Table 2: The Gref Program for Social Sector Reform

Sector	State Responsibilities	Responsibilities of Households Above Poverty Level
Social Assistance	Re-target assistance to poor Provide means-tested poverty relief, child benefits	Social transfers and privileges cut No eligibility for income assistance
Housing	Create institutions for housing, and utility markets Provide means-tested housing assistance	Pay most costs of housing and utilities Join self-managing condominiums Buy, sell, rent housing in market
Education	Provide free, universal basic primary and secondary education Finance on per capita ("money follows the student") basis Provide means-tested assistance, competitive vouchers for higher education Set national standards, single state exam Set national wage scale for educators	Co-pays for services above basic standard, co-financing Partial or full tuition payment for post-secondary, pre-school Increasing level of family contribution
Health Care	Provide limited list of free services to poor Establish and regulate mandatory medical insurance Legalize private medical insurance Regulate private medical practices	Covered by mandatory medical insurance Co-pays for some services Legal private alternatives in medical care and insurance
Pensions	Guarantee basic (subsistence) pension Regulate financial services for pension investment No defined benefit	Individual, differentiated main tier Individual invested accounts Defined contribution system
Labor	Set minimum wage Provide unemployment benefit Create flexible labor regime Enforce labor contracts	Rights to union membership, collective bargaining, strike Rights to court appeals of contract violations

Analysis

Reforming the *L'goty* System: The Future of In-kind Benefits in Post-Soviet Russia

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Abstract

The "monetization" of social benefits was one of the most contested pieces of legislation during President Putin's time in office, prompting mass protests when it came into force in January 2005. The reform was designed to cash out in-kind benefits and reallocate responsibility for welfare services between the federal government and the regions. The new system was accompanied by rhetoric about targeting welfare resources to the poor and addressing inequalities in welfare provision. Although many elements of the Soviet-era *l'goty* system were retained, the reforms marked a significant overhaul of Russia's welfare provision and have important consequences for the regionalization of social policy and the introduction of means-testing.

The L'goty System

L'goty are special benefits or privileges that entitle eligible recipients to the free or discounted use of various public services, including transportation, housing, utilities, medicines and sanatoria. Some *l'goty* allow unlimited consumption of services, for example on public transport, while others grant free services up to levels set by the government. *L'goty* were a characteristic element of the Soviet welfare system, where they were generally awarded on the basis of merit or service to the Soviet state, as in the cases of military and labor veterans. Alternatively, they served to encourage migration to politically important areas, attracting workers, doctors and teachers to rural areas and the Far North. In certain circumstances, *l'goty* were granted to raise living standards of certain groups, such as disabled people, former gulag prisoners and those affected by the 1986 Chernobyl nuclear disaster. Across the board, they were imbued with symbolic capital beyond their material benefits. They became a source of pride and identity among recipients, with Soviet society coming to believe that *l'gotniki* legitimately deserved these special privileges.

It is important to stress that *l'goty* were not originally designed to relieve hardship and were not an equivalent to the social assistance that operates in market economies. Although originally granted irrespective of recipients' material well-being, these benefits became crucial sources of support for many households during the economic turmoil of the early 1990s. As elsewhere in Eastern Europe, new forms of hardship emerged at this time, affecting groups that had not previously been vulnerable to deprivation, such as the intelligentsia, unemployed workers and *budgetniki* (public sector workers). *L'goty* acted as a safety net, ensuring that recipients received basic services despite their financial poverty. As individual incomes plummeted, the relative importance of these free services in household budgets increased. In 2003, the value of in-kind benefits represented 10-15 percent of poor households' income.

It would nonetheless be wrong to regard *l'goty* as an effective way of reducing deprivation or allocating social assistance. Three distinct problems mounted over the years: poor financing, their non-monetary nature and their untargeted distribution. These points were long recognized by specialists and politicians, but only in 2004 did the Russian government tackle the politically sensitive issue of reforming the country's benefit system.

Problems with L'goty

The first concern was that the *l'goty* system was unwieldy and underfinanced. During the 1990s, social spending in real terms fell dramatically. Particular problems were caused by "unfunded mandates" – federal instructions to regions to award new *l'goty* that were not accompanied by requisite funds. During the post-Soviet period, regions and municipalities also awarded their own benefits, adding to the complex array of available *l'goty* from the Soviet period. By 2003, 236 different categories of the population were eligible for more than 156 social payments at the federal level alone. However, roughly two thirds of the legislation concerning *l'goty* did not provide the funds required for their provision. As a result many people entitled to *l'goty* did not receive them. Local service providers – utilities and municipal transport systems – often had to bear the costs of providing discounts, forcing them to operate at a loss and starving them of investment.

In the eyes of the liberal reformers in the Putin administration, the second problem with *l'goty* was that their in-kind nature impeded the development of a market economy. The opaque accounting of in-kind benefits for enterprises and households played a major role in the barter and non-payments crisis of the mid-1990s. Liberal reformers in Russia have long been eager to create markets for public services and reduce the state's role in welfare provision. They see in-kind benefits as incompatible with a market economy that relies on hard-budget constraints and transactions that can be valued in cash terms. In 2000, German Gref, the newly-installed liberal Minister of Economic Development and Trade, proposed cashing out *l'goty* to clarify the financing of social provision.

The third major concern with the *l'goty* system was that it was ineffective at tackling poverty, principally because benefits were not allocated on the basis of need. While certain *l'goty* recipients were highly likely to experience deprivation (disabled people and former political prisoners), the *l'goty* system did nothing to ameliorate such significant issues as child poverty or hardship among unemployed and low-paid workers. Entitlements to *l'goty* were and remain broadly distributed in Russia, with 27 percent of the population eligible for at least one benefit in 2003. Richer households are both more likely to receive these social benefits and to consume greater quantities of discounted and free services. Policy debates often stress the need to curtail *l'goty* in order to free up resources that can be used for directly tackling deprivation.

Reforming the L'goty System

The problems with the *l'goty* system prompted reformers in the Putin government to instigate change in 2004. At this time, presidential and parliamentary elections were far off, providing a window of opportunity for potentially controversial and painful welfare reforms. Federal Law No. 122 was passed by the Duma during the summer of 2004 and came into force on 1 January 2005. Deputies approved the law quickly, with little debate about its merits and minor concern for regional administrations and welfare agencies, which were given just four months to prepare for this major overhaul of in-kind benefits.

Federal Law 122, which soon became known as the "monetization law," had three important aims: to regulate federal-regional welfare responsibilities, clarify the financing of public services and convert in-kind benefits into cash payments. It was this last point that caused uproar across Russia: significant protests erupted when *l'gotniki* discovered that they were now being awarded relatively low amounts of compensation to pay for services that were previously free. These protests were the most significant expression of public discontent with the economic policies of the Putin administration, which had otherwise largely managed to shield itself from popular criticism. Public pressure in January 2005 forced the federal government to make concessions and prompted several regions to reverse their own monetization plans. Three years after the new system came into force, monetization still has singularly negative connotations in popular discourse, being viewed by the population as an example of the arrogance of government officials with no concern for ordinary people. Two issues continue to make monetization topical today: the regionalization of the Russian welfare state and the move towards targeted (means-tested) social assistance.

Institutionalizing Regional Differences

Law 122 embodied Vladimir Putin's intention to clarify federal relations and create a "vertical" line of authority in the welfare sphere. One of the most important aspects of monetization was the new division of administrative-financial responsibility for *l'goty* between the federal center and individual regions. Certain categories of benefit-recipients now receive assistance directly from the federal budget, while other *l'gotniki* are the responsibility of individual regions. Regions were saddled with the larger and less politically symbolic groups of the population, including labor veterans, former political prisoners and civilian WWII workers (Home Front veterans). The federal government provides for military veterans, disabled people and Chernobyl victims.

Despite greater legislative regularity, regional inequality in welfare provision has increased as a result of Law 122. Regional differentiation in social policy in Russia is nothing new, having emerged *de facto* during the 1990s. The key difference is that in the Putin period cross-regional differences were institutionalized, as the new law let regions decide whether, and how, to monetize regional level *l'goty*. Each of Russia's 85 regions has its own policy on benefits, with the size of cash payments and availability of discounted services depending on regional administrations. The eagerness of regional governments to implement monetization varied greatly. The propensity of regions to monetize benefits generally depends on regional governors: those appointed during the Putin years have been on the whole more inclined than experienced incumbents to implement significant changes. Only Tatarstan and Tver monetized all benefits in January 2005 (reflecting the influence of a new, reformist governor in Tver and Mintimer Shaimiev's strong support for Putin in Tatarstan). In contrast, Moscow City opted to keep almost all benefits in-kind. Financial considerations also played a role in how regional administrations implemented the provisions of Law 122. Richer regions could better afford the expensive process of paying cash benefits and awarded higher amounts of compensation for privileges previously awarded in kind. Wealthy regions with natural resources thus tend to pay the most generous cash payments to their benefit-recipients. For example, home front workers in Khanty-Mansiisk Autonomous Oblast receive almost twice as much as their counterparts in most other regions.

By now, most regions have heeded the advice of the Kremlin to monetize *l'goty* and quietly moved in this direction. Importantly, some regions are starting to monetize in-kind benefits related to the housing sector, the largest public service market in Russia. Altai Krai, for example, monetized housing benefits in January 2008, a year after President Putin appointed a new governor.

An interesting geographical aspect of Law 122 has been the cancellation of special *l'goty* for residents of the Far North, whose wages and benefits were traditionally increased to offset inhospitable conditions and higher costs in the area. Employers and local governments are now responsible for many supplements and welfare services that were previously financed by the federal government. This move represents the implementation of Moscow's long-stated intention to curb the special financial and legislative privileges of the Russian north and treat it as any other region. However, this harmonization on the legislative level has increased differentiation in access to welfare services in northern regions, for not all companies and regional administrations in the area have large budgets to spend on social provision. The fact that regional opponents of the pro-Kremlin United Russia party, such as the Union of Right Forces (SPS) and Just Russia, campaigned for the restitution of northern benefits ahead of the 2007 Duma elections attests to the saliency of monetization in these regions.

The Issue of Targeting

Despite the powerful government rhetoric about the need to improve the targeting of social provision to poor residents, Law 122 did not move Russia in this direction. It neither changed the categories of recipients who receive support nor introduced measures to tackle poverty. This absence of targeting was arguably due to the electoral consequences of limiting the welfare support received by large segments of the population. Moreover, the Russian government may have felt less urgency to raise the effectiveness of social spending in light of healthy state finances. The minimal influence of international financial institutions in Russia is also important – in poorer CIS countries they have demanded targeting in return for financial assistance.

Although targeting is limited at the national level, there have been attempts to introduce means-testing at the regional level. Individual regions are now responsible for most benefits granted to less well-off households, including housing subsidies, child benefits and poverty benefits. However, there was little experience of means-testing and tackling poverty in the USSR and regions have only slowly started to embrace such policies. By late 2006, 61 regions claimed to have targeted social assistance programs. However, it is not clear how effective their targeting measures are. Tatarstan, for example, proclaims that it started to target support as early as 1993. Yet, its child benefit for poor families covers just 12 percent of poor children and pays just 82 rubles per month. According to the World Bank, few regions have established targeting mechanisms that cover a significant proportion of the poor and grant a reasonable amount of support. Its 2006 survey of social assistance found that over two-thirds of funds ostensibly directed towards the poor go to non-poor beneficiaries, prompting the conclusion that the performance of income-tested programs in regions is "mediocre."

Despite the targeting rhetoric that often surrounds their programs, most regions continue to award support to specific categories rather than on the basis of individual need. This continuation of Soviet practices suggests that it is difficult to restructure longstanding institutions of social assistance. The complexity of accurately measuring well-being in transition countries where much economic activity takes part in the informal sector is also important. Regional social protection departments have received little guidance or information about targeting and thus often lack the technical expertise to create such mechanisms from scratch. Overall, targeted programs account for only a small share of Russia's welfare spending – 0.4 percent of GDP, compared to the 5.5 percent of GDP spent on non-contributory social assistance.

Targeting is a thorny issue. On the one hand, it calls for the singling out of the "deserving poor" from a larger set of welfare recipients, a process that in practice is politically and administratively problematic. On the other hand, it is certainly the case that poorer regions need to spend their limited funds for social protection effectively, i.e. to raise the well-being of vulnerable groups. While Moscow City can easily finance – and is willing to finance – generous benefits for many residents, the same is not true for most of Russia's regions in receipt of federal transfers.

Conclusions

Although Law 122 retained many elements of Soviet-era welfare provision and did not introduce targeting at the national level, it still marks an important change for welfare recipients in Russia. Cashing out benefits is a step towards a more liberal welfare regime, paving the way for the marketization and privatization of various public services. Law 122's clarification of social spending responsibilities institutionalized regional inequalities in welfare provision, for the nature and level of support now varies greatly between region and category of benefit-recipient. Targeting is likely to remain on the political agenda in Russia, although it may be a more salient concern at the regional level. Given the furor over monetization in 2005, when eligibility principles did not change, the federal government will probably leave the controversial task of further reforming social assistance to regional administrations.

About the authors

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