Property Rights and Internal Migration

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Russia currently faces an important policy challenge related to relatively high levels of regional inequality. Regional imbalances that persist, especially in unemployment, reflect inefficiency and may lead to political instability. National capital and labor markets should work to correct these imbalances. This policy brief focuses on the labor market. In particular, why internal migration is relatively low in Russia, and suggests a new direction of policies to increase the mobility of the Russian workforce.

Interregional differences in income and unemployment remain high in Russia relative to the US and Europe (Andrienko and Guriev 2004). Figure 1 shows the change in unemployment for Russia's regions between 1992 and 2007 plotted against the level of unemployment in 1992. We calculate the change in unemployment using 2007 since the global financial crises led to a different type of convergence, a widespread increase in unemployment. The absence of a downward slopping trend demonstrates that convergence across regions is not taking place.

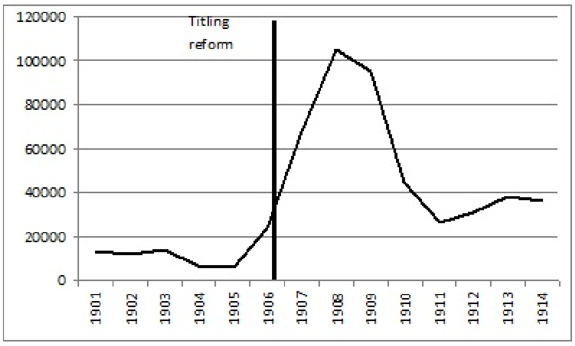
Figure 1: Unemployment growth 1992-2007 and level of unemployment in 1992 for Russia's regions.

Source: Goskomstat

Internal migration could solve regional imbalances in unemployment by matching unemployed individuals from areas with high unemployment to job vacancies in areas with more employment opportunities. In the US, for example, Blanchard and Katz (1990) show that regional economies adjust to region-specific shocks mainly through internal migration. However, disparities persist in Russia, in part, because of the lack of internal migration, which is relatively low compared to the US and Europe (Andrienko and Guriev 2004). It is not surprising then that a recent report by the World Bank (World Bank 2010) claims that Russians should be moving more within the country than they currently are, considering the economic costs and benefits of migration. The remainder of this policy brief discusses the connection between property rights and internal mobility in order to understand why the Russian labor market allows such high levels of regional disparities.

To address this issue, we look to the past since there is evidence from the late Tsarist period linking property rights to internal migration that has modern day policy implications. For most of Russia's history, labor mobility has been restricted and controlled. Serfdom limited peasants' mobility for centuries; restrictions survived after emancipation under the Russian repartition commune regime. The Soviet propiska system introduced in 1932 heavily regulated internal migration till the very end of the USSR and there are remnants of this propiska system even today. However, the extensive state control over internal mobility was not always the case. In the late Russian Empire, internal mobility was relatively unrestricted by the state and internal migration worked to correct regional imbalances (Markevich and Mikhaillova 2012). This historical period offers a good opportunity to investigate the economic causes of labor mobility in Russia without the veil of legal and political restrictions.

Figure 2. Migration dynamics 1901-1914: the annual number of households that migrated to the Asian part of the Russian empire.



Source: Turchaninov(1910), (1915)

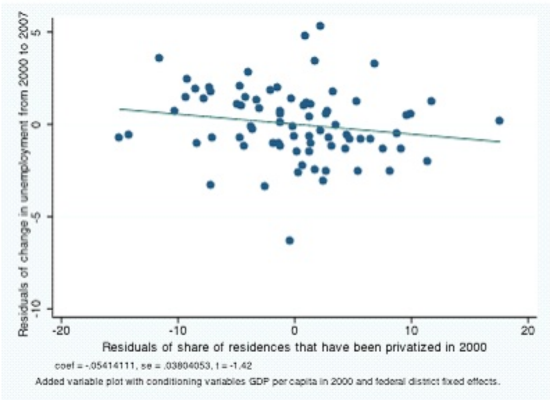
Figure 2 shows a startling pattern in the migration flows from the European provinces to the Asian part of the empire during this period. The sparsely populated regions of Siberia and Northern Kazakhstan that had abundant virgin land were attractive destinations for Russian peasants. We propose that an important factor in understanding the explanandum is the Stolypin agrarian reform, the timing of which is exhibited by the vertical dotted line in Figure 2. The annual number of migrating households was about 15,000 before the reform but dramatically increased to a level of 40,000 households per year after the reform. We argue that the reform increased migration flows largely because it improved the liquidity of peasants' assets, providing greatly needed funds to finance migration.

The Stolypin titling reform can be thought of as a quasi-natural experiment through which one can judge the importance of financial constraints. For our purposes, the reform's impact on liquidity is limited to forty-one European provinces (guberniya) where at least five percent of the rural population resided in repartition (peredel'naya) communes. The remaining nine European provinces, where few, if any, peasants were members of repartition communes, constitute the control group. The reform gave households the right to exit from repartition communes and convert their communal allotment to individual ownership of land recognized by a land title. The conversion to individual ownership improved the liquidity of land and made migration more attractive since migration no longer entailed losing one's allotment and households could more easily sell their land allotments to finance migration.

Using a panel dataset of regional migration to the Asian part of the empire, we apply a difference-in-differences analysis using the distinction between treatment and control groups mentioned above. Our results indicate that 160,000 of the 441,000 households that migrated after the reform can be attributed to the reform. In other words, the relaxing of land liquidity constraints explains at least 18.1% of all post-reform Europe-Asia migration in the late Russian Empire. To understand how large of an impact the reform had, we make a back of the envelope calculation that yields an estimate of 0.12 percentage points of GDP growth per year or about 5% share of total economic growth during this period (Chernina et al 2012).

This historical evidence of the relative importance of liquidity of land for internal migration translates well into the contemporary policy discourse. After consulting both qualitative and quantitative studies on internal migration in Russia, Andrienko and Guriev (2005) conclude that "*the most important barrier to migration is the underdevelopment of financial and real estate markets.*" Figure 3 shows the relationship between growth of unemployment in a region and the share of privatization of residences using an added variable plot. Here, we condition the relationship on GDP per capita in 2000 and include federal district fixed effects in order to more closely isolate the liquidity effect of privatization. We use as base year 2000 instead of 1992 as in figure 1 because not all regions had initiated privatization until as late as the mid to late 90's. While this correlation is not strong and is merely suggestive of an underlying relationship between private ownership and mobility, the graph illustrates that those regions with greater levels of privatization in 2000 subsequently experienced greater declines in unemployment during 2000-2007.

Figure 3: Unemployment growth from 2000 to 2007 and level of private ownership of residences in 2000.



Source: Goskomstat

In summary, the ability of property rights to affect the financing of migration as well as the role that property rights play in the opportunity cost of migration calls for policymakers to include the issue of property rights when considering barriers to internal mobility. These findings fit well within the new economics of migration literature that criticizes and widens the previous narrow focus on wage differentials. In transition countries, these findings also point towards the importance of how privatization occurred. Different ways of organizing private ownership lead to different transaction costs incurred in buying and selling residential property. For example, in some former Soviet Republics, the privatization of individually owned apartments often did not fully specify property rights concerning the ownership of the apartment building and the internal structures that support the individual apartments. These ambiguities increase transaction costs and reduce the liquidity of the asset. Policies concerning internal mobility should therefore pay closer attention to the liquidity of Russians' assets and how to improve it.

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