BOFIT blog

War economy boosts life satisfaction for ethnic Russians and residents of military-industrial regions

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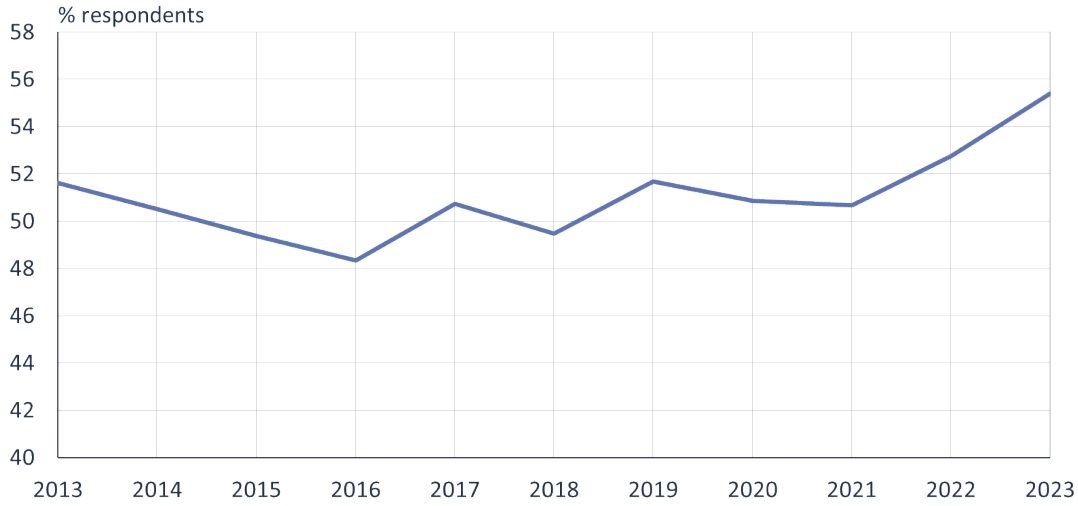
The analysis of Russian household survey data finds that overall subjective well-being and financial security have improved on average during 2022-2023 but with interesting disparities. Ethnic Russians and those in military-industrial regions have experienced notable gains, whereas retirement aged and highly educated have gained less if at all.

The years 2013 to 2023 constitute a lost decade for Russians in terms of their material well-being. Real disposable incomes in Russia only recovered to their 2013 level in 2023. The war years have boosted Russian real income growth driven by a steadily shrinking labor force. Wartime mobilization and emigration have exacerbated this trend, with labor shortages now widespread. While government stimulus has helped war-related industries compete for scarce talent, it has also forced companies in sectors not involved directly with the war effort to offer higher wages.

Chart 1.

Positive responses to survey question: "Are you satisfied with your life in general right now?"



Sources: RLMS, Authors' calculations.

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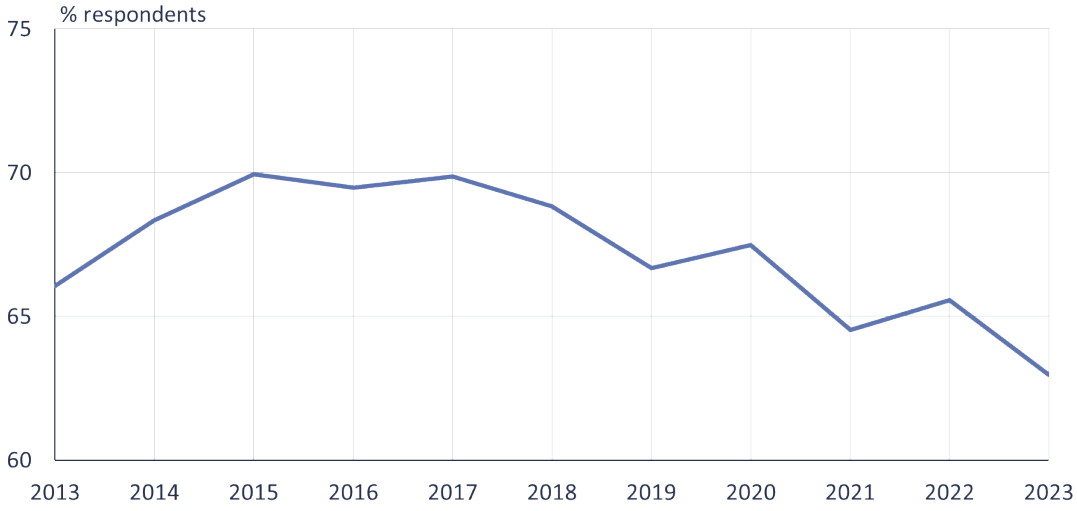
As aggregate figures do not capture the nuanced reality of economic well-being of ordinary Russians, we turn to insights from the Russian Longitudinal Monitoring Survey (RLMS) for a more granular picture of household well-being under sanctions[1]. The RLMS, launched in 1992, is a representative annual survey project tracking socio-economic conditions for individuals and households in Russia. Contrary to initial predictions of widespread dissatisfaction, the RLMS data show that subjective well-being among Russians has generally improved since the invasion of Ukraine. The year 2023, in particular, was marked by highest levels of life satisfaction in a decade (see Chart 1). Anxiety about access to basic necessities ("bare essentials" including food, shelter and heating) in the coming 12 months has marginally declined post-invasion (Chart 2). While it implies improved economic conditions, over 60 % of Russians in 2023 said they were still worried about their ability to get basic necessities over the coming year.

Chart 2.

Positive responses to survey question: "Are you concerned about procuring your bare essentials over the next 12 months?"



Sources: RLMS, Authors' calculations.

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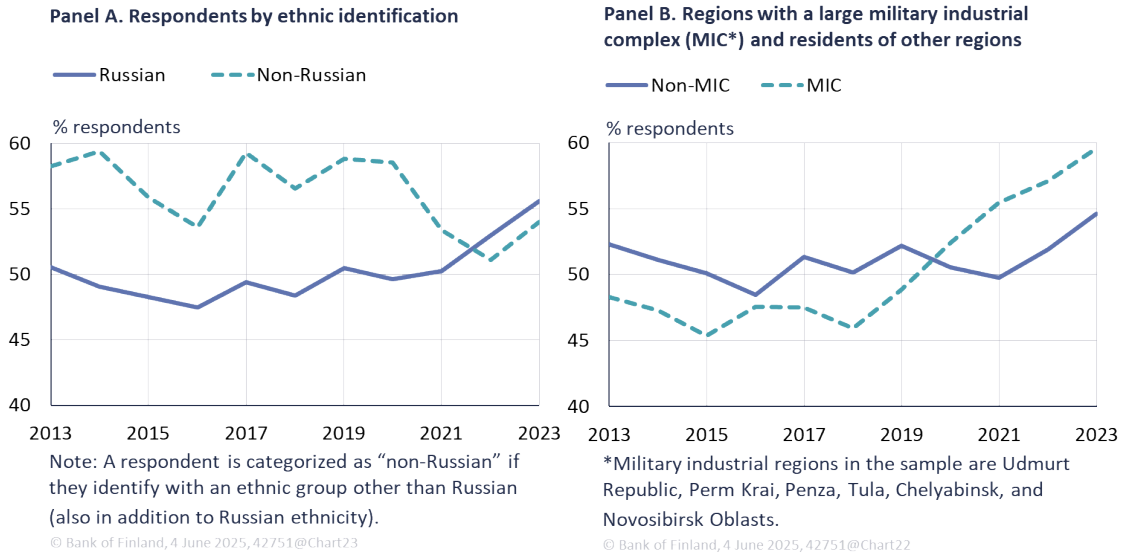
Russia's welfare gains have not been evenly distributed across demographic and geographic groups. Ethnic Russians, for instance, reported significant improvements in both general life satisfaction and their finances since the invasion of Ukraine. The war years have reversed earlier disparities where individuals who perceive themselves to be non-Russian in ethnicity, reported higher life satisfaction than ethnic Russians (see Chart 3. Panel A below). Similarly, residents of regions with a strong military-industrial base have higher levels of life satisfaction compared to residents of other regions. Official Rosstat statistics show that military-adjacent manufacturing sectors showed the highest growth in wages in the years since the invasion of Ukraine.

Chart 3.

Positive responses to survey question: "Are you satisfied with your life in general right now?"



Note: A respondent is categorized as "non-Russian" if they identify with an ethnic group other than Russian (also in addition to Russian ethnicity).

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*Military industrial regions in the sample are Udmurt Republic, Perm Krai, Penza, Tula, Chelyabinsk, and Novosibirsk Oblasts.

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Sources: RLMS, Authors' calculations.

While life satisfaction had not improved in Moscow or St. Petersburg, regional capitals elsewhere saw life satisfactions gains. The RLMS data do not support the frequent claim that residents of rural regions have been significantly better off during the war years than residents of more urban settlements.

Conversely, a significant group of respondents reporting declines in their well-being both in a general and material sense were in the large and growing segment of the population that has reached retirement age. University-educated individuals also experienced a decline in well-being in the first year of the war, portending adverse future effects for a country already suffering from an accelerated brain drain.

Russians build up financial buffers, consumption of durables depressed

The war has significantly altered household consumption and savings patterns in Russia. Overall household consumption of goods and services initially contracted after the invasion in 2022, but recovered to pre-invasion levels the following year. The acquisition of household durable goods, on the other hand, did not recover in 2023 despite accelerated real income growth according to the RLMS data. Weaknesses in Russian production of consumer durables and international

sanctions that limit Russians' access to Western products explains the decline in purchases of consumer durables (such as household appliances, cars).

Despite rising incomes, uncertainty about the future and restricted access to foreign products have led Russian households to prioritize saving. The total volume of household savings more than doubled between 2021 and 2023. Most money went into short-term bank deposits that can be easily accessed by the depositor. This surge in savings implies both improved conditions for savings (high wage growth and interest rates) and a precautionary motive to create a buffer against future adverse surprises. This divergence, whereby financial security increases while durable goods consumption remains stagnant, highlights the profound impact of the wartime economy on household behavior.

Is this sustainable?

These findings challenge the intuitive expectation that Russia's brutal invasion of Ukraine would quickly lead to widespread economic hardship and social discontent in Russia. While there are disparities, respondents who were ethnic Russians or otherwise residents of regions with high levels of military-industrial activity said that their overall subjective well-being and financial security had improved on average. This combination of high income growth, active quashing of dissent and strict political control of the public information space may explain the absence of a vocal, large-scale resistance to the war despite mounting casualties.

That said, sustainability of these gains is uncertain over the middle term, as the continued war of aggression is causing internal economic imbalances, exacerbated by external pressures such as a declining global oil price. Indeed, Russian economic growth is already showing clear signs of cooling this year, and the state revenue flows needed to maintain large wage increases face serious challenges. Given these emerging conditions and the clear primacy of the war effort for the Russian state, the outlook for further well-being gains by ordinary people, particularly those in demographic groups already left behind, is hardly encouraging.

Keywords

households, Russia, sanctions, war