

State Jobs, Household Insurance and Bargaining Power: Evidence from Russia's Transition

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PAA 2011 Extended Abstract

As a result of the break-up of the Soviet Union in 1991 a private sector emerged in Russia and Russians have faced a novel employment choice: a choice between state and private sector employment. As there were virtually no private sector jobs under the Soviet Union, the newly-created private sector jobs during the transition years carry a lot of earnings uncertainty and unemployment risk. In addition, although labor legislation nominally applied everywhere regardless of ownership type, it is poorly enforced in the private sector (Gimpelson et al. 2009). At the same time, private sector jobs pay much better than state jobs to individuals with the same characteristics. Given these same trade-offs, the majority of Russian women choose in favor of state jobs whereas the majority of Russian men – in favor of private sector jobs. Indeed, much of the documented gap between female and male wages in Russia during the transition (for example, Ogloblin 2005) is attributed to such gender segregation in job sector and industry. Yet, personal characteristics explain only partially the choice of employment sector. Individuals in state jobs live in households with family members who are in different circumstances from individuals in private jobs.

This paper is an analysis of the intra-household decision-making process which generates these patterns of employment preferences during Russia's transition. I use panel household data from the Russia Longitudinal Monitoring Survey for the period 1994-2008 to examine a relatively long transition period. The period captures not only the uncertain transition years during the 1990s but also the growth years during the 2000s after the financial crisis of 1998-

* Email: pkovache@princeton.edu. I thank the Russia Longitudinal Monitoring Survey Phase 2, funded by the USAID and NIH (R01-HD38700), Higher School of Economics and Pension Fund of Russia, and provided by the Carolina Population Center and Russian Institute of Sociology for making these data available. I am also especially grateful to Anne Case, Taryn Dinkelman and seminar participants at the Public Finance Working Group at Princeton University for helpful comments and suggestions.

1999. This variation in the economic conditions allows me to examine how the choice between state and private employment responds to changes in the degree of earnings uncertainty and unemployment risk.

The paper fits broadly in the large literature¹ investigating insurance mechanisms used by risk-averse households to deal with risky earnings in developing countries. Yet, this paper deviates from the literature in two main ways. First, most of this literature concentrates on poor rural households, whose risky income comes from farming small plots of land. This context, and therefore the insurance mechanisms employed by these households, are markedly different from the Russian households that I investigate. The latter are predominately urban households and consist mostly of individuals employed in enterprises. Second, the majority of papers in this area focus on ex post mechanisms of smoothing consumption after the realization of the risky income stream, such as saving behaviors or inter-household risk sharing within communities. I, however, examine an ex ante mechanism employed by Russian households to manage the risk from the uncertain private sector income, namely the holding of a lesser paid but more secure state job.

A recent paper that studies how households cope with income risk in Russia is Guariglia and Kim (2004) who find evidence of precautionary saving as an ex post insurance mechanism but also document that Russian households rely as well on an alternative ex ante mechanism – moonlighting. In a context similar to the Russian one, Dimova et al. (2006) find that household characteristics influence the employment choices of Bulgarian women during the transition although they don't formalize the mechanism through which the household situation matters. The paper that is closest in spirit to this one is Stillman (2000a) who uses a smaller subset of the same data source as I do to investigate the take-up of private sector employment. He estimates a structural model of individual labor supply that is similar to my theoretical framework and also finds evidence of diversification of job sectors within the household. His focus, however, is on the determinants of private sector employment and in particular on constraints in individual's consumption smoothing ability. Unlike him, I examine the job choices in an intra-household context where the spouses' choices affect each other. In addition, I use the panel structure of the data to model the choices sequentially, with the husband moving first and the wife – second. This modeling assumption is validated by intra-household tenure differences found in the data.

¹ For a survey, see Alderman and Paxson (1992).

Using one's job as a household insurance mechanism has broader applications beyond Russia. Insurance considerations influence job choices in developed countries as well. In that context the job "sectors" that differ in terms of income risk are self-employment and wage employment. Indeed, the literature on self-employment has found that spousal characteristics are related to the probability of going into self-employment. In particular, the probability of being self-employment is positively associated with spousal health insurance coverage (Lombard (2001), Wellington (2001)).

The intra-household context of the job choice decision relates this paper to another large strand of the literature – that on household bargaining.² My model of a spouse's decision of job choice falls under the collective approach to household behavior, as opposed to the traditional "unitary" approach. In particular, I allow the job choice decision to be motivated by the resulting effect on an individual's bargaining power within the household. A household member that chooses a state job which smoothes household income gives her more say in the allocation of total household resources. This is a source of bargaining power which to the best of my knowledge has not been studied elsewhere.³ I consider its analysis the main contribution of this paper.

The empirical estimation of the model confirms the stylized facts that Russians' choices of state versus private employment are associated not only with personal characteristics but also with household characteristics. In particular, I find that spouses whose partners are in riskier employment positions are more likely to work in state than private sector jobs. However, it also appears that individuals are not simply evaluating a trade-off between expected earnings and uncertainty. I argue that state jobs with their less variable earnings provide an ex ante insurance mechanism against uncertain household income during the turbulent economic times and this insurance leads state jobs to provide higher bargaining power within the household. I find evidence of this in household expenditure patterns. Households tend to spend larger share of their budget on goods favored by the "insurance provider" in the household – the spouse in a state job. In addition, I find that spouses whose partners are already in a state job are more likely

² For a survey, see Behrman (1995).

³ The most often studied source of bargaining power is a higher relative income in the household. Lacroix and Radtchenko (2011) find that such a source of bargaining power is applicable to Russia as well. The source of power that I propose can run counter to this alternative source and hence can account why relative income does not have a uniform effect.

to leave their private job for a state one. These findings are consistent with my hypothesis that a private job provides lower intra-household bargaining power when one's partner is in a state job.

This research into the bargaining power implications of job choices is limited to working age adults. Do such considerations also motivate individuals to stay in state jobs past retirement age? Alternatively, is the bargaining power higher instead if one retires earlier than one's spouse and brings in an even steadier pension check? Answering these questions would give a fuller insight into the risk management strategies of households living in uncertainty.

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