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UZBEKISTAN

Income Distribution and Social Structure during the Transition

by

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Income Distribution and Social Structure during the Transition

Uzbekistan has been distinguished among the economies in transition from central planning by its gradual economic reform strategy and authoritarian political system. By most measures it ranks as one of the least reformed economies and least liberal states in eastern Europe or the former Soviet Union. Uzbekistan's economic performance has, however, been relatively strong with a modest drop in output by transition economy standards and the increase in poverty has been moderated by an innovative social protection system. This paper analyses changes in social and economic structure during the transition era.

The first section summarizes the economic and social structure of the Uzbek Soviet Socialist Republic. The next two sections review the transition process since independence, and analyse the impact of transition on the income distribution and poverty in Uzbekistan. The fourth section describes the innovative social security delivery system based on local organizations which target assistance to poor households. This institution has also played a role in exerting social control, and the broader picture of the political and social structure in independent Uzbekistan is addressed in the fifth section. The final section draws some conclusions.

1. Economic and Social Structure in the Soviet Era

The Uzbek Soviet Republic was created out of feudalistic societies which were economically and socially backward relative to the European parts of the Soviet Union.

During the Tsarist era large parts of what would become Uzbekistan had remained under the direct rule of autocratic vassals, such as the Emir of Bukhara, while the city of Tashkent became the administrative and military centre of Tsarist power in Central Asia. The region was overwhelmingly rural despite the presence of the historic cities of Bukhara, Samarkand and Khiva, with a mixture of low density herding and farming over much of the republic and high density mixed farming in the Fergana Valley. Among the major goals of the Soviet leadership were transformation of the feudal society to destroy the power of landowners and religious leaders and to create a more egalitarian society through improved access to education, health and other social services and removal of obstacles to equality such as gender discrimination. Between the 1920s and the 1980s the Soviet Union had considerable success in achieving these goals, although gaps remained between targets, official images and reality (Rumer, 1989; Pomfret, 1995).

Uzbekistan's main role in the Soviet division of labour was to supply primary products, especially cotton. Specialization in cotton became particularly pronounced in the decades following 1960 when the area devoted to cotton and mechanization of cotton farming both increased. Other primary products, such as minerals or energy products of which Uzbekistan had proven reserves, were neglected and a particular sore spot for Uzbek nationalists was the decline in self-sufficiency in food. During the 1941-5 war the Uzbek economy received a boost as many industrial plants were moved intact from western areas of the USSR threatened by the German invasion. In the postwar period Soviet planners, who favoured building upon existing strengths, tended to locate new industrial projects for Central Asia in Tashkent. At the time of the Soviet Union's dissolution at the end of 1991, Tashkent with just over two million people was the fourth largest city in the USSR and the only real metropolis in Central Asia.

Despite the growth of Tashkent, the Uzbek republic was primarily a rural economy. It was often described as a labour surplus economy, in contrast to the perceived labour scarcity in the European republics, although the picture was more complex as some oblasts (eg. Dzizjak) had labour shortages while others, notably the Fergana Valley oblasts, had labour surpluses. This picture clearly reflects the inflexibility of Soviet, and especially Soviet Central Asian, labour markets in which mobility was limited. For the republic as a whole, Marnie (1992) has estimated that 14% of the working age population was not employed in the final years of the USSR, compared to 5.5% in the Russian republic, and that nine tenths of the non-employed were rural women.

In rural areas the collective farm (*kolkhoz*) managers wielded considerable power, allocating jobs, garden plots and access to other in-kind benefits. They were intended to encourage loyalty to the state and foster Soviet values, while undermining pre-existing attachments based on lineage and religion. To some extent this was achieved as the identity of ethnic groups such as the Kipchaks was merged into that of the Uzbek majority and as open discrimination against women in the workplace was ended, but the relationship between the *kolkhoz* managers and their superiors was still often based on kinship and clan loyalties.

During the 1980s the Uzbek republic became singled out as the Soviet republic most riddled with clan loyalties, right up to the top of the political hierarchy. The First Secretary from 1959 to 1983, Sharaf Rashidov, became the first target of Mikhail Gorbachev's anti-corruption campaign. Although a timely death in 1986 allowed Rashidov to escape punishment for channelling into the Uzbek economy billions of rubles in payments for cotton which was not produced, some 2600 officials from the Uzbek republic were imprisoned in 1987 for their part in the scam (Pomfret, 1995, 66).

In an attempt to cleanse the Uzbek republic's governance, Gorbachev tried to re-establish central (Moscow) control but, after Rashidov's replacement was dismissed and accused of similar corruption charges and another First Secretary came and went, he eventually had to admit defeat and appointed a local leader without strong ties to Moscow, Islam Karimov, as First Secretary of the Uzbek republic in 1989. Karimov had a record of being relatively untainted by corruption, which he has retained since independence, but he was closely identified with the Samarkand region and his closest allies since independence have come from this region. Meanwhile, Rashidov has posthumously become something of a national hero for having diverted money from Moscow into the local economy.

As in all of the USSR, the *nomenklatura* enjoyed favoured treatment and superior social status, although in the Uzbek republic the *nomenklatura* itself was based on older loyalties. The leadership in Tashkent devolved considerable powers to local leaders, who often imposed their rule with a coarse brutality (Rumer, 1989, 144-57). The power of the state was reinforced by the economic structure in which most of the rural population was connected to the cotton economy which was dependent on centrally administered irrigation systems and on the provision of fertilizers and pesticides.

The Slavic minority tended to occupy the technical positions in the urban areas and thus enjoyed higher economic status, but this does not appear to be as a result of discrimination against Central Asian ethnic groups.¹ Lubin (1984) found that local nationalities had greater opportunities to pursue education and training, but they often chose to work in lower paid and lower prestige service and agricultural sectors because of their preferences for traditional lifestyle and consumption patterns and because of greater opportunities to supplement income by home production and informal activities.

The economic and social structure had strong elements of continuity, but was not static during the final decades of the Soviet era. From the 1920s to the 1960s the dichotomy between traditional and modern was widely accepted and ethnic Central Asians would often disown their heritage in the name of being “modern”.² During the 1960s, however, with the satisfaction of basic needs and rise of consumerism, Central Asians began to reassert traditional consumption patterns, notably in arrangements surrounding major life-event ceremonies such as circumcision or marriage or death (Koroteyeva and Makarova, 1998). This coincided with the Rashidov era and was, as Gorbachev discovered, impossible to reverse in the political arena. With *perestroika* the communal assistance aspect of reciprocal relationships began to be eroded by money transactions.

With the dissolution of the Soviet Union in late 1991, Uzbekistan became a sovereign state and embarked on independent economic and social policies. Even if the government had wished to maintain the status quo it was clear that the pre-independence economic strategy was unsustainable. The rapid expansion of the cotton sector was running into diminishing returns in terms of output per hectare and creating huge environmental problems, highlighted by salinization of large areas and the shrinking of the Aral Sea. Transfers within the USSR, which had been running in the region of 14% (Pomfret, 1995, 72) or 19% (Griffin, 1996, 19) of GDP in the years before independence declined rapidly in 1991 and 1992 and practically disappeared with the demise of the ruble zone in November 1993.

2. The Transition Process in Uzbekistan

Uzbekistan has followed an explicitly gradual approach to economic transition. Price and enterprise reform proceeded slowly, although practically all retail prices had been liberalized by 1996 and housing and small enterprises have been privatized. Trade policy is liberal as export taxes imposed in the early 1990s have been removed, but its impact is negated by stringent foreign exchange controls which were reintroduced in the second half of 1996. The government exerts more overt control than in neighbouring Kazakhstan or the Kyrgyz Republic, which creates a more stable environment but not one which has favoured the emergence of new private enterprises or entrepreneurial behaviour in general. The various synthetic measures of the speed and extent of liberalization in transition economies typically divide the Central Asian countries into two groups, with the Kyrgyz Republic and Kazakhstan somewhere in the middle and Uzbekistan, Turkmenistan and Tajikistan at the bottom of the list (Pomfret and Anderson, 1997, Table 1). Despite a general positive relationship between the extent of liberalization and economic performance, Uzbekistan has been an outlier with the best output performance among former Soviet republics. The Uzbek model of gradual economic reform combined with political authoritarianism has thus offered support to many opponents of 'shock therapy' and of democracy, while creating a 'puzzle' for advocates of rapid economic transition.

Gradual transition in Uzbekistan is not easy to synthesise or define. It is not a euphemism for resisting change, as in Belarus or Turkmenistan. On the other hand, it would be too positive a gloss to refer to it as steady progress; Uzbekistan has had sharp u-turns, most notably on currency convertibility in October 1996, and oscillates between nationalism, regionalism and globalism as the guide to policy. While Uzbekistan has moved slowly in most areas of privatization, housing privatization was essentially completed by the end of 1994 (Pomfret and Anderson, 1997, 15).

Privatization of larger enterprises was initiated in mid-1996 with the introduction of the Privatization Investment Fund, but it stalled in mid-1997. Price liberalization was also extensive by the mid-1990s, although the two key sets of prices in a market economy, interest rates and exchange rates, remain subject to intervention. Exchange rate controls were drastically tightened in late 1996, and since mid-1997 sale of some important consumer goods (eg. flour and sugar) has been restricted to licensed outlets in which prices have been kept constant. Crude oil is also priced below the world price. Indeed, the hallmark of the Uzbek model appears to be a commitment to government intervention, within a market-based economy.

Symbolic of the guided market economy is the renovation of Tashkent city centre during the 1990s. Following immediate measures to replace the statues of Lenin and Marx with a globe and a statue of the Emir Timur (Tamerlaine), the government has pursued a long-term plan to create a substantial traffic-free and parkland area in the city centre. The main pedestrian thoroughfare came alive in the second half of the 1990s, when it became colloquially known as Broadway, lined with food and drink establishments, petty traders' counters and the occasional karaoke stall, representing market-driven activity. Other prominent public works in Tashkent include new city hall, central bank and parliament buildings, which created work and give some evidence of economic dynamism, without being so obviously extravagant as the presidential palace and new airport in Ashgabat or the construction of a new capital city in Kazakstan.

Government intervention is especially apparent in the agriculture sector, where the increase in acreage sown under wheat after independence was determined by command in order to achieve greater national self-sufficiency. Despite frequent announcements of their reduction or even elimination, state orders continue to dominate

the markets for the two main crops, cotton and wheat. Even though the percentage of the crops that must be sold to the state had dropped by 1998 to 30% for cotton and 25% for grain, these numbers are misleading. If a farm produces less than its target output, then the entire crop must be sold through the state order system; in a decade of long-term decline in cotton yields, this is not an uncommon outcome (Ilkhamov, 1998, 541-2). Because targets are defined in terms of the former *kolkhoz* land, the system puts pressure on and grants influence to the *kolkhoz* managers and has effectively inhibited the successive agricultural privatization schemes (Pomfret, 1998). Even if crop output were not subject to state orders, farmers face monopsonistic state-controlled buyers (eg. the state-owned cotton ginneries and flour mills).³ Thus, although the land reforms of the mid-1990s have been compared to China's household responsibility system, Uzbekistan's farmers have responded neither with increased output nor market-driven changes in output mix.⁴

Financial reform remains limited, In rural areas, banks do not serve depositors, but serve the state in checking that funds are used appropriately. True entrepreneurial banking has not been established, but the government has created institutions to provide credit to new private ventures, such as the Business Fund established in 1995 (Klugman, 1998a; World Bank, 1996). Although the government remains the major source of finance, this has not been underwritten by loose monetary policy. Uzbekistan was one of the most successful former Soviet republics in controlling the budget deficit, which at 18.8% of GDP was above the Soviet successor state average in 1992 but at 3.4% was below the average in 1995 (Cheasty and Davis, 1996). Moreover, the reduced deficit was achieved while maintaining substantial expenditure on social policies such as health, education and social security (Pomfret and Anderson, 1997).

Uzbekistan suffered from a decline in output during the first half of the 1990s and from the hyperinflation common to all members of the ruble zone in 1991-3. The output decline was, however, the smallest of any successor state to the USSR and growth turned positive in 1996/7. The inflation rate declined after the collapse of the ruble zone in November 1993 and Uzbekistan's establishment of a national currency the following summer, although it took longer to bring inflation below 50% per year (achieved in 1997 in Uzbekistan) than it did in the Kyrgyz Republic (1995) or Kazakstan (1996).

The Uzbek puzzle has been addressed in a series of interconnected and overlapping papers by staff of the International Monetary Fund (Taube and Zettelmeyer, 1998; Zettelmeyer, 1998; IMF, 1998, 7-34). They find that Uzbekistan's favourable output record can only be partially explained by measurement error, and that standard panel models of growth in transition economies systematically underpredict Uzbekistan's 1992-6 economic growth. The puzzle is not resolved by the public investment policy, which the Uzbek government argues is a component of its success. The puzzle is explained by a favourable initial production structure and by self-sufficiency in energy.⁵ The IMF authors go on to argue that performance would be better with more liberal policies and without acceleration of reforms future growth prospects are mediocre.

Uzbekistan's relatively good economic performance also applies to unemployment, which has not increased substantially during the 1990s despite predictions of Soviet underemployment turning into open unemployment. Total employment, according to official figures, increased by about four percent between 1990 and 1995, in contrast to declines in employment elsewhere in the CIS (eg. by seven percent in Russia and by fifteen percent in Kazakstan), although these data are

problematic due to the widespread hidden unemployment (Klugman, 1998b, 99-109).⁶ The sectoral shares of employment have changed, with the most dramatic change being the increase in agriculture's share from 25% in 1990 to 30% in 1995 (Klugman, 1998b, 103), which suggests that as elsewhere in Central Asia and in Mongolia transition has been accompanied by ruralisation.

3. Income Distribution and Poverty

Assessment of changes in income distribution during the transition in Uzbekistan is hampered by the quality and availability of microdata. Knowledge of the distribution of income and of poverty in the Soviet era is based on the Household Budget Survey (HBS), which had well-known shortcomings, but was reasonably consistent across the USSR.⁷ Since 1991 the HBS has been continued in Soviet successor states, but in most cases has been supplemented by better designed household surveys based on the World Bank's Living Standards Measurement Study (LSMS) project. In Uzbekistan, however, an LSMS survey initiated in 1997 broke down in acrimony over funding and was never completed. A European University Institute and University of Essex Survey of Uzbekistan (EESU) conducted in June 1995 covered about 500 households in each of three oblasts (Tashkent, Fergana and Karakalpakstan).⁸ There have also been small-scale surveys, such as that of 130 respondents conducted in Tashkent in late 1994 and reported in Smith (1995). The HBS is probably taken more seriously in Uzbekistan than elsewhere, but the state statistical office is reluctant to share data other than in processed form. In sum, there is quantitative information to draw upon, but the publicly available data are of mixed quality and limited comparability to other transition economies.

At the end of the Soviet era the Uzbek republic had the second lowest per capita income among the fifteen republics (World Bank, 1992) and a Gini coefficient above the USSR average (Atkinson and Micklewright, 1992, Table U13). Although poverty did not technically exist in the USSR, a 1974 decree had defined underprovisioned families as those with less than fifty rubles per month per person and provided a monthly supplement to them. Atkinson and Micklewright updated the poverty line to 75 rubles in 1989, and under this definition of poverty 44% of the Uzbek republic's population was poor, second only to the Tajik republic. The 1989 estimates of Gini coefficients and poverty rates are based on HBS data. Marnie and Micklewright (1994) argue that the picture of relatively high poverty rates in Uzbekistan is a plausible one, whose magnitude is not seriously biased by the large household sizes in Uzbekistan, but is exaggerated somewhat due to undervaluation of agricultural output in the HBS data.⁹

The situation since independence is more difficult to measure. Milanovic (1998, 41) cites a Gini coefficient of 0.28 in 1987-8, the highest among the eighteen countries in his study, and of 0.33 in 1993-5; the latter figure is higher than for most of the European transition economies, but lower than for any former Soviet republic except Latvia. These figures point to an increase in inequality in Uzbekistan during the first half of the 1990s which was much lower than in neighbouring countries (eg. the Kyrgyz republic's Gini increased from 0.26 to 0.55 over the same period).

Milanovic's (1998, 68-9) poverty measures indicate an increase in the headcount measure from 24% in 1987-8 to 63% in 1993-5, which is severe, but smaller than the increase in the other Central Asian countries - from 5% to 65% in Kazakstan, from 12% to 88% in the Kyrgyz Republic and from 12% to 61% in Turkmenistan. Although Milanovic uses a common poverty line, these numbers are difficult to

reconcile as they draw on underlying data of varying quality.¹⁰ The Kyrgyz Republic, for example, has a bank of fairly high quality household surveys conducted under the aegis of the World Bank's LSMS project in 1993, 1996 (twice), 1997 and 1998 (Anderson and Pomfret, 1999).

Alternative poverty measures for Uzbekistan have been estimated by the Centre on Economic Research in Tashkent using HBS data. With a nutrition-based poverty line, CER (1997) reports a crude headcount measure of 58% in December 1996. Home production is, however, negatively correlated with money income and inclusion of home production in household resources, reduces the poverty rate to 46%.¹¹ Adjustment for household size and composition, because larger families have lower per capita consumption but benefit from scale economies and because children consume less than adults, reduces the poverty count to 22%.¹² The CER numbers are lower than those of Milanovic, which reflects primarily a lower poverty line, but the adjustments are difficult to assess. Marnie and Micklewright (1994) discounted the importance of scale economies before transition, but since housing privatization their argument holds to a lesser degree and it also seems plausible that home production has become relatively more important since independence, but how much to allow for these two factors is unclear.¹³

Despite these reservations about the quantitative results, it seems incontrovertible that there have been shifts in the income distribution and increases in poverty during Uzbekistan's transition. Although economic change has been limited by gradual policies and a small decline in output, the forces for increased income disparities inherent in a market economy are present in Uzbekistan, as in all transition economies. In sum, the direction if not the extent of distributional changes is predictable. The relatively stable output-mix and heavy government hand on the

economy suggest that the emergence of *nouveaux riches* in the private sector may be a lesser phenomenon in Uzbekistan than in other transition economies. The new poor may also be less numerous and less suddenly impoverished than elsewhere. Pomfret and Anderson (1997) review the mechanisms by which the government has restricted the extent of welfare changes and in particular how prudent government policies have softened the decline in key social services and provided an effective social safety net. The major novelty in this area, the mahalla system, will be analysed in greater depth in the next section.

Who have been the winners and losers? Coudouel's analysis of data from the EESU 1995 survey of three oblasts reveals patterns common to many transition economies (Coudouel, 1998; summarized in CER, 1997, 21-5). Large families have lower per capita incomes and expenditures; households with seven members or more account for 30% of poor households and half of the individuals in poverty.¹⁴ As elsewhere in the former USSR, gender and age are not strong determinants of poverty in the early transition years. There is an ethnic dimension to poverty, at least based on simple cross-tabulations; Central Asians make up 79% of the population and 92% of those in poverty, while Slavs make up 16% of the population and only 4% of the poor. Regional differences between the three oblasts are large, ranging from a 10% poverty rate in Tashkent to 60% in Karakalpakstan. Rural-urban differences are large, but not robust when output measures are used; other measures suggest large rural-urban differences in living standards, eg. washing machine ownership is highest in Tashkent and higher in other urban locations than in rural households.¹⁵

Poverty among the elderly was limited in the USSR by a generous pension scheme giving universal entitlements to men over sixty and to women over fifty-five, or over fifty for women with a large number of children. The entitlements were

maintained after independence, and imposed a severe budgetary burden, which was exacerbated by an unsustainable indexation policy in 1993 when pension payments amounted to 11.4% of GDP (Griffin, 1996, 155-7). After a change of indexation rules, however, expenditures halved in 1994. The subsequent picture appears to be one in which old people still receive some protection and, especially when they are living in an extended family household, are not a major group in poverty, although single pensioners in urban areas are emerging as a group in poverty.

Education has played a role in Uzbekistan as in other transition economies, with tertiary education being a significant determinant of individual economic performance. While the returns to education have declined during the 1990s, individuals with tertiary qualifications have moved up the income distribution; Klugman (1998b) describes this as a cohort effect, and it is similar to the sorting effect identified from more extensive data in the Kyrgyz Republic (Anderson and Pomfret, 1999). Klugman (1998b, 298 and 203-33) estimates that the returns to education are higher for women than for men, although women's subsequent returns to experience in the labour force are significantly reduced by breaks in employment.

Ethnic effects continue to exist. Smith (1995) on the basis of a small survey in Tashkent reported that Uzbeks had lower educational qualifications than Russians, and had lower average incomes. Holding sex, age, education and occupation constant, Smith found that being Russian had a significant positive effect on income. This is consistent with the results of Lubin's work conducted fifteen years earlier. Klugman (1998b, 281) found similar results on the basis of her larger sample covering three oblasts in 1995. Klugman explains the persistence of ethnic effects in the face of independence and large Slavic emigration by self-selection as less well-paid Slavs would leave first, by the earnings premium capturing skills not measured in the formal

modelling, and by the emigration being based on expectations rather than on current discrimination or falling relative incomes for Slavs.

4. The Mahalla System

One of the admired elements of the Uzbek transition model is the decentralization of social security payments through local organizations known as *mahallas* (Coudouel and Marnie, 1998; Coudouel, Marnie and Micklewright, 1999). The precise composition and behaviour of *mahallas* varies from one locality to another, but their leadership tends to consist of the old local elite. Their legitimacy derives from a traditional social system, but also from a continuing sense that these leaders will look after their constituents. Whether this picture of reciprocal relationships matches reality or is simply the picture which the elite wishes to present is difficult to establish.

The innovative approach to social assistance was introduced in late 1994, coinciding with the removal of general food subsidies. About 12,000 local community groups, or *mahallas*, were set up which targeted assistance to needy families; each *mahalla* included 150-1500 households with an average of around 400. The new institution was legitimized by relating it to a traditional Uzbek, and Tajik, institution, although many *mahallas* were recent creations; in urban areas, for example, *mahallas* often replaced the Soviet era *domkom* or housing committee which existed in large apartment blocks.¹⁶

The *mahallas* receive their funding almost entirely from the central government budget, although other levels of government can top up the funding and voluntary contributions are encouraged.¹⁷ The amount was not huge, around 0.4% of GDP, in 1995 and 1996 (Coudouel and Marnie, 1998). The distribution across *mahallas*

appears to be fairly equal. Thus, the government is using the scheme to correct intra-*mahalla* differences in economic well-being, but not to correct variations between *mahallas*. It is correcting relative poverty at a local level, but not aiming at a uniform national safety net.

The chairman and the committee running each *mahalla* are in principle elected by the local population. In practice, however, it appeared that traditionally and from the start of the revived institution the majority of committee members were appointed by the elders of the *mahalla*. The rules established for the *mahallas* include guidelines and a considerable degree of formality about what must be taken into account and what procedures must be followed in awarding assistance, and yet there is also considerable discretionary power insofar as there is no obligation for the *mahalla* to make or not make an award in any particular case.

Based on 1995 EESU data, Coudouel, Marnie and Micklewright (1999) find that the *mahalla* scheme delivers benefits more frequently to less well-off households than to better-off households, and this is robust to various indicators of household welfare. They also find some less desirable outcomes. The amounts of benefits paid are not related to observed measures of household well-being or even to some fairly obvious target indicators (eg. family income or children's nutritional status). Although the assistance given by *mahallas* favours children, female-headed households and the unemployed, it also (even when other variables are controlled for) favours ethnic Central Asian households. Coudouel, Marnie and Micklewright (1999) conclude that the *mahalla* scheme as it operated in 1995 was not transparent and failed to achieve horizontal equity, ie. equal treatment for households in equal circumstances.

The relationship between the *mahallas* and the state has evolved. By 1997 the chairman and secretary of the mahalla were both paid salaries by the state, and

candidates for mahalla chairman had to be approved by local government offices. There is some evidence, reported by Coudouel, Marnie and Micklewright (1999), that ethnic Central Asians are more aware of *mahalla* matters and more likely to be involved, and that women very rarely participate in *mahalla* committees.

The official position is clearly that the *mahallas* have been a success. In 1997, 11% of all households in Uzbekistan were receiving assistance through the *mahallas*.¹⁸ Since 1997, the *mahallas*' functions have been extended as child benefits, previously universal for all children under 16, are now also targeted through the *mahallas*. Child benefits involved more substantial amounts than the social assistance program, with 2.6% of GDP spent on child benefits during the first half of 1997 (Coudouel and Marnie, 1998). Eligibility for child benefits is more narrowly set out than for social assistance, focussing on family per capita income. Thus, the *mahallas* are more specifically involved in means testing of their member households. This may be intended to reduce the discretionary element in order to improve horizontal equity, but it has also enhanced the incorporation of *mahallas* into the state apparatus. A staff member of the local labour office has been attached to each *mahalla* in order to help with the paperwork involved in the more formal process of claiming child benefits.¹⁹

In addition to the *mahallas* other traditional networks survived the Soviet era and revived in the 1990s. In fieldwork in Andijan oblast, Kandiyoti (1998) found that the *gap* (or *gashtak* in Tajik), a grouping traditionally of men, had evolved into women's self-help groups, which were interpreted by Kandiyoti as a positive coping mechanism. Koroteyeva and Makarova (1998, 586) in a study based on thirty Samarkand life stories found a remarkable revival of the *gap* since the 1970s, but are less sanguine about the benefits, as the *gaps* encouraged display and were often seen as vehicles for social pressure; in any case they were doomed to decay after cash

transactions became more significant in the late 1980s. Koroteyeva and Makarova (1998, 5693) conclude that the only network which has survived unchanged since the Soviet era and remains strong in Uzbekistan is kinship.

Kinship ties are known to be strong in Uzbekistan, but their economic significance is difficult to quantify. Coudouel, McAuley and Micklewright (1997) shed some light from EESU survey data from three oblasts in 1995. Almost half of the sampled households had been involved in private transfers during the thirty days prior to being interviewed. Over seventy percent of in-kind transfers and provision of services came from relatives, as did over half of cash transfers; employers and neighbours were also important sources of interest-free loans. The amounts were substantial, eg. cash transfers represented about one tenth of total household cash income in the month preceding interviews, but the distribution was skewed, with transfers being both more common and of larger value among higher income groups than in lower income groups. Although based on a limited number of regions (and regional variation is large) and a single month, the EESU data suggest that private transfers are fairly common in Uzbekistan and linked to familial ties, although not necessarily being a redistributive mechanism from rich to poor relatives.²⁰

5. Political and Social Structure

The political structure in Uzbekistan is tightly controlled from the centre (Klugman, 1998a, 79). Opposition to the regime was stifled early in the independence era. The decision-making structure runs through the governors of the twelve oblasts, who are presidential appointees and who have little autonomy. Below them, the administration is also tightly controlled, and, as indicated in the previous section, the *mahallas* have been incorporated into this system of top-down administration. There are also strong regional ties within the political structure, eg. the President is closely associated with his home base of Samarkand, although such ties do not appear to have been reflected in distribution of government expenditures or in mobilization of regional pride and animosities.

The local economic leadership is often intertwined with the political leadership. Within the rural sector, despite a land reform program, the old state farm and *kolkhoz* managers have retained a dominant position (Pomfret, 1998; Ilkhamov, 1998). In the urban sector too, there has been very little privatization, which might have allowed a new class to emerge with independent economic means. The private sector is limited to the petty traders and a few large transnational corporations which participate little in the domestic political scene. Without such disruptive economic forces, which have been far more significant in Kazakstan or in Russia, Uzbekistan's political and social structure have remained remarkably unchanged during the 1990s. Apparently innovative economic policies, notably legitimization of *mahallas* as an instrument for targeted social assistance, have quickly been incorporated into the hierarchical and tightly controlled political system.

The growth of monetary transactions has affected this stability, and is likely to do so to a greater extent in the coming years. The reciprocal measures that are a traditional feature of the society have increasingly involved cash transactions. Entry into a prestigious school or university became more expensive in the 1990s as bribe-taking became endemic, but connections made within the *mahalla* or a *gap* or through kinship were still necessary preconditions to the exchange of cash; the original connections to be in a position to make a bribe were normally made through traditional networks, rather than bribes being the impersonal transactions of a market system. During the 1990s cash transactions have increased in relative importance and the market mechanism is probably displacing the reciprocity of traditional relations, but the latter and especially kinship ties remain important.

6. Conclusions

Of all economies in transition, Uzbekistan appears to have undergone the most limited change in economic and social structure. This is related to the economic strategy based on gradualism, but it also reflects some specifically Uzbekistani elements. Gradualism in Uzbekistan has not been a euphemism for no change (as in, for example, Belarus), and economic performance has been relatively good among transition economies. The government appears to recognize that political and social stability require delivering economic success.

The government is authoritarian and brooks no opposition, but it has not promoted the kind of personality cult and allowed the inequitable distribution of economic benefits that is conspicuous in, for example, neighbouring Turkmenistan. President Karimov has presented himself as a more benevolent autocrat, and this

appears to resonate at least to some extent with the population. Appealing to the historic heritage of Uzbeks and legitimizing social control mechanisms such as the *mahallas* by harking back to a pre-Communist tradition has been an important element in this strategy. The community-basis and paternalism of the *mahallas* is real, even if they are tightly meshed into the centralized political structure. Popular acceptance of the system and its ability to deliver social assistance are elements in the stability of the regime, although without democratic or legitimate means of expression it is difficult to assess how firmly based such stability is.

Is the Karimov strategy of limiting social and political change through gradual economic reform and a functioning safety net sustainable? On the economic front, Uzbekistan often evokes the Chinese model, but it is failing to create the dynamic farm sector that followed initial Chinese reforms or the small and medium-sized enterprises that have been the dynamic source of Chinese growth in manufacturing. On the social and political front, the biggest threat to sustainability is the fragility of the legitimization of traditional institutions such as the *mahallas* when the economy is becoming ever more market-based. If the *mahallas* were to become more independent, there would be prospects of corruption increasing at the local level, allowing local power bases to be strengthened, but as they are absorbed into the centralized state apparatus the *mahallas* lose the legitimacy conferred by tradition and are likely to be challenged as an effective instrument of targeting social assistance. Kinship ties remain strong, but under the pressures of a modern economy, the extended family too must be under long-term threat. Gradual reform has delayed social and political change, but as long as it is reform towards a market-oriented economy it will eventually place pressure on existing social and political relationships.

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Footnotes

¹ There was also a substantial russified Uzbek elite which played a key role in post-1991 nation-building and whose existence left Uzbekistan less exposed to emigration of key administrators than, say, Kazakstan or the Kyrgyz Republic.

² The heritage was, however, never fully disowned; the bazaar and farmers' markets remained an overt feature of the economic landscape, unlike in European regions of the USSR where such institutions operated more circumspectly.

³ Klugman (1998a, 70-1) points out that product-specific differences in market access have emerged, with livestock, fruit and vegetables less subject to state control or influence than the main crops.

⁴ The sources of the former *kolkhoz* managers' power are multi-faceted, but the role of irrigation in determining land value is often critical. Farmers allocated poorly irrigated land will not prosper, and with water grossly underpriced its provision is not market-driven but administratively allocated.

⁵ Pomfret and Anderson (1997) draw a similar conclusion based on buoyant cotton and gold prices during the early and mid-1990s and Uzbekistan's ability to substitute domestic production of energy and grain for imports. Thus, the predicted negative terms of trade impact on Uzbekistan of the dissolution of the USSR, based on pre-1992 trade composition (Tarr, 1994), was not harmful. Pomfret and Anderson also give some credit to gradual reform and relatively competent economic management in explaining Uzbekistan's superior economic performance amongst transition economies.

⁶ On the basis of the 1995 EESU survey, Klugman estimates that as many as a quarter of the labour force might be included in “hidden unemployment”, in the sense of not having been paid over the previous month. Before and after transition comparisons are, however, fraught, because before 1991 many people were on enterprises’ or farms’ books as employed, but were not working. Allowing for all the measurement problems, Klugman (1998b, 115) concludes that Uzbekistan’s employment record during transition has been less adverse than in other former Soviet republics.

⁷ The methodology of the HBS is reviewed in Atkinson and Micklewright (1992) and in Falkingham et al. (1997, 48-52). HBS samples concentrated on households with earners in state factories and, to a lesser extent, on pensioners. Both tails of the distribution were underrepresented as households whose main employee was not working were absent and certain occupations were excluded (eg. party officials, high-level bureaucrats, KGB and military officers). Rural households were also undersampled, which is especially important for Uzbekistan. Furthermore the samples were not rotated; once the sample was established in the early 1950s, households were only removed by attrition. The HBS is characterized by Falkingham and Micklewright as “a survey with a long history and a terrible reputation’ (in Falkingham et al., 1997, 48).

⁸ The EESU data are described in Coudouel (1998, 78-115) and have also been used in *inter alia* CER (1997), Coudouel (1998), Klugman (1998b), and Coudouel, Marnie and Micklewright (1999).

⁹ Low housing costs reduced scale economy effects for Soviet households. The agricultural bias arose from the importance of home production of food in Uzbekistan compared to western republics of the USSR.

¹⁰ The poverty line is set at 120 international dollars per month. For the late 1980s this works out to below the 75 rubles used by Atkinson and Micklewright, hence the lower poverty rate for Uzbekistan in the late 1980s reported in Milanovic's book.

¹¹ According to the HBS data from 1996, home production accounted for 5.6% of food consumed in urban areas and 18.9% in rural areas (CER, 1997, 13).

¹² The OECD equivalence scale (ie. a weight of 1 for the first adult, 0.7 for each additional adult and 0.5 for each child under 14) is used, but since the demographic composition of households is not available in the HBS data the adjustment is a crude downgrading of the poverty rate.

¹³ Housing privatization is especially difficult to assess in Uzbekistan because rural housing was privately owned before independence and utilities remain free or heavily subsidized, so that the change in costs actually born by households as a result of transition is unclear.

¹⁴ A high birth rate and large families were also a feature of the Uzbek republic before 1991, but the contrast with other transition economies has become starker in the 1990s as birthrates in Russia and elsewhere plummeted.

¹⁵ In Tashkent 71% of households have washing machines. In Fergana oblast, 53% of urban households and 22% of rural households have washing machines. In Karakalpakstan, 29% of urban households and 14% of rural households have washing machines (CER, 1997, 24).

¹⁶ Among the Karakalpaks there was no tradition of *mahallas*, which is significant for fieldwork based on the EESU data covering three oblasts of which Karakalpakstan was

one. Although the coverage of the *mahalla* system was nationwide, their operation clearly varied considerably.

¹⁷ Local supplementation appears to have occurred in the Navoi oblast, which is home to rich mining companies. In a scatter diagram of the relationship between average oblast income and the share of households receiving social assistance, based on a one-off Uzbekistan government survey of 20,000 households in 1995 (reported in Coudouel, Marnie and Micklewright, 1999), Navoi is the most striking outlier.

¹⁸ This is the first year for which the problem of double-counting of households making more than one application is addressed. Many *mahallas*, especially those with a traditional base, also played social roles such as trying to reconcile married couples considering divorce.

¹⁹ Koroteyeva and Makarova (1998, 592) describe a situation where *mahalla* practice contradicted the *sharia* (Islamic law); when the conflict was formally raised in mid-1995, the decision was an unenforceable compromise. Thus, as the *mahallas* are drawn under tighter government control they are diverging from the cultural and historical basis which is supposed to confer legitimacy on them.

²⁰ Coudouel, McAuley and Micklewright suggest that important patterns are transfers from parents to adult offspring and among siblings, which may be seen as consumption smoothing over the life cycle or as a form of mutual insurance.