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Pushed, pulled, or blocked? The elderly and the labor market in post-Soviet Russia

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ABSTRACT

Russia provides an interesting context for studying the labor market experiences of the elderly because of its experience with market transition, its looming growth in the elderly dependency ratio, and its unusual pension policies that do not penalize pensioners for working. We use data from twenty surveys of the Russian population conducted from February 1991 to November 2007 to analyze the labor market participation and earnings of elderly Russians following market transition. Economic desperation, exacerbated by low pension levels, pushed some elderly to seek employment for income on the labor market. Elderly Russians with more education had more opportunities to work, and education differentials increased as market reforms progressed. The correlates of earnings operate similarly for retirement- and pre-retirement age Russians, with several exceptions: unobserved factors favoring employment are negatively associated with earnings for the elderly, occupation mediates most of the effects of education, and patterns of change over time differ somewhat. Elderly Russians are not disproportionately blocked from employment following market reforms. Following the initial transition shock, their labor market activity increased. Overall, both push and pull factors shape the employment and earnings of the elderly, affecting different segments of them.

1. Introduction

The labor market participation of the elderly is an important issue for scholars studying the consequences of population aging and policymakers who deal with those consequences. The aging of populations throughout the developed world puts a growing burden on public pension budgets (Bosworth and Burtless, 1998; Kinsella and Velkoff, 2001). Trends toward earlier retirement and lower labor force participation by the elderly in these countries exacerbate the burden, because wage earnings are an alternative source of income for the elderly that does not require public expenditures (Lumsdaine and Wise, 1994; Gruber and Wise, 1998; O'Rand and Henretta, 1999, chap. 8). Simulation analyses in twelve advanced capitalist countries suggest that increasing the labor force participation rates of the elderly could alleviate the public cost of providing for the elderly even in the face of growing dependency ratios (Gruber and Wise, 2007).

The extent and impact of labor market participation by the elderly are of even greater concern in the less stable institutional contexts of countries like Russia that have undertaken the transition from state socialism to market economies since the late 1980s. These countries experienced dramatic contractions of state revenues in the economic crises that followed market reforms, making it especially hard to support the elderly populations through pension payments. Meanwhile, the

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very logic of market transition implies that the role of the market should supersede that of the government in providing for the well-being of groups in the population, even those—such as the elderly—who are especially vulnerable in times of economic crisis. Accordingly, paid employment in the labor market should have become a more important source of income among the elderly in transition countries. However, the general shrinking of their economies and the rise of unemployment would seem to undermine the prospects for such a development.

The performance of transition economies generally improved after the initial years of market reforms, but now the burdens posed by population aging are sure to grow due to long-term declines in fertility. In Russia census data show that the elderly dependency ratio grew slightly from .325 in 1989 to .335 in 2002, and official estimates put the number at .331 at the start of 2008 (calculated from data reported in Rosstat, 2005, 2009). It is certain to increase rapidly in the coming years as the relatively large baby boom cohorts retire and are replaced among the working-aged by the ever smaller cohorts born in the 1990s (Buckley and Donahue, 2000; Velkoff and Kinsella, 2000; DaVanzo and Grammich, 2001). Thus, it is of considerable interest how the elderly have fared in the labor market of post-Soviet Russia.

Russia is also an interesting testing ground for public policies because of unique institutional features of its pension system. Old-age pensions in Russia are not conditional on employment withdrawal, which raises the question: to what extent do older people keep on working although they are receiving pension payments? Put differently, are pension benefits high enough to provide significant disincentives to work among the elderly? Are pensionable ages too low?

Three plausible scenarios might describe the relationship of the elderly to the labor market in Russia during the post-Soviet era: (1) Mounting material hardships *push* ever larger numbers of the elderly into the labor market in search of earnings to supplement dwindling pensions and support from relatives. (2) Russia's market transition produces new opportunities that *pull* certain groups of the elderly who are well-positioned to exploit them into the labor market. (3) The steep contraction of the Russian labor market as poses ever more formidable obstacles that *block* the labor market participation of retirement age Russians.[1]

In short, in the post-Soviet era the Russian elderly may be pushed into the labor market by desperation, pulled by opportunity, or blocked from the labor market by the general labor market contraction. Moreover, all three forces may be operating simultaneously, but affecting different groups of elderly (some of whom are desperate, some of whom have new opportunities, and some of whom are blocked from the labor market) and/or varying over time in the strength of their effects. Only a systematic empirical analysis can resolve whether and how the labor market participation and rewards of elderly Russians have been affected by the market transition process.

We undertake this analysis using data from twenty surveys of the Russian population conducted from February 1991 to November 2007. These data reveal the main trends in the employment rates of retirement-age men and women following the collapse of the Soviet Union, as well as trends in the types of jobs they take and their earnings. They also support a more detailed examination of how individual characteristics and macroeconomic conditions increase or diminish the propensity of elderly Russians to find employment on the labor market, and the characteristics that influence the earnings of elderly Russians in their primary jobs. Finally, our analyses show whether the elderly's labor market activity and rewards are distinct from those of pre-retirement Russians.[2]

2. Economic background

In January 1992, following the collapse of the Soviet Union, the Russian government implemented "shock therapy" market reforms, freeing prices, exchange rates, and foreign trade, eliminating Soviet-style planning, and removing all restrictions on private ownership (for details, see Aslund, 2007). In the following years a mass privatization campaign turned many state-owned enterprises over to private hands. Intended to produce macro-economic stabilization and establish a productive market economy based on private ownership, these measures instead led to a prolonged period of rampant inflation, output contraction, and structural dislocations (Gerber and Hout, 1998; Clarke, 1999). The economy bottomed out after August 1998, when a government default on short-term bonds provoked a financial crisis. The deflated currency then spurred import substitution industrialization, and during the 2000s surging global energy prices helped put Russia on a path of impressive growth until the global financial crisis of 2008. Market reforms also produced significant structural changes in the Russian economy (Gerber, 2002, 2012). Although workers in branches of the economy and regions that declined in the face of competition and the loss of state subsidies suffered widespread dislocations, other branches and regions that planners had neglected or underfunded emerged to offer new opportunities, as did small businesses and foreign joint ventures (Gerber and Hout, 1998; Clarke, 1999; Gerber, 2001, 2002).

In sum, the 1990s and 2000s were very turbulent times for Russia's economy, seeing massive institutional changes (the retreat from the state socialist planned economy and the rise of a private sector) and a sustained decline in performance, followed by recovery. These developments are captured in time series of six macro-economic indicators displayed in Fig. 1. Gross domestic product (GDP) per capita followed a U-shaped trend, reaching its nadir in 1998; correspondingly, unemployment initially rose, then fell. The impact of liberalization and privatization are evident in the initially dramatic

[1] Note that this terminology diverges from the push-vs.-pull distinction used in other contributions to the retirement literature (e.g. Kohli et al., 1991).

[2] Throughout this paper, we define the "elderly" as those who have reached the official retirement age (55 for women, 60 for men). "Pre-retirement" Russians are those who are within 10 years of retirement age (45–54 for women and 50–59 for men).