

Analysis

The Politics of Welfare Reform in Russia: The Dominance of Bureaucratic Interests

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Abstract

The postcommunist Russian state inherited a large social sector. Much of the population depended on that sector for social services and subsidies, while state-bureaucratic welfare stakeholders relied on public expenditures and administration for their resources and roles. When the Yeltsin and Putin administrations initiated welfare reform policies of retrenchment, privatization and decentralization, they met resistance. During the Yeltsin period, bureaucratic actors as well as unreformed Communist parties in the Duma blocked change in welfare state structures, even as economic decline forced defunding of these structures. Under Putin, the Duma and societal interests were marginalized, while statist-bureaucratic actors continued to play a major role, producing an elite-dominated politics that at once permitted and moderated reform.

The Soviet Welfare Legacy

The postcommunist Russian state inherited a distinctive system of welfare provision, one that was created by the state through a top-down process. The state monopolized the social sector, and administered it through centralized bureaucracies that were articulated down to regional and local levels. By the end of the Soviet period, much of the population depended on the state for basic health and educational services, pensions, and pervasive social subsidies. Moreover, some 15 percent of the labor force worked in the social sector, relying on public expenditures for employment, income and professional status. Yet, unlike in European and other more democratic systems, popular demand-making had played almost no role in the construction of the Soviet welfare state. Labor and political repression had prevented the formation of autonomous supporting interest groups in society. Russia's political economy was characterized by extensive popular dependence and attachment to the welfare state, but lacked the kinds of organized societal interest group networks that defend it in other polities.

At the same time, the postcommunist polity did include large inherited social sector bureaucracies that also relied on public expenditures and administration. In other words, Russia had an additional set of statist-bureaucratic welfare stakeholders that was stronger than any counterpart in other, more democratic systems. Threatened by the welfare reform policies of retrenchment, privatization and decentralization that were promoted by both the Yeltsin and Putin administrations, they resisted reform. I argue below that both weak societal and stronger statist welfare interests played roles in blocking and moderating welfare state liberalizing in

Russia. Statist-bureaucratic stakeholders, particularly the central social ministries and social funds, worked to block policy changes, to dilute their effects, and to gain compensation for reductions in their roles and control over social expenditures.

During the Yeltsin period, bureaucratic actors as well as unreformed Communist parties in the Duma blocked comprehensive changes in welfare state structures, even as economic decline forced retrenchment and defunded those structures. Under Putin, the Duma and societal interests were marginalized, while statist-bureaucratic interests played the major role in negotiating change across most areas of welfare provision. The outcome was an elite-dominated process that at once permitted and moderated reforms. (The January 2005 Social Benefits Reform, the subject of "Reforming the *L'goty* System" by Michael Russell and Susanne Wengle, in this issue of *RAD* (p. 6), was a major exception to this characterization of welfare policy, an area in which popular pressure and protest played a large role in moderating reform.)

The Yeltsin Period: The Politics of Polarization and Retrenchment

The market transition and economic recession that began in the early 1990s rendered Russia's inherited welfare system unsustainable, and the Yeltsin administration responded with a liberalizing program of expenditure cuts, privatization, and reduction of the central state's role in welfare provision. Beginning with the first Duma election in late 1993, however, pro-welfare parties challenged this liberalizing project and created a contentious politics of welfare. Moderate socially-oriented parties such as Women of Russia and Yabloko,

supported by women's groups and public sector workers, pressed to maintain social benefits, public sector wages, and state commitments to education. Health and especially education workers engaged in significant activism, becoming the most strike-prone sector of Russia's mainly quiescent labor force. The passivity of these groups in the face of retrenchment and liberalization has often been overstated. But these moderate socially-oriented political parties remained small and weak, public sector strikes brought limited concessions, and the influence of these groups on policy remained quite limited.

Effective opposition to liberal welfare reforms did emerge in Russia through the victory of hard-left parties in the 1995 Duma election. Unreformed, anti-market Communist and Agrarian successor parties that were supported by older, poorer, rural and state-dependent strata formed a dominant coalition in the Duma of the mid-1990s. Especially in rural areas, these were clientelistic parties whose support was based in the broad distribution of benefits and subsidies during the communist period. The legislative record shows that the Duma became a key veto actor for the remainder of the decade, blocking the executive's efforts to dismantle the statist system of social provision, as well as its attempts to construct new private markets for public goods. The Duma rejected numerous reformist proposals to restrict pension eligibility, and passed legislation that increased social benefits and subsidies for older citizens. It opposed legislation to develop a health insurance system, placed a moratorium on privatization of state schools, and blocked formation of new private ones. In 1997 the Duma turned down a major package of welfare legislation that would, *inter alia*, have partially privatized the pension system, reduced employment-related benefits, and replaced the massive existing system of social subsidies with a streamlined system of means-tested anti-poverty measures. In sum, despite the deep and sustained economic decline that lasted until 1999, the Duma resisted or rejected measures that would have restructured and adapted the welfare system. Deputies also pressed for increased social expenditures, repeatedly passing raises in pensions, benefits, and public sector wages. Yeltsin vetoed nearly all of these measures, and real spending on social transfers and services fell precipitously in line with the drop in GDP.

Statist-bureaucratic stakeholders, in particular the Health and Education Ministries and the Pension Fund, also resisted reforms, waging a rear-guard campaign against the executive's efforts at privatization and marketization of welfare. The Health Ministry fought to maintain central control over health care spending, standards, and appointments. The Education Ministry opposed both privatization and closing of schools. The

Pension Fund stood against proposals for partial privatization of the system. Combined societal and statist opposition blocked restructuring efforts, locking much of the old welfare state in place, preventing adjustment of structures to new economic constraints. The outcome of this "politics of polarization" was an incoherent policy that retained programs and entitlements with diminished funding, contributing to the fall of benefit levels and public sector wages below poverty levels, arrears, breakdowns, and large-scale poverty among those who depended on the social sector for benefits or salaries. (see Table 1 on p. 5)

The Putin Period: Liberalization Negotiated Mainly "Within the Elite"

At the end of the 1990s, a political shift broke the deadlock between the executive and the Duma, and appeared to open the way for liberalizing welfare state reforms. The shift toward a pro-executive legislative majority after the 1999 Duma election ended the left's dominance and the legislature's veto role, further weakening the potential for societal or electoral constraint.

Established parties, both reformist and unreformed Communist, were replaced by new "parties of power" that had shallow roots in the electorate and largely subordinated themselves to the president. Between 2000 and 2004, the Duma passed the executive's liberalizing and privatizing reforms across the welfare state, including pensions, social assistance and benefits, housing, education, and labor code reforms. (For a summary of these reforms, which were encapsulated in the Gref Social Sector Reform Program, see Table 2 on p. 6) It is significant that welfare liberalization in Russia coincided with a period of sustained economic growth and fiscal surpluses. Real social expenditures were increased in some areas, but the government committed itself to keeping welfare effort low and institutionalizing a limited state commitment to public provision.

But the Putin administration's liberalization program continued to face important political resistance and constraint. State-based welfare stakeholders, who had preserved their positions in the largely unreformed social sector through the 1990s, retained influence in Russia's welfare politics. Putin's power was based in the government, and he sought to build a reform consensus through a governmental team under the leadership of German Gref, in consultation with social ministries. Instead, the social ministries and other statist actors continued to pursue "departmental interests," and to resist reforms. Russian "managed democracy" produced a distinctive politics of welfare reform negotiated mainly within the elite. This politics is illustrated below for the areas of pension and education reform.

Pension Reform

Pension reform was one of Putin's first welfare initiatives, designed to reduce the burden of public expenditure for pensions that had become unmanageable. The reform entailed partial privatization of the pension system through the establishment of individual investment accounts as a component of pension savings, and it provoked deep conflicts within the government. The main division emerged between the Ministry of Economic Development and Trade and the head of the state Pension Fund. The Pension Fund controlled the largest pool of money in the social security system, and the reform threatened it with loss of control over contributions that would go into new individual investment accounts. The Pension Fund's Chair pressed for continuation of the existing system. The Economic Development Ministry favored a large invested component and reliance on private investment mechanisms, in part to deepen Russia's capital markets.

The "Pension War" between these two government agencies dominated negotiations over reform, with only token representation of societal interests. A broader consultative mechanism was created only very late in the process, when key decisions had already been made. Russian pensioners in any case had no significant national organizations that could articulate their interests. The trade unions and Labor Ministry, institutions that typically defend public pension systems in more democratic systems, played very minor roles in Russia. Legislators did resist the more radical proposals for investment funds, but the social implications of the reform, particularly its projected long-term negative effects on women and lower-paid workers, received little consideration. The final legislation was a compromise, with private investment accounts to be introduced while a somewhat reduced public system continued in place. The Pension Fund retained a major role, and was compensated by new legislation that consolidated its control over pension distribution.

Education

Reform initiatives were also taken to re-organize the education sector in order to increase competition and create pressures for streamlining and modernization. Reformers proposed to move most state financing for post-secondary education from direct state support of schools to a voucher system in which "money follows the student." Students would be funded on the basis of their performance on a national exam, and free to choose a school. Vouchers would introduce a market for educational services, while schools that could not attract sufficient enrollments faced the risk of closing. Introduction of a standardized exam, to be administered by the Education Ministry, would undermine the

system of preparatory courses and tutoring for individual schools' exams that had developed during the 1990s, and that contributed to veiled corruption in admissions. In sum, the proposed reforms directly threatened the interests of higher educational institutions in guaranteed state funding as well as supplementary income, while expanding the role of the Education Ministry in the reformed system.

The Economic Development and Finance Ministries strongly promoted the reform, and both standardized exams and vouchers were introduced on an experimental basis in 2001. They met resistance from both the lower levels of the Education Ministry and the influential Union of Rectors of the state university system, which strongly opposed both national testing and the transfer of state funding to vouchers. At its 2001 Congress, the Rectors' Union expressed fears that the new financing system would worsen their financial problems, and called on the government, not to place the educational system "under the complete control of the invisible hand of the market." The Union organized regional universities to refuse to accept applicants based on the national test.

There ensued a "battle of ironclad university interest groups," with the "red rectors" opposing reform while prestigious new Moscow institutes supported it. The Education Ministry was caught between the Finance Ministry and educators and internally-divided over the reform. The government ultimately compromised with the rectors, conceding that a part of student recruitment would remain under the control of the schools, while the system of vouchers and national testing controlled by the Education Ministry also moved forward. For both the rectors and the Ministry, the outcome demonstrates once again the capacity of elite stakeholders to negotiate for concessions that serve their narrow institutional interests.

Conclusion

In sum, the politics of welfare in Russia has become elite-dominated, its outcome largely a product of negotiations among ministries and other statist actors. Strong popular protest did emerge against Putin's broadest and most tangible welfare cuts, the "monetization" of social benefits in early 2005. But for the most part, societal actors have been weakly-organized and represented in Russia's welfare politics. As a government advisor who was deeply involved in the Putin-era reform process, interviewed by the author in Moscow in June, 2001, said, "The major obstacle to reform is conflict within the government. Pension reform, education reform, are completely feasible in the sense of technical constraints. In most cases, practically the executive branch can get the Duma to do as it wants. The question is of political

feasibility – a lack of homogeneity of views and interests within the government.” Social policy has been less about the welfare function of the state, and more about the competing interests of inherited elite and state-based stakeholders in controlling pools of social

security funds and access to services and resources. The importance of these actors must be recognized in order to understand Russia’s postcommunist welfare politics.

About the author

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Table 1: Basic Social Guarantees and Social Sector Wages, 1993–2002
 (% subsistence level, January 1 or first quarter)

	1993	1999	2000	2001	2002 Q4
Minimum Wage	39	10	6.8	13.2	22
Wage rate for 1st Grade of Public Sector Wage Scale	41	10	10.7	13.2	2.2
Monthly benefit for each child to 16 yrs.	19	7	5.0	5.0	3.7
Min. student stipend, VUZ	39	19	13.6	13.2	10
Old Age Pensions: Minimum*	63	42	48.2	44.0	36.5
Average	138	70	76.4	89.5	100.0
Invalid’s pensions Group 1	105	30	30.6	31.7	--
Wages in Health Sector Average	195(1992)	99	107	126	166
% Workers below Subsistence	--	67.2	65.7	61.0	38.8
Wages in Education Sector Average	185(1992)	93	99	117	153
% Workers below Subsistence	--	70.5	67.5	61.3	41.4

Notes: *with compensation payments.

Sources: *Sotsial’noe polozhenie i uroven zhizni naseleniia Rossii: statisticheskii sbornik*, (Moscow: Goskomstat, various years).