9.1	8.4	6.6
Trade, public catering, wholesale	8.4	14.0	21.4
Information services (incl. geological surveying)	0.2	0.1	0.8
Housing, municipal and other consumer services	2.8	3.2	2.9
Health, social security and physical culture	6.7	6.7	6.7
Education, science and culture	14.7	13.0	12.1
Finance, credit and insurance	0.6	0.6	0.6
Administration	2.8	2.1	2.6
Other activities	2.5	2.6	2.4
Total	100.0	100.0	100.0

Source: Regional Statistics Office, Aktyubinsk oblast

## 4 Unemployment

The rate of official unemployment in the oblast has increased dramatically since the end of 1995 as a result of changes made by the government to encourage people to register. In November 1995 the government significantly increased benefit from 300 tenge (approx. \$5) per month to 1,200 tenge (approx. \$18). Although the revised rate is still low in terms of providing a subsistence income, the size of the increase meant that people became more inclined to register. As a further inducement to register the government provides medicines for registered unemployed (although it excludes those who have not registered for this medical assistance). These steps have had the effect of more than doubling registered unemployment to 5% in the oblast in the period 1995–1996 (Table 3). The real rate of unemployment, including suppressed unemployment, is likely to be somewhere between 12–15% for the oblast as a whole. In the worst affected rural rayons the rate is probably approaching 30%.

Table 3 shows the differences in unemployment rates among rayons. The southern rural rayons of Baiganin, Irgiz, Isatai, Uil and Shalkar have the highest rates of unemployment and together account for 44.5% of total official unemployment in the oblast. Economic conditions in these rural rayons are not favourable; outside of the farms there are few opportunities for alternative economic activities while the farms themselves are continuing to reduce their largely unskilled labour forces. By contrast, those rayons to the north of the city of Aktyubinsk exhibit low percentages of unemployment.

Table 3: Registered unemployment in Aktyubinsk oblast, May 1996

Rayon	Numbers employed ('000)	Numbers unemployed	Registered unemployed as % of employed
Aiteke Bi	8.0	404	5.1
Aktyubinsk	12.0	340	2.8
Alga	13.0	1041	8.0
Baiganin	9.0	1604	17.8
Bogetkol	10.0	169	1.7
Irgiz	6.0	1286	21.4
Isatai	4.0	445	11.1
Lenin	7.5	124	1.6
Martuk	11.0	100	0.9
Mugodzhar	11.0	330	3.0
Oktyabrsk	18.0	958	5.3
Temir	12.0	565	4.7
Uil	6.0	600	10.0
Hobda	9.0	187	2.1
Chromtau	20.5	386	1.9
Shalkar	13.3	2260	17.0
Aktyubinsk city	111.0	3156	2.8
Oblast total	281.3	13955	5.0

Source: Regional Employment Centre, Aktyubinsk oblast

Martuk rayon, for example, located near the Russian border, has the lowest rate of unemployment and is one of the best developed rayons with a sound agricultural base.

Data from the local Employment Centre shows that registered unemployment is largely made up of women and young people. Women make up nearly two thirds of the unemployed and young people under the age of 29 account for almost 46% of the total. The oblast has one of the highest rates of youth unemployment in the country.

## 5 The social sphere

In the Soviet Union, enterprises and other organisations employing labour had the task of providing social support for the able-bodied and working-aged population. The extensive pension system took care of the non-working population. Besides enterprises having to provide social security and income transfers, the third cornerstone of the Soviet social policy was the free, and universally accessible, social services.

Infrastructure related to household units and human capital, as inherited from the former Soviet Union, has been closely connected to the production units (especially in the rural areas). These production units were charged by the state to include social protection and social services in their balance sheet. They have provided heating, electricity and water for their workers homes, they have maintained kindergartens, schools, libraries, first-aid stations, clubs, cultural houses and provided retail outlets. As the production units slide into depression, the basic social infrastructure also falls into greater decay. Although these enterprises are gradually divesting many of their previous social responsibilities to local administrations, the economic decline (and consequent lack of taxation revenues), combined with the lack of capacity and experience in district administrations, often serves to exacerbate the problem of social service and social security provision.

The discussion in this section outlines the most significant impacts of the transition in the 'social sphere' and presents some of the trickle-down effects at household and individual levels.

## **5.1 Social security**

The provision of social security in the Soviet Union relied on two basic conditions. The first condition was full employment: every able-bodied citizen was expected to participate in wage labour, and correspondingly, social support could be channelled to the working population via the workplace. The second condition was the stable prices that were set by central planning. Price stability allowed the level of the wages, pensions, family allowances, allowances for disabled, etc. to be determined so that they were, in principle, sufficient for the purchase of the daily necessities, given, of course, that these goods were available in the official system of distribution. In a market economy these two conditions are seldom present and in the transition period in Kazakhstan these two conditions have been very rapidly and comprehensively eroded.

### **5.1.1 Pensions**

Although the value of pensions is adjusted to inflation every quarter, the pensions have nevertheless lagged behind price increases and their real value has decreased rapidly. In 1996, the average monthly pension, according to official statistics, corresponded to about \$45. This sum is obviously too low to secure even a minimum standard of living. Pensioners, in most cases, need additional sources of income to supplement the pension. The source

of this additional income is usually children and other family members, monetary income from work, or the production of foodstuffs at home. In the small towns and villages of Aktyubinsk oblast, garden plots have a crucial importance for the retired, as the pension does not always suffice for the purchase of even the basic daily foodstuffs. The pensioners whose health does not permit the toil of gardening or other additional productive activities and who do not have the support of their family are in a very difficult situation.

### 5.1.2 Family allowances

Family allowances are also available in Kazakhstan for low-income families. To be eligible for the allowance in Aktyubinsk oblast in April 1996, a family was permitted to have an income not higher than twice the size of the minimum wage, that is, 1,280 tenge (or \$19.70) per month. The allowances in the system that derives from the Soviet era have been severely devaluated by inflation. In April 1996, the basic allowance in Aktyubinsk oblast for children younger than three years was 475 tenge (\$7.30) and for children between three and eighteen 494 tenge (\$7.60). Special allowances are paid for handicapped children; non-working mothers of large families are also granted special allowances. In addition, a lump-sum allowance is paid at the birth of a child; the size of this lump-sum allowance in Aktyubinsk oblast in April 1996 was 1,520 tenge (\$23.40). Unlike the payment of the other family allowances, the payment of this lump-sum allowance is not dependent on the income of the family. In the regions that are defined as ecological crisis areas the compensations are higher. There are two categories, 'a crisis area' (*predkrizisnoe sostoyanie*) and 'an ecological catastrophe area' (*ekologicheskaya katastrofa*); in the crisis areas, the above mentioned figures are multiplied by 1.2 and in the catastrophe areas the corresponding coefficient is 1.5. The rural southern rayons of the oblast benefit from these additional benefits.

An additional recent development has been the establishment of an assistance package for families whose fees for housing services exceeds 30% of their income. The monetary value of this assistance is equivalent to the extent to which services fees exceeds 30% of income.

### 5.1.3 Unemployment benefit

Unemployment benefit is one of the more recent and comprehensive additions to the system of social protection in Kazakhstan. In Aktyubinsk oblast, applicants who have lost their jobs receive 50% of their average basic wage

for 36 weeks of unemployment. New entrants to the labour force receive only the minimum wage (which, in April 1996, was only 640 tenge or \$9.80 per month) for a period of 3 months.

The payment of the unemployment benefit is organised through the local employment centres. Every working-aged citizen that is without work and is registered in an employment centre as a job-seeker is eligible for assistance. In 1995, 65% of the registered unemployed in Aktyubinsk oblast received unemployment benefit. A small number of unemployed also receive help in kind; the employment centres in Aktyubinsk oblast provided such help to approximately 2% of unemployed households in 1996. The unemployment benefit system, thus, covers only a minor part of those actually unemployed.

In addition to paying unemployment benefits, the employment centres actively promote and offer professional training and requalification schemes. In 1995, 9% of the registered unemployed in Aktyubinsk oblast participated in such schemes. Furthermore, employment centres organise temporary work schemes for the unemployed. In 1995, 3% of the registered unemployed participated in these public work schemes.

The low level of the compensation is an even more obvious problem in the unemployment benefit system than in the case of the pensions. The level of the benefit is also a major reason for the low rate of registration at the employment centres. A further reason is the high cost of mobility in the rural areas where the benefits may, in some cases, not even cover the cost of the trip from the village to the rayon employment centre. Still another important reason for the neglect to register is the capacity of 'unofficial' sectors of the economy to absorb the labour force which has become redundant in the official economy.

## 5.2 Social services

In the Soviet Union, social services, such as child care, health services or recreational services, were arranged both by the public authorities and by the enterprises. The extent of the enterprises participation in social service provision varied across localities. In general, however, social services in rural areas and in company towns were provided to a proportionally greater extent by the production units. A typical collective farm, for example, would be responsible for the provision of education (to secondary level), medical services, and recreational and cultural facilities. As the transition towards a market economy proceeds, social assets are being gradually transferred from the enterprises to the public authorities.

### 5.2.1 Education

The decline in economic output and the collapse of taxation revenues are causing severe difficulties to the educational system. Whilst educational institutions have, in general, been able to pay the salaries of the teachers, most have had to dramatically cut expenditure on textbooks, new equipment, and repair and maintenance of classrooms or buildings. Whilst salaries have generally been paid, their real value has been declining significantly since 1991 (the average salary in education was about \$75 per month in 1997) leading to a rather high turnover of teachers. In particular, teachers of foreign languages, chemistry and physics have the opportunity to earn higher salaries in enterprises, or other organisations, and in these subjects there is a lack of qualified teachers. In the rural areas, where living conditions are often less attractive than in the cities, there is a tendency amongst teachers to migrate to the larger towns in search of employment causing a decline in educational expertise in the rayons.

The provision of kindergarten services played a special role in the matrix of social services and in the organisation of family life in the Soviet era. Almost universal and inexpensive accessibility to kindergartens allowed the majority of families with young children the freedom to attend work and to draw on a second salary. In the beginning of the 1990s more than half of the children under school age had daytime care in the kindergartens. By April 1996, the equivalent figure was about 20%, due to a 40% reduction in the number of kindergartens in the oblast (Table 4). Of those closed, a disproportionate share (75%) were located in rural areas. In addition, those that remain open are now forced to charge fees which more closely correspond to the total operating costs (in 1996 more than \$360 per child per year). This has increased the attractiveness to young mothers (especially in rural areas) of remaining in the home rather than being faced with the additional burden of the cost of the kindergarten.

The most common response to the financial difficulties in all institutions (with the exception of primary schools) has been to enrol students on a fee-paying basis. In 1996, for example, 13% of the students in vocational schools, 30% of the students in the oblast pedagogical university and about 15% of the students of the Medical Academy, paid fees. Fees, in general, range from \$350 to \$1,200 per academic year.

Table 4: Changing provision of day time care for children in Aktyubinsk oblast, 1990–1995

	1990	1991	1992	1993	1994	1995
Pre-school institutions	458	467	453	424	362	285
Attending children (000s)	53.2	50.3	44.3	39.4	30.3	23
% of total children aged 1–6	53	51	46	n.a.	24	20

Source: Oblast education authorities, Aktyubinsk oblast

### 5.2.2 Medical services

The free provision of health services to the population in the Soviet Union was a central political priority and the network of services provided was extensive. The service network is built mainly around hospitals, although the network of ambulatory services is also widespread. Almost all hospitals have outpatient services, usually called polyclinics. In some cases the hospital and polyclinical outpatient services are administratively and physically separate although they represent the hospital and outpatient services of the same sector. The proliferation of first aid stations represents a unique feature of medical services in Kazakhstan. These stations are both widespread and rather well staffed, although economic difficulties are increasingly forcing reductions in the range and quality of services offered by these units.

The financing of health services has undergone major structural changes in those areas where former state enterprises have withdrawn from financing. In general, financial management in the sector is rather poor and constitutes one of the major problems of health care management in the oblast. Expenditures that rely entirely on oblast financing are, in every case, severely constrained. In general, the financial constraints have hit non-personnel costs such as medicines and equipment costs. Some service units in the oblast, however, report substantial cuts, or plans to make cuts, in the number of personnel employed. As a result, households are now forced to purchase almost all medicines (when they are available) and to pay expensive fees for medical assistance when the patient is not a compulsory medical insurance policy holder. The overall result has been a steady decline in usage of medical services as indicated by data on hospital services (Table 5).

The data presented here clearly indicate difficulties associated with the provision of hospital services, particularly in the rural rayons. The total number of hospitals has declined from 89 to 85 in the period 1990–1996 and all hospital closures have occurred outside of Aktyubinsk city. Despite the maintenance of the basic infrastructure of the service, the number of hospital patients declined by about 24% in the oblast as a whole and by 18% in



Table 5: Hospital services, 1990–1996

Aktyubinsk oblast	1990	1992	1994	1995/6
Hospitals (number of)	89	89	88	85
Patients (number of)	162,600	144,100	125,800	120,800

  

Aktyubinsk city	1990	1992	1994	1995/6
Hospitals (number of)	8	8	8	8
Patients (number of)	37,600	33,400	30,000	29,600

Source: Oblast health authorities, Aktyubinsk oblast

Aktyubinsk city (despite medical indicators illustrating a declining state of health in the oblast).

### 5.2.3 Housing

The bulk of the housing stock in the Soviet Union was allocated by the local administration. Major enterprises, also, had their own housing stock which was allocated to their workers. The proportion of housing stock belonging to enterprises varied across different localities. In 1990, approximately 30% of the housing stock was in private ownership in Aktyubinsk oblast. This privately owned stock consisted of one-family houses and was located mainly in the rural areas. By the end of 1995, approximately 85% of the total housing stock had been privatised in the oblast.

Privatisation was accomplished by means of the voucher system whereby citizens are allotted ‘housing coupons’ which confer the right to free privatisation of their own apartment. The allocation of housing is currently left entirely to the market and no comprehensive public housing policy appears to exist. Subsidised credits are available for the purchase of a home, but given that a two-room apartment in Aktyubinsk city costs approximately \$6,000, and the average salary of a state employee is about \$90 per month, only few people, who have not already privatised an apartment, have access to the housing market. Young families are particularly affected.

## 6 Impacts on the household

The rationale for the reform process is grounded in the assumption that market economics can guarantee an increase in the living standards of society as a whole by improving the efficiency of the allocation of economic and human

resources and by providing a stimulus (the 'market') to the efficient management of these resources within economic units. However, economic change, usually designed to induce increased welfare for the totality of society, is almost always accompanied by a reduction in the well-being of particular segments of that society. The enormous restructuring of economic activity which has occurred in Kazakhstan in the last number of years has, in the same way, negatively impacted some parts of its society more than others.

The discussion that follows, derived from a household survey undertaken by an EU Tacis technical assistance project addressing social impacts in Aktyubinsk oblast (Brophy, Piirainen, and Kaser, 1996), attempts to provide an insight into the scale of impacts of the socioeconomic reforms on the average household in the oblast. It considers public perception of the magnitude of these impacts and attempts to link the importance of various social impacts to various segments of the population.

## 6.1 Social impacts in the average household

On average, inflation was ranked highest in terms of the size of impact over the last five years by the households surveyed (Table 6). Interestingly, the impacts of price rises appear to be greatest in the city where, perhaps, there is a lower degree of self-sufficiency (especially in food products) and a greater reliance on monetary income than in the countryside. The difficulties associated with decreasing total income occupy third position in the list of socio-economic impacts. This, too, appears to be highest in the city and fully corresponds with respondents' stated views of inflation.

The declining certainty of obtaining housing was the second highest ranked concern of respondents in the oblast as a whole. Surprisingly, perhaps, this concern was more prominent outside of the main population centre (Aktyubinsk city) although demographic developments in the period 1991-1996 (see Section 7) may have freed an adequate number of apartments in the city to render the problem less acute at the present time.

The impacts of economic transition on the labour market (as described earlier) are reflected in the high ratings attached to unemployment and the fear of losing one's job. Outside of the city, where unemployment is highest, unemployment itself has created more hardship than the fear of losing one's job. By contrast, the population of the city is more concerned with the lack of security in their current work situation which is ranked below only inflation and income decline in their list of main concerns. This phenomenon is further reflected by the fact that 72% of respondents in the city (in a separate

Table 6: Socio-economic impacts of transition in Aktyubinsk oblast, 1991–1996

	Average rating on a scale of 0–10	
	Aktyubinsk city	Aktyubinsk oblast
Inflation	9.5	7.6
Reduced certainty of obtaining housing	4.8	6.7
Decrease in total income	8.3	6.6
Unemployment	6.3	6.4
Fear of losing job	7.4	6.0
Decline in medical services quality and availability	4.9	5.9
Decline in water quality and electricity supply	4.2	5.8
Increased cost of water and electricity supply	5.3	5.7
Reduced support to invalids, pensioners and war veterans	6.6	5.7
Increased cost of medicine and medical services	3.3	5.0
Decline in quality of transport services within Kazakhstan	2.2	4.6
Decline in the quality and accessibility of education services	1.5	3.8
Reduced possibilities to holiday outside of Kazakhstan	3.8	2.4
Family break-up due to emigration	0.6	1.3
Reduction of leisure time	1.5	1.1
Introduction of educational services fees	1.2	0.9

Source: Brophy, Piirainen, and Kaser (1996)

question) expressed dissatisfaction with their current job. The equivalent figure in the rural rayons was only 60%.

It should be noted that the high rating attached to inflation, the reduced certainty of obtaining housing, decreases in total income and unemployment are all undoubtedly a function of the fact that these impacts affect very large proportions of the population. Income levels, inflation and housing clearly interest everyone, while unemployment, and the fear of unemployment of one member of a household, may also affect the material welfare of its other members.

One would not expect this to be true of social services provision to the same extent. Declining medical or educational services, for example, generally affect only those who require them. It is notable, therefore, that respondents, on average, attached quite a lot of significance to the perceived decline in

quality and availability of medical services. While it should be noted that the availability and usage of medical services in Aktyubinsk oblast has traditionally been relatively widespread (and, therefore, the perceived impacts greater), all evidence suggests that the decline in medical services has had a greater negative impact on the general population than developments in any other social service area. Indeed, any changes in the provision or cost of educational services is not deemed to have any notable impact. The decline in the quality and availability of medical services is perceived to be especially important outside of Aktyubinsk city.

## 6.2 Incomes and poverty

As noted above, the decline in the monetary welfare of the population, caused by nominal income increases which are lower than the rate of inflation, is top of the list of concerns of the questionnaire respondents. Evidence of this decline can be obtained from secondary statistical data on wages: in 1992, for example, an average monthly salary was the equivalent of roughly \$150; in 1995 the corresponding figure had fallen to less than \$97. Further evidence of the low income levels can be derived from the survey results<sup>2</sup> (Table 7).

In April 1996, almost 83% of respondents claimed to have a total income of 4,000 tenge (\$60), or less, per month. At the other end of the scale, only 2.4% of respondents claimed to have an income above 10,000 tenge (\$150). There is little doubt that current trends are leading to increasing shares of total income being concentrated in fewer hands. It is interesting to note, in this context, that 38% of respondents considered that income differences between individuals was a natural phenomenon. Almost 45% absolutely disagreed with this proposition.

Data on the sources of incomes provide a more useful insight into household activities in the transition period (Table 8). The data in Table 8 show the main income sources for an 'average' household in the oblast, where the average is calculated as an aggregate of all segments of society (including workers, students, pensioners, unemployed, etc.). A relatively high proportion (60.3%) of household incomes are still derived from the main workplace while income from additional, or occasional, work contributes a further 3.7%. As noted earlier, the contribution of the sale of produce (vegetables, fruit, etc.) from private plots is very significant, being the second highest source

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<sup>2</sup>The discrepancy between claimed figures and official statistics may be explained by two main factors. Firstly and most obviously, individuals may understate their actual income for fear of taxation repercussions and secondly, official statistics are compiled using data supplied by enterprises which may not always truly reflect the extent of non-payment and 'in-kind' payment of salary.

Table 7: Total incomes and income distribution in the Aktyubinsk oblast, 1996

	Percentage of respondents
< 2000 tenge	35.8
2000–4000 tenge	47.1
4000–6000 tenge	9.6
6000–8000 tenge	3.8
8000–10000 tenge	1.3
10000–12000 tenge	0.4
> 12000 tenge	2.0

Source: Brophy, Piirainen, and Kaser (1996)

Table 8: Income sources in the Aktyubinsk oblast, 1996

	% of total income
Income from main job	60.3
Income from other jobs	1.3
Earnings from occasional jobs	2.4
Income from the sale of produce of private plots	7.2
Income from private business	5.9
Financial assistance from parents and relatives	4.2
State social benefits and payments	4.6
Pension	12.2
Other sources	1.9
Total	100.0

Source: Brophy, Piirainen, and Kaser (1996)

of income from productive activity. In terms of state contributions, pensions remain most important, contributing 12.2% to an average household income. Financial assistance of parents and relatives contributes almost as much (4.2%) to average household incomes as state social benefits and payments (excluding pensions).

### 6.3 Impacts on particular population segments

Previous sections have intimated that, in broad terms, the negative impact of reforms have been greatest among pensioners, large families, and unemployed. The current section attempts to provide some insight into the factors most affecting these groups in the five years following the beginning of reforms.

### 6.3.1 Pensioners

As indicated earlier, the average pension in Aktyubinsk oblast in 1997 was about \$45 although this could vary depending on the place of previous employment, time served, etc. The survey indicates that, in addition to pensions, over 40% of all pensioners receive additional miscellaneous benefits/privileges (the equivalent figure in the city is 25%). The most common source of these additional benefits is the enterprise/collective farm/state farm where the pensioner previously worked (65%) and the social security office (32%). These benefits typically take the form of once-off monetary payments, foodstuffs at privileged prices, or additional benefits for invalids, war veterans, etc. In total, more than 89% claimed that the total value of all benefits was 3,000 tenge (\$45) per month or less. No respondent indicated that total benefits were greater than 6,000 tenge (\$90). Almost 94% expressed some degree of dissatisfaction with the level of benefits provided, although less than 46% expressed absolute dissatisfaction. It should also be borne in mind that many pensioners have access to additional sources of income which are outside of the social security system. Most commonly, these additional incomes arise from paid work (especially prevalent in the rural areas) and the production and sale of home-produced food products.

Pensioners appear to have very strong views on a relatively small number of impacts which directly impinge on their quality of life (Table 9). Not surprisingly, reduced support to pensioners, invalids and war veterans is perceived to be the greatest cause of hardship over the last five years. Similarly, given the relatively frequent usage of the medical service by pensioners, it is not surprising that the perceived inadequacy of the service (in terms of cost, quality and accessibility) was also strongly expressed. Corresponding to their concern about the reduced support for pensioners, inflation and the decline of total income seems to have led to particular hardship for this group.

### 6.3.2 Large families

More than 25% of all respondents in the oblast claimed to have three children or more. The equivalent figure in Aktyubinsk city was just over 18%. Just over one-third of respondents in the oblast as a whole claimed to receive child benefits. The equivalent figure in Aktyubinsk city was almost 75%. The total value of these benefits amounted to less than 1,000 tenge (or about \$15) for 65% of respondents. In Aktyubinsk city almost 75% claimed a benefit of less than 1,000 tenge which, undoubtedly, reflects the smaller family size in the city. No family received benefits greater than 2,000 tenge.

Table 9: Socio-economic impacts of transition in Aktyubinsk oblast, 1991–1996

	Average rating on scale 0–10		
	Pensioners	Large families	Unemployed
Inflation	8.9	8.2	8.5
Reduced certainty of obtaining housing	4.7	9.2	7.6
Decrease in total income	8.3	8.4	8.7
Unemployment	6.6	5.9	8.4
Fear of losing job	2.6	4.9	6.0
Decline in the quality and availability of medical services	8.4	7.1	6.6
Decline in quality of water and electricity supply	8.3	8.4	8.4
Increased cost of water and electricity supply	8.9	8.7	8.1
Reduced support to invalids, pensioners and war veterans	9.0	5.2	5.2
Increased cost of medicine and medical services	8.9	7.3	9.0
Decline in quality of transport services within Kazakhstan	5.6	5.5	6.2
Decline in quality and accessibility of education services	4.6	4.8	4.3
Reduced possibilities to holiday outside of Kazakhstan	5.2	4.3	7.3
The break-up of family due to emigration	2.1	2.3	2.6
Reduction of leisure time	3.4	3.2	2.9
Introduction of fees for educational services	5.1	5.6	5.2

Source: Brophy, Piirainen, and Kaser (1996)

Only 2% of respondents expressed any degree of satisfaction with this level of benefit and over 61% were completely dissatisfied.

It has already been suggested that families with three or more children comprise one of the most vulnerable social groups in the transition process. Not surprisingly, the reduced certainty of obtaining housing is by far the most serious concern amongst large families (Table 9). This issue appears to be most significant in the areas outside of Aktyubinsk city and may reflect both lack of housing and the larger family size in the countryside where it is not uncommon for three generations of the same family to live under one roof. The reliability and cost of water and electricity supply is also a major issue for large families, as is the problem of declining incomes and increasing

prices. Unemployment does not figure highly in the list of main concerns (especially in the rural areas). This probably is largely due to the protection offered against the effects of unemployment by the large extended family (see Section 8).

### **6.3.3 Unemployed**

Survey results indicate that 9.2% of all respondents in the oblast claim to be unemployed. Taking the number claiming to be unemployed as a percentage of the labour force (i.e. excluding pensioners, students and dependents) the figure increases to 11.8%. The equivalent figures for Aktyubinsk city are 10.3% and 14.2% respectively. It should be noted, however, that these figures are likely to include individuals who are officially registered as unemployed and those who have been temporarily, or permanently, made redundant from their work in the local enterprises or farms. The figures provided, therefore, probably reveal a fairly true picture of the actual situation in terms of the numbers not in gainful employment. The stated average size of the unemployment benefit among respondents is approximately 1,470 tenge (or about \$21) per month.

According to the survey results, the unemployed have, overall, suffered more from most of the socio-economic impacts listed in the table than the population in general (Table 9). The significance of particular impacts are also different from the average household. In particular, increases in the price of medicines and medical services, despite public interventions, have had the most serious negative impact on the unemployed over the last five years. The decline in total income, inflation and unemployment itself were also ranked highly on their list of most serious concerns. Interestingly, the reduced certainty of obtaining housing was substantially lower on the list of main priorities than for the population as a whole.

## **7 Demography and the formation of a new economic geography**

The social and economic movements outlined above have had a fundamental impact on the social and economic behaviour of households in the oblast. At the general level, these impacts may be illustrated by data relating to broad demographic developments. In 1995, the total population of Aktyubinsk oblast was approximately 751,000. Over 46% of the total population were located in vast rural areas accounting for a population density of just



Table 10: Population dynamics of Aktyubinsk oblast, 1989–1995

	Total Population (000s)	Urban (% of total)	Rural (% of total)
1989	747.1	54.5	45.5
1991	758.4	54.7	45.3
1993	760.2	53.8	46.2
1995	751.0	53.8	46.2

Source: Oblast statistics office, Aktyubinsk oblast

2.6/km<sup>2</sup> for the oblast as a whole. The city of Aktyubinsk had a population of almost 260,000 people.

The summary data presented above conceal a recent period of tremendous instability in the structure of the local population. Table 10 presents the main features of this demographic change in the period 1989–1995. The total population of the oblast has experienced considerable swings of growth and decline over the past six years. While the oblast population grew by almost 1.8% between 1989 and 1993, the subsequent two years saw a decline of more than 1.2%. The urban-rural balance has also been shifting: a trend towards increasing urbanisation of the population was reversed following the beginning of earnest economic reform in 1992–1993. On the evidence of this basic data, one could be forgiven for assuming that the declining proportion of the total population living in urban centres indicates that the negative impacts of reform have been deepest there. However, closer analysis of population movements reveals a more complex picture which can be explained by a combination of three main factors.

First, rather large scale emigration has had a profound impact on demographic structure in the last five years. Net migration, consistently negative over the period, increased from –6,200 in 1991 to –10,800 in 1992 and to a peak of –15,200 in 1994. The vast majority of emigrants were ethnic Russians, Ukrainians, and Germans who primarily lived in the urban centres of the oblast (and particularly in Aktyubinsk city). Aktyubinsk city itself, with a population decline of almost 3.3% between 1991 and 1995, accounted for most of the decline in the total urban population of the oblast. The fact that towns suffered more from the outflow of people than rural areas is, therefore, more an accident of the history of settlement of other ethnic groups throughout the oblast than a reflection of superior economic conditions in the countryside.

Second, the economic fortunes of a small number of important urban centres *did*, in fact, decline extremely rapidly after the beginning of the reforms and

led to rather significant emigration. The population of the town of Alga, for example, declined by 8.7% in the period 1991–1995. This is undoubtedly due, in large part, to the effective closure of the single large enterprise in the town. Alga, however, is one of the few exceptions of a rayon centre being severely hit by emigration. Most rayon centres maintained rather stable populations over the period, and centres like Shelkar and Emba registered increases in numbers as a result of a flight from the surrounding smaller settlements.

Third, changes in the natural increase in population conspired to shift population distribution more towards the rural areas. While the death rate increased by a staggering 25% in both urban and rural areas between 1991 and 1994, the birth rate in the urban centres declined more quickly than in the countryside (urban birth rates have declined by 20% compared to a 10.8% decline in the rural areas). Whilst, at the general level, these changes reflect a decline in economic prosperity throughout the oblast, they do not necessarily indicate more attractive economic conditions in the rural areas, but are rather more likely to be a function of a variety of socio-cultural differences between urban and rural populations.

As highlighted in the preceding paragraphs, the economic reform process has not had equal impacts in all geographical locations. The discussion so far has, in a general sense, indicated that rural areas have particularly suffered economic and social hardships as a result of the reform. Agricultural production has halved, the food processing industry (much of which is located in the rayons) has collapsed, and the economic linkages between the two have been shattered. The dearth of economic alternatives for those displaced by the crumbling agro-processing sector has led to exceptionally high unemployment. The economic collapse has reduced local taxation revenues and even basic social service provision in the rural areas is threatened.

As a result, a new system of economic centres and peripheries has been forming after the disintegration of the Soviet Union. During central planning, company towns like Alga, for example, located 50 km south of Aktyubinsk city, were granted privileged positions by means of the subsidies bestowed on the economic activities that took place there. As the economy becomes exposed to market forces, this privileged position can no longer be supported and a town like Alga assumes a place in the economic periphery (Piirainen, 1996). In the market environment, new growth centres are evolving, depending, in the first place, on the formation of markets and the buildup of market demand. Another important factor that may contribute to the development of such economic nodes is the presence of important raw materials. In the Aktyubinsk oblast, the oblast capital, being the only major city and, thus, the only significant market, is the obvious potential growth cen-

tre in the market environment. The town of Khromtau is another potential growth centre because of the rich chromium deposit in the district. Also, the railway junction town of Oktyabrsk, 120 km south of Aktyubinsk city has similar prospects to become a growth centre due to the oil and gas deposits in the rayon. On the other hand, the more remote rural areas in the south of the oblast are subject to an increasingly rapid process of peripheralisation and impoverishment.

The formation of this new economic geography, assisted by the lifting of the restrictions on the free movement of people, generates a flow of migration towards the centres. In the town of Alga, for example, population has been steadily declining from the beginning of the 1990s. The total migrational flows have, however, been larger than the aggregate numbers suggest. Part of the population that has migrated from the town of Alga (mostly to either Aktyubinsk city or to Russia or Germany) has been replaced by the inflow of rural migrants from the surrounding villages and from the impoverished rural districts in the south. Similarly, in the villages of Alga rayon, the outflow of population is, at least, partly compensated by the inflow of migrants from the even more disadvantaged southern districts. For the new migrants, the town of Alga, in spite of the difficult economic situation of the town, offers new opportunities because of the vicinity of the growth centre, Aktyubinsk, and the good transport connections. The housing market is also a decisive factor: the low prices of housing in Alga in comparison with Aktyubinsk city (on average about 3 times lower) makes the town relatively attractive for southern migrants.

The general danger for rural rayons in the oblast is the creation of a vicious circle of regression which could threaten peripheral settlements arising from rural exodus from the dying villages. There is already clear evidence of this, for example, in the Khromtauski rayon where the rayon centre has been officially moved from Novorussiski to Khromtau mining centre as a result of the drastic decline of the old rayon centre and the growth of the mining town.

## 8 Household defence mechanisms

Households in Aktyubinsk oblast, especially those in areas where the impacts of transition are greatest, appear to have the characteristics of highly independent production and consumption units that are first and foremost concerned about the well-being and survival of their own members. The transition has installed a collective way of life, not created and imposed by a central power, but a functional collectivism created out of a struggle for

survival.

The life of most households in the new Kazakhstan appears autarkic and relatively self-sufficient. The interface between their household and official structures (consisting of, for instance, official employment, regular salary, frequent use of public services, or daily purchase of goods with money) is clearly narrower than it was before reforms began. This increased independence from the official society and economy would not, however, be possible without a deep integration of the household in a fabric of community relations (Piirainen, 1994). In many senses, the household defence mechanisms used to combat hardships suffered during the Soviet era (e.g. a heavy reliance on a close network of acquaintances to procure goods and services) together with the official Soviet dogma of collectivism, acted as an excellent preparation for the hardships that were to accompany transition.

The use of money (especially in the countryside) represents an excellent example of household response to transition. Money is seldom used as the medium of exchange for money is not widely available. Most of the means necessary for subsistence are produced at home or are produced in the home of relative or close neighbour. If money is involved, it is in most cases simply lent or given away to close acquaintances for some short-term purpose and, in such cases, it is not the medium, but the object, of exchange. Goods, including money, are exchanged in a way that emphasises the reciprocity and continuity of the personal relations between the actors in the exchange. It is, in the first place, this network of reciprocity that has allowed the worst affected households to survive. In spite of the onslaught of the market, even the most impoverished families continue to give away their home-produced food and to provide free personal services such as repairs etc. to the fellow members of their community, apparently without any explicit calculation of returns. Social services, too, are subject to such exchange mechanisms. The services of doctors and teachers are often procured using non-monetary forms of compensation.

Money, of course, is not completely absent from the new system which has been emerging. In particular, the purchase of medicines, hygiene products, clothing, miscellaneous household products, etc. require monetary expenditures. In the absence of employment and unemployment benefits, thousands of households have engaged in petty trading of cigarettes and alcoholic and non-alcoholic drinks at the roadside which may provide a tiny profit, but enough to procure those necessities which require money for their purchase. These petty trading activities are almost exclusively operating in the shadow economy.

The transition from the planned economy towards market relations, and

the ensuing inability of the official structures to provide adequate pensions, wages, unemployment benefit, and public services seems clearly to strengthen social structures that can be defined as informal. There is, of course, nothing unexpected in this basic observation. If the official provision of social security does not work adequately, people rely on structures other than the official (Rose, 1994).

The households that employ the traditionalist strategy described above seek to defend themselves, and maintain their previous level of well-being, by withdrawing to as large degree as possible from the market economy and the sphere of monetary exchange. The gap that exists between households needs and their insufficient monetary income is compensated by activity in the informal economy.

In summary, this increased traditionalism often means (especially in the areas outside of the main urban centre) the predominance of non-market forms of production and exchange. In the production sphere, the disparity between market prices and household income has led households to produce subsistence foodstuffs and other commodities at home instead of purchasing them in the market. In addition, non-market and non-monetary patterns of economic exchange gain in importance, since very little money tends to be in circulation where reforms have hit hardest.

## 9 Conclusions

This paper has attempted to provide an overview of the very broad range of factors arising from the reform process which impinge on the socioeconomic behaviour of households and to highlight the general implications of these factors on the family. This overview has been obtained on the basis of secondary statistical data and on the basis of a specially-tailored household survey. The factors impinging most significantly on household behaviour may be summarised in the following basic observations:

**Economic recession.** As the economy started to contract almost all enterprises, particularly those with no access to international markets, suffered from the lack of demand. This led to a severe reduction in industrial and agricultural output and a consequent collapse of taxation revenues accruing to the local authorities. The most evident impacts on the households were unemployment and considerable declines in the quality and availability of social protection and social services (including housing). In the face of declining household income, thousands

of households (especially outside of the main urban centre) turned to mostly informal petty trading activities and relied more heavily than ever on the products of the private plots of land belonging to family members.

**Migration and the formation of a new economic geography.** In the vast rural areas outside of the oblast centre, Aktyubinsk city, the economic recession was most severe. While migration has affected the centre in the form of a once-off permanent move of a large proportion of the Russian and German populations abroad, a more long-term, and concerning, tendency is the general exodus from the small rural settlements to the rayon centres and from the rayon centres to the oblast capital. This is leading to a cycle of socioeconomic decline in the rural areas and to the development of a new economic geography in which a small number of growth centres, benefiting from either a substantial local market (Aktyubinsk city) or a wealth of mineral resources (Khromtau and Oktyabrsk), is being formed.

**New economic behavioural patterns.** Outside of the growth centres, the official economy has continued to contract rapidly and households are shifting their activity in increasing measure to the informal economy. People seek to compensate the gap between the decreasing real value of official income and the market price of goods by increasing activity in the informal economy. Because of the lack of market demand, the drop in the old Soviet production was not compensated by a rapid growth of new entrepreneurship and new production in the sphere of the official economy but by the increase in home production of food and other home-based activities.

**The erosion of the basis of public policy.** The contraction of the official economy results in a decrease of public revenues to a level that is insufficient for the maintenance of the previous supply of social services and the provision of social security. Economic development measures, for instance, in support of entrepreneurship within the official economy, have also been largely absent due to the fiscal crisis within the authorities. In addition, informal economic activities further exacerbates the problem of the implementation of public policy since the activity of households and enterprises increasingly takes place beyond the control of the public power.

**Traditionalisation of social life.** The increased significance of the informal economy for public welfare, together with the diminished importance of public institutions, has led to a certain traditionalisation of social life. The present inability of the public power to protect the citizens from the more adverse consequences of the reform process has

made people more dependent on traditional structures like the family and local community.

In summary, economic policies which were designed to bring about an improvement in economic efficiency in production and consumption units have, at least in the short-run, contributed significantly to the complete, or partial, withdrawal of households from the official socioeconomic structures. This withdrawal has occurred extremely quickly and has acute implications for further policy development. The family and the community are undoubtedly an invaluable source of social support during a time of crisis, but this expansion of their importance should not threaten the long-term functioning of the official public institutions. A number of policy measures are proposed to accelerate the reformalisation of the local economy.

Firstly, and most obviously, policy measures should support the transition towards a market economy. The measures that are designed and implemented should not produce effects that are contradictory to the structural transformation of the economy. In particular, measures that support the development of new kinds of economic initiative and entrepreneurship capable of operating in market conditions, and likely to generate economic growth, should receive special attention. These measures should take advantage of the importance of community and family at the local level.

Secondly, social policy measures should strive to provide support for those population sub-groups whose well-being is lowest and who have suffered the most as a consequence of the transition. The households that have resources to operate in the informal economy, and who have the support of family and community networks, are able to maintain a tolerable level of living. Not everybody, however, has these resources. Perhaps, most acute is the poverty of the elderly pensioners who do not have the support of the family and whose health does not allow gardening and other work in the informal economy, the unemployed in the cities who do not have the option of home production at the *dacha* or other private plots, and families with large numbers of young children.

Thirdly, policy measures should strive to reduce structural unemployment and to promote mobility of the labour force and support the movement of people into growing economic sectors. This, especially, relates to improving the relationship between education and the evolving labour market. The development of private farming activities, for example, is seriously constrained by the lack of appropriate skills amongst many of those who have been apportioned land in the privatisation process (e.g. former *kolkhoz* tractor drivers, mechanics, etc.). It also relates to the development of active housing market policies which would allow the free movement of people to the areas where

economic development prospects are best, and to the removal of the large array of obstacles to self-employment opportunities in the official economy.

Fourthly, just as the population groups most affected by the reform process should be clearly targeted by social policy measures, economic policy should have a strong regional focus. The economic potential of many geographical areas does not necessarily correspond to the economic activity which took place there during the period of the Soviet Union. On the one hand, the true economic potential of the different regions has not been fully explored and, on the other, there appears to be a general tendency to try to retain as many of the previous activities as possible in places regardless of their long-term viability. A strong regional economic policy would accelerate the realisation of the economic potential of large areas (especially outside of the main urban centres). It would contribute to a slow-down in the exodus from the countryside and relieve many of the socio-economic pressures building up in the main centres.

Finally, new policies are required to encourage the strengthening of official and democratically controlled institutions. The policies should strengthen the capacity of local institutions to manage reforms and their implications and, in doing so, should further contribute to the expansion of the economic base for public policy implementation.



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