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Russian Pension Reform under Quadruple Influence

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Russia’s government initiated pension reform in 2013 to resolve a crisis: the prolonged recession had created a huge Pension Fund deficit that required unsustainable subsidies from the state budget. The article analyzes four sets of influences on that reform: those from above (high-level policy makers), inside (government ministries, legislators), below (civil society, public opinion), and outside (international actors, policy learning). We find that the strongest influences come from above and inside, and analyze the conflicting policy preferences of key actors on reversal of pension privatization, indexation of payments, and age of eligibility. The policy process is protracted and fails to resolve major issues. Irresolution results from the leadership’s effort to avoid blame for pension benefit cuts despite the weakness of civil society’s influence. The current reform effort has been tentative, halting, and indecisive, indicating a government with a diminished capacity to resolve this major social policy problem.

INTRODUCTION

Struggles over reform of Russia’s pension system have exposed profound differences among key actors in the Russian political system. The issue has been subject to fierce debates and open expressions of diametrically opposing positions among prominent government officials in the public space. The enormous deficit of the state Pension Fund, a stagnating Russian economy, and the demographic trend of population aging, pose severe challenges and dilemmas for the authorities in redesigning pension policies.

This article analyzes the influence of several actors on the Russian old-age pension system, showing the interplay of macro-demographic and socio-economic trends and actors’ policy preferences. It applies a model of quadruple influence on welfare reform developed by Tone Fløtten (2006), analyzing the impact of influence from above (high-level policymakers), inside (state bureaucracy and professionals), below (civil society and public pressure), and outside (international actors and policy learning). We find that the strongest influence comes from above and inside, but with competing and sometimes cross-cutting alliances and coalitions among key actors. International organizations make policy recommendations but their direct influence is weak. However, Russian policymakers often rely on international experience. Direct influence from below is quite weak, although public opinion clearly matters.

The article looks into key controversial issues and analyzes how different actors have responded to each. The first issue is design of the pension system itself, particularly whether to retain the mandatory privately funded tier that was introduced in 2002. The second, related issue is the moratorium on contributions to the funded tier. The third is whether to increase Russia’s notoriously low pension age, normally 55 for women and 60 for men. The last is whether to retain the guarantee that pensions will be fully indexed to compensate for inflation.

Briefly, we find that pension reform is subject to prolonged intra-governmental struggle, with most of these four issues remaining unresolved. We consider two explanations
for policy irresolution: first, Vladimir Gel’man and Andrey Starodubtsev’s (2016) argument that the policy process in Russia often fails, especially in the absence of a decisive presidential role; and second, that the indeterminate length and depth of the economic crisis contributed to policy irresolution. We also find that pension reform more often privileged the policy preferences of the social bloc over those of the economic bloc in the government. Further, most decisions protected the interests and incomes of current pensioners at the expense of current workers and the pension system’s longer-term viability. Here we find relevant Andrea Chandler’s (2013,15) argument that Russia’s regime “may use social welfare policies to build political support and legitimacy.”

FRAMEWORK FOR ANALYSIS

Russia’s politics have taken an authoritarian turn in recent years. The presidential administration and central ministries exercise overwhelming influence on federal policymaking in welfare as well as other areas. How, then, are Russian welfare policies developed? Many social and welfare policies are decentralized and heavily influenced by regional policy processes, but Russian pension policies are centralized and the sole responsibility of federal authorities (Kulmala et al. 2014). Thomas Remington (2014) outlines the typical policy processes, which aim at consensus among key bureaucratic stakeholders who may have divergent views on the direction of policies. In the process of drafting new legislation the relevant actors must agree on a text, which is then approved by the government as a whole. For this task, working groups and commissions are formed with representatives from the relevant ministries and other important stakeholders. The presidential administration may also take part in these often difficult negotiations to assist in reaching a compromise between opposing parties. Once a text has been agreed, it is presented to the Duma for adoption, normally in two readings. There is only limited scope for fundamental amendments by the Duma, though some minor adjustments and concessions are often made between the first and the second readings.

This policy process, which is characterized by formal procedures and informally developed practices, does not operate in a societal vacuum, however; input from a range of actors is sought. Pension reform should be expected to engage a large number of stakeholders, as the whole population is affected, and all affected interests are consulted in some form. Though the state bureaucracy and the ruling political elite dominate welfare policy formation, Paul Pierson (1994) has argued that welfare programs create constituencies in society including beneficiaries, administrators, and others who have strong vested interests in programs’ continuation. Epistemic communities such as professional economists and pension specialists also seek a voice. Thus, in addition to analyzing the role of the key state actors, it is pertinent also to analyze how, and how much, groups outside the state apparatus may impact policy processes.

In this article we apply a conceptual model of quadruple influence developed by FloGb (2006) in order to systematize our study of stakeholders both within and outside the state bureaucracy who seek to influence policy outcomes. The model, which has been adjusted slightly for our purposes, is illustrated in Figure 1 and outlines four types of influence on reform processes. We consider Fløtten’s model to be an especially useful analytical tool because it guides us
through a comprehensive assessment of all significant stakeholders, reducing the risk that we will overestimate the influence of the most visible and vocal.

By “above” we understand the ruling elites: the president, the government, the United Russia party, and the State Duma. “Inside” is defined as the social and economic-financial ministries, the state Pension Fund, and other federal bureaucracies that have a stake in the pension system because it affects their professional missions, resources, and power. By influence “from below” we refer to involvement of non-state actors including civil society, independent experts (academics, journalists), trade unions, managers’ organizations, and non-state pension funds as well as public opinion. “Outside” includes global economic trends; advice from foreign governments; international organizations such as the World Bank, International Monetary Fund (IMF), and Organization for Economic Co-operation and Development (OECD); and policy learning from foreign pension reform experience.

These influences are not mutually exclusive, however, as all four sets of actors may make alliances and reach compromises with others. Moreover, a number of platforms for collaboration and networking among representatives of different actors have developed in Russia, including actors from above, inside, and below. Various mass media also give voice to actors with different agendas and forms of influence. In sum, Fløtten’s 4-pronged approach helps us discern how a variety of actors seek to influence pension reforms—and to varying degrees succeed—both directly and indirectly.

DATA SOURCES AND METHODOLOGY

Relying on Russian media sites devoted to pension reform and social issues, we have made a systematic study of statements and advocacy by all key governmental stakeholders, policy debates and outcomes, and their shifts over the course of the reform. With these materials, as well as other Russian- and English-language primary and secondary sources, we have traced the policy process and analyzed the four sets of influences that structure the study. We supplemented these sources with twelve semi-structured interviews conducted in the spring and summer of 2015 by the Russian member of the team. From each of the influence categories we chose people who were deeply involved in pension reform, and interviewed the highest-level representatives in each category that we were able to contact. Respondents included officials representing the two ministerial “blocs”—the “financial-economic” and the “social” bloc—that opposed one another on pension reform. In addition we interviewed two representatives of employers’ organizations (RSPP), two academic specialists on the pension system, and a pension journal editor. Realizing that the number of interviews was limited, and that they are not representative, we used them to supplement our systematic reading on the reform.

Interviews were conducted in Russian, and citations have been translated into English by the authors. All respondents were asked a standard set of questions based on a joint interview guide, but leaving flexibility for follow-up and adjustments to the expertise of the informants. The interviews were analysed with the use of NVivo qualitative data analysis software. Interviewees cited in the text are identified only by category in order to protect their anonymity.

BACKGROUND OF THE REFORM

The Russian Federation’s inherited pension system was solidaristic or PAYG (Pay-As-You-Go). Employers paid a 29 percent payroll tax into an off-budget state Pension Fund, the Pension Fund of Russia (PFR). The PFR had deep deficits and payment arrears during the 1990s, and the need for structural reform was constantly under discussion. A major reform was legislated in 2002 as part of a broad package of liberalizing measures known as the Gref Program. The reform introduced a mandatory funded (accumulative) tier in which individual workers would save for their own retirement by investing part of their pension contributions. This reform was contested within the government, between a “financial bloc” that included the Economic Development and Finance Ministries supported by non-state (private) pension funds on one side, and a “social bloc” made up of the social ministries and the Pension Fund on the other. Consultation with societal stakeholders was limited. After two years of intra-elite contestation, a mandatory private tier was introduced. It was a big policy win for the financial bloc and German Gref’s reform team (Cook 2007).

The 2002 reform was moderate by comparative international standards. It applied only to workers born after 1967, and mandated the transfer of a modest 6 percent of pension contributions to the funded tier. Still, it produced new problems. Because the reform diverted some contributions from the PAYG system to individual savings accounts, it created a classic “double bind”: current contributions would have to finance both payments to current pensioners and savings for future retirees (Brooks 2009). There were many changes in rules and procedures, leading the OECD to claim that “[Russia’s] pension system was in a constant state of flux since … the late 1990s” (OECD 2013, x). Moreover, approximately 85 percent of those eligible to invest part of their pensions relied on the default option, leaving their private accounts to be managed by the state bank, VneshEconomBank (VEB), rather than investing in private pension funds.

The steady growth of Russia’s economy produced increases in contributions to the PFR until the 2008...
recession, when they began a sharp decline. The Pension Fund’s deficit more than doubled, from $6.1 billion in 2009 to $12.7 billion in 2012, and required growing subsidies that strained the government budget (Sokhey 2017, 184–85). In 2011 total expenditures on pension payments reached 8.7 percent of GDP, above the OECD average (OECD 2013, 96). The following year Russia’s government again turned to reforming the pension system, reversing at least temporarily the 2002 privatization. As Sarah Sokhey (2017, 130–32) explains, Russia’s leadership had “fiscal and political incentives to reverse … reversing privatization was a tempting source of short-term revenue.”

CONTROVERSIAL ELEMENTS IN RUSSIAN PENSION POLICY

Russia faces many of the same challenges to its pension system as other advanced and emerging economies. A rapidly aging population and small cohorts in younger age groups will produce a worsening dependency ratio in the coming decades (Kulmala et al. 2014). Two additional factors exacerbate the problem in Russia. First, a substantial proportion of the labor force—tentatively estimated at 20 percent—works in informal or semi-formal sectors (i.e., receiving a large portion of their pay in an envelope), thus contributing little toward pensions. Second, one-third of Russian employees become eligible for some payments even before they reach the official pension age, adding to the system’s financial burden (Zakharov 2013). In 2005, when an earlier Putin administration tried to “monetize” social benefits to the detriment of pensioners, hundreds of thousands demonstrated in cities throughout Russia, and the government reversed course (Cook 2007; Wengle and Rasell 2008). In light of these factors, the 2013 reforms would have to reach seemingly irreconcilable goals: to reduce the huge pension fund deficit and the burden of pensions on the state budget without increasing the pension age or reducing the living standards, especially of current pensioners. After considerable debate and contestation, a set of pension reforms was adopted by the State Duma in December 2013. However, the reform package has been subject to repeated changes and amendments in the years since, and remains very much a work in progress.

The Russian pension reform is complex, and we will not attempt a detailed account of all its aspects here. We will focus on four controversial parts of the reform where actors from above, inside, outside, and below have expressed different views and worked for different solutions.

The first issue relates to the system’s funded component, which has been renegotiated and changed several times since 2002 and is still subject to fierce debates. As of today 22 percent of an employee’s salary is paid by employers as a tax toward pensions. Sixteen percent goes into the insurance (or solidaristic) part of the system for those born after 1967, in essence a PAYG system that supports current pensioners (though these contributions are registered on notional individual accounts that will be used to calculate workers’ future pensions). The remaining and most debated 6 percent has been earmarked for individual pension accounts in the system’s funded tier for each employee born after 1967. The debated issues have been many: whether to keep a funded tier in the pension system at all; whether contributing to it should be mandatory or voluntary; and whether people born before 1967 should have the choice to participate.

The second issue causing heated debate and fierce criticism of government policy is the so-called pension moratorium. In September 2013 Russia’s government announced that pension assets accumulated by citizens during 2014 would not be transferred to their individual accounts in the state or private pension funds, but would be used to cover current pensions in the PAYG scheme. The government essentially confiscated funds that should have gone to individual accounts (promising their future return). The moratorium greatly reduced the Pension Fund’s deficit for 2013, from more than $12 billion in 2012 (see above) to less than $300 million, immediately relieving pressure on the state budget (Sokhey 2017, 128). The moratorium has been extended annually through 2017 despite assurances from the government at several points that it would end (“Golodets snova” 2015). There is pressure to prolong it further (Kalachikhina and Malycheva 2016).

The social bloc in the government, represented by Vice Prime Minister Olga Golodets and including the Ministry of Labor and Social Protection and the state Pension Fund, has been the most ardent supporter of the moratorium and of eliminating the mandatory funded tier. The Communist Party and Spravedlivava Rossii (Just Russia) in the parliament, along with the trade union movement, have supported these positions. The economic bloc, including the Economic Development Ministry, the private (non-state) pension funds, and the Bank of Russia have fiercely resisted the moratorium and defended the funded tier. The Finance Ministry, primarily concerned with balancing the budget, has shifted from an opponent to a supporter of prolonging the moratorium, splitting the economic-financial bloc. Ongoing uncertainty about the funded tier, and delay of the decision whether to continue the moratorium until late in each year, indicate irresolution in the policy process. Russia’s leadership has failed to resolve the conflict between the two blocs and stabilize the structure of Russia’s pension system.

The third much-debated issue is whether to raise the pension eligibility age. While economic experts have consistently supported an age increase, the Russian leadership has been very reluctant to initiate such a change. First steps in this direction were taken during the autumn of 2015 by increasing the pension eligibility age only for those working in state and local government administration. President
Vladimir Putin subsequently assured pensioners that there were no imminent plans to extend the increase to other categories of employees, though he acknowledged that such a step would eventually be needed. (“Putin rasskazal” 2015). Such an unpopular move is unlikely to be announced before the 2018 Russian presidential elections (“Pensiia 2016” 2016). The reform also introduces a complicated system of accumulated points for calculating the size of future pension payments for which years worked and age at retirement are two of the criteria of the calculation, the third being the size of the income. The main purpose is to provide incentives for people to continue working longer in order to accumulate more points. Such incentives could provide an alternative to mandating a universal increase in the pension eligibility age.

The fourth set of contentious issues relates to current pensioners: whether pensions should be fully indexed to compensate for inflation, and whether indexation should continue for pensioners who continue working. According to Russian legislation adopted as part of the current pension reform package, pensions were to be indexed twice a year in line with inflation (Bazenkova 2015). Predictably the social bloc favored full indexation while the economic-financial bloc advocated reductions. In 2015 legislation was revised to guarantee indexation only insofar as it can be covered by available resources. In the run-up to the 2016 Duma election the government hedged, then canceled, the second indexation for the year. Prime Minister Dmitrii Medvedev finally confirmed that there would instead be a one-off payment of R5,000 to pensioners in early 2017, a compromise between electoral and financial pressures (Kuvshinova and Prokopenko 2016). In future the ministries will decide annually how much indexation the government can afford. Protection of pensioners’ incomes thus becomes more uncertain and contingent.

Indexation of working pensioners’ incomes has been debated separately. In the Soviet Union there were no restrictions on combining income from work and pensions. Given the low pension replacement rate in Russia—less than 40 percent of the average salary—many pensioners continue to work today (Gerber and Radl 2014). Predictably the economic-financial bloc advocates cuts in working pensioners’ benefits, while the social bloc insists that cuts should be imposed only on affluent pensioners. In this case austerity has prevailed: from 2016 working pensioners’ benefits are no longer indexed to inflation (“Budeti” 2015).

**INFLUENCE FROM ABOVE**

In Russia’s personalized and increasingly authoritarian political system, one would assume that if the most influential political leaders were fully committed to pension reform (privatization, increasing the pension age, etc.), they would have been likely to carry it through. As Remington asserts in his study of pension reform, “Putin was the final Arbiter” (Remington 2015, 24). Similarly, Gelman and Starodubtsev (2016) argue that reforms succeed in Russia only if they are strongly supported by the President, ideally in alliance with a team of influential policy reformers. There existed no analogue to the Gref team in 2013, so we will focus on pressure from the president, the prime minister, and to a more limited extent the State Duma, United Russia and other political parties.

During most of the period under study Medvedev was prime minister and Putin president, and throughout Putin clearly dominated the polity. He has played a rather ambiguous and low-key role in pension reform, at least in public, taking no strong positions on privatization or the moratorium. He has expressed a very reluctant attitude toward raising the pension age, despite pressures for increases from key economic ministries and most economists and pension specialists (Amos 2015). Putin acknowledges that such a move would be economically sound but politically unpopular (“Putin rasskazal” 2015). Apart from this issue he has not been very outspoken in public about pension reform issues, and has left the scene to other key players. In sum, Putin has relied on a classic strategy of “blame avoidance” on any issue that would cut popular entitlements.

Prime Minister Medvedev has played a more visible role. He has sought to balance the strongly opposing positions of the different ministries in the government, which has proven to be a daunting task. Contradictions between Medvedev’s public commitments and his government’s actual decisions show the indecisiveness that has characterized pension policy. For example, Medvedev announced in April 2015 that the accumulative pension scheme would be kept in its original form and that the pension moratorium would be revoked for the following year. A few months later his government did the opposite, extending the moratorium and leaving the accumulative tier in limbo (“V Gosdume” 2016). Another episode that attracted considerable attention, especially in social media, was Medvedev’s response to a Crimean pensioner’s complaint about her pension not being indexed to the rising costs of living. The Prime Minister acknowledged that this was the case all over Russia since “there just isn’t any money now. When we find money, we’ll make the adjustment”. The Prime Minister made a hasty retreat from his statement, though it accurately reflected the government’s actual policy on indexation (“Medvedev pensioneram” 2016).

In Russia, as in other countries, the ultimate formal decisions on structural reforms of the old age pension system rest with the elected legislature; in Russia this is the State Duma. It was the Duma that in December 2013 adopted three new pension laws that came into effect on January 1, 2015, but have remained contested: a new pension formula based on points for years worked, income and age of retirement; partial reversal to the PAYG system by
making the funded component voluntary; and preserving the low pension age. Most countries strive for broad consensus on main pension reform elements across the political spectrum. Such a broad consensus did not exist in Russia, however, even among what is considered to be the loyal opposition—Spravedlivia Rossiia and the Liberal-Democratic Party of Russia (LDPR). Only representatives from the Putin-loyal United Russia party, which played a central role in working out the text, voted unanimously in favor of the pension laws. They passed 244 votes in favor and 146 (including the Communists) against. Thus, pension reform appears to be an issue where diverging views in the parliament are tolerated. A forum was held for extra-parliamentary parties to have their voices heard in the Duma, and here also there was much dissent over pension reform. Forty-six out of more than 70 registered parties were present during the debate, and representatives of 10 parties expressed their opinions, most of them with a very critical stance on the reform.

It is the Russian government that formulates the main lines of economic and social policy. Given the opposing views among ministers and their ministries that we will present in the next section, both the president and the prime minister have been called upon to negotiate in situations where the key ministerial actors have not been able to agree. Their role has then been to make deals that are acceptable to all parties. However, we have seen on several occasions that the tugs-of-war between the blocs continue even after agreements seem to have been reached, and these agreements usually turn out to be temporary.

**INFLUENCE FROM INSIDE**

The Russian government formulates the main lines of pension policy as part of its overall responsibility for economic and social policy. Within the government, as noted above, two opposing blocs have struggled over pension reform. The Ministry of Labor and Social Protection and the Pension Fund of Russia belonging to the Ministry of Economic Development, make up the “social bloc” (Olga Golodets, vice prime minister for social affairs, has served as a frequent spokesperson for the “social bloc”). A second set of ministries, including the Ministry of Finance and the Ministry of Economic Development, make up the “economic-financial bloc,” which also has a strong vested interest in pension policy. The two blocs, key stakeholders in pension policy, have generally taken diametrically opposed positions on central aspects of pension reform in the course of 2013–2016, although they have also proposed some compromises.

The Ministry of Economic Development is primarily interested in promoting Russia’s economic performance, especially through investment for long-term growth. Its positions on the key controversies of pension reform—raising the age of pension eligibility; limiting indexing; reducing benefits for working pensioners; and maintaining a mandatory invested (accumulative) tier in Russia’s pension system—have been consistent with these goals. The ministry supports phased increases in the pension eligibility age, a measure that, in the opinion of ministry experts, would help “not only […] from the point of view of balancing the pension system, but also for extending the productive lives of future pensioners and decreasing labor market deficits” (“MER schitaet” 2016). Ministry representatives have advocated that indexing be universally reduced, and eliminated for most working pensioners (ibid). The ministry’s main priority has been to maintain the mandatory funded (accumulative) component in the pension system. Ministry officials opposed the government’s annual decisions to freeze contributions into these funds. It seems invested pension funds as a necessary source of domestic financing for economic development, especially in light of persistent low international energy prices and economic sanctions. According to one source,

> Few officials or bankers try to hide that most investment will likely have to come from domestic capital because foreign money has been driven away by low oil prices and Western sanctions on Moscow over Ukraine. […] The trend with foreign investors is clear: there are none. (Amos 2015)

The Ministry of Finance is concerned first and foremost with balancing the federal budget, in part by reducing the large budget expenditures on pensions (see Figure 2). It shares the positions of the Ministry of Economic Development on increasing the age of eligibility and limiting indexation (“RSPP podderzhivaet” 2015). The Ministry of Finance is also committed to maintaining mandatory invested pension accounts, and calls for more private responsibility and risk in provision of social security (“Siluanov: formirovat”’ 2016). The ministry has, however, recognized the moratorium as a way to add funds for current pensioners and relieve some of the immediate pressure on the state budget. A broad range of economists, policy specialists, and organizations, most prominently the head of Russia’s Central Bank, Elvira Nabiulina, former Finance Minister Aleksei Kudrin, the Association of Non-State Pension Funds, and the Union of Russian Managers and Entrepreneurs, have supported the economic-financial bloc in public statements, the press, and so forth (Adelaja 2012).

The “social bloc,” following different logics and priorities, has opposed most of the financial bloc’s positions on each of these key issues. The minister of labor and social protection, Maksim Topilin, is against raising the pension eligibility age, arguing that this change would contribute only modestly to easing Pension Fund deficits (“Mintrud predlozhit” 2016). The ministry has advocated full indexing of most pensions to inflation, and supported maintaining indexation for working pensioners with annual incomes below R1 million. The “social bloc” has also been critical of
funded pension accounts, with Golodets claiming that contributors had lost large amounts of their retirement savings, and that the risks of keeping pension funds in markets are too high for workers (“Golodets: Rossiiane” 2016).

Pension Fund head Anton V. Drozdov, though a less prominent spokesperson on reform than the ministers, has taken similar positions, complaining of pensioners losing savings invested in non-state pension funds (some of which had returns below inflation during the recessionary years) (“Pensionnyi fond” 2016). According to a representative of the Pension Fund who echoed this position in his interview:

People are afraid to transfer money into the accumulative part because they don’t know what is going to happen in the future with the funds […] how legislation will change. […] The policies that those organizations [non-state pension funds] follow are not clear.1

Drozdov has also supported full pension indexation (Terekhova 2015). He endorsed calls for transfer from mandatory to voluntary accumulative funds (“Mintrud ne” 2016). The social bloc not only favors moratoria on transfer of pension funds to invested accounts, but has lobbied for return to an essentially full PAYG pension system (ibid). In fall 2016, for example, as the issue of continuing the moratorium in 2017 was raised, Golodets advocated elimination of the accumulative tier (“Aleksei Ylyukaev” 2016). According to a representative of the Labor Ministry,

Now the main debate is about which system, distributive or accumulative, and we sort of made both. […] It seems to me that this was the main serious mistake, because one system was already insufficient […] and we reduced it […] and that has turned out badly.2

Although the social bloc seems to have little expert support outside the government, its positions are in sync with both public opinion and the views of most political parties.

A representative of the Ministry of Economic Development who works on economic aspects of the pension system explained the difference in perspectives between the economic-financial and social blocs:

We all have our own ideology. […] For the Labor Ministry it is very important to pay all pensions now, […] [T]heir basic goal, their view, is that everything be sufficient now […] and for this, money is necessary. We, the Economic Development Ministry, are looking toward the future. We need everything to be developed in the whole country for long years ahead […] We can sacrifice now to develop for future generations. MinFin says “Guys, I will not give you anything, neither for the present nor the future. […] you must live within the current budget.”3

The key role of financial pressures is most evident in the case of the moratoria. The economic-financial bloc has insisted that mandatory accumulative accounts be preserved for the sake of national development. In August 2016, recognizing the severe stresses on the budget, they made a rather desperate “compromise” proposal that in 2017, 1 percent of pension contributions go to the accumulative system and 21 percent to distributive, in 2018 2 percent to accumulative and 20 percent to distributive, and so on “with

the prospect of eventual full-fledged recovery of the accumulative component of the system” (“Minekonomrazvitie vystupaet” 2016).

The role of non-state pension funds (NSPs) should also be taken into account. A strong ally of the economic-financial bloc in 2002, the NSPs had been disappointed by the low level of pensioners’ investments (see above). Moreover, they were prohibited from accepting pensioners’ contributions until new regulations were put in place. The NSPs still favored privatization, but they were no longer a strong lobby.

Overall, pension policy changes from 2013 to 2016 favored the preferences of the social bloc. The economic-financial bloc has so far lost on the key issues of the moratorium, the funded tier, and pension eligibility age; its views have partially prevailed only on indexation. At the same time, though, these contentious issues have not been resolved. Indecision and hedging have remained prominent features of pension policy-making. After discussing the last two sets of influences, those “from below,” and “from outside,” we will return to the key questions raised by our study: Why have decisions since 2013 favored the preferences of the social bloc over the financial, reversing the 2002 reform? And why has the policy process featured so much volatility and indecision?

INFLUENCE FROM BELOW

Russian citizens have been conspicuously silent in their response to the Russian pension reform. As pointed out by one of our interviewees, when asked about public expressions of resistance toward the reform: “None at all. There have not been any.” In fact we have found some scattered incidents of protest relating to the reform, but most date back to 2012–2013 and are locally oriented, far from covering the whole country. This contrasts with the protests that erupted in 2005 when the regime introduced monetization (see above). Moreover, other organizations that advocate for the interests of veterans, nearly all of whom are pensioners. Their leaders and activists advise pensioners on claiming benefits, qualifying for higher payments, and negotiating with bureaucracies, often through alliances with local and regional politicians. While we have not studied these organizations or identified explicit positions on the pension reform, Meri Kulumla and Anna Tarasenko make a convincing case that they have exerted pressure for protecting pensioners’ incomes and entitlements (Kulumla and Tarasenko 2016).

What explains the relative lack of civil society’s influence on this key welfare reform? Russian civil society is fragmented. A sense of solidarity among different strata of the population is also in short supply. The tougher formal and informal sanctions that the government has imposed against labor strikes, civic protests, and NGO activity, in particular after mass protests in 2011–2012, constitute another obstacle to more public engagement and civil society activity on the issue. Pensioners’, especially veterans’, organizations appear to be stronger than workers’, arguably helping to explain the leadership’s propensity to protect pensioners’ benefits at the expense of younger workers who have invested in pension accounts.

The most active and outspoken pressure from “below”—as we have defined it—comes from the academic community. A
number of think tanks, research institutions, and independent experts have been vocal in pressing their positions on pension reform. Most are prominent economists or pension system specialists concerned with fiscal integrity and the long-term viability of Russia’s pension system. They usually advocate raising the pension age and maintaining the funded tier, and warn against overspending on social welfare today at the expense of future generations. Their positions generally line up with those of the economic-financial bloc, with which they have close ties. However, there is considerable variation in positions also within the community of experts. Several of them, for example, warn against an increase in the pension age due to the low life expectancy in Russia.

While organized civil society has limited influence, public opinion polls show that most Russians have little interest in, or information about, pension reforms. In a nation-wide poll carried out by FOM (Fond obchestvennogo mnenia), only 14 percent of respondents claimed that they understood how the pension system works, and only a minor share was able to give correct answers to rather simple factual questions on the pension system (“Opros: Rossiiane” 2015). The general views among those who do have clear opinions on the controversial issues outlined above, however, include ambivalence to raising the pension age (“Glas naroda” 2015), ambivalence concerning the need for a funded tier (Kryzak 2015), and negative attitudes toward freezing individual pension accounts (pension moratoria) (“VTsIOM: Reshenie” 2015) and toward making it less rewarding to continue working after reaching the official retirement age (“Bolee treti” 2015).

INFLUENCE FROM OUTSIDE

Contemporary public policy is not solely a result of socio-economic and political developments within nation-states, but is also shaped by inter- and supranational influences as well as relations between nation-states (Obinger, Schmitt, and Starke 2013). Thus, an analysis of Russian pension policy should also take into account external influences. We have grouped different forms of external influence into three types and take a brief look at each.

The first type relates to global economic and financial developments and crises. Russia, being firmly integrated into the global economic order, is heavily dependent on the outside world for exporting its petroleum and importing consumer goods. These relations were very favorable for Russia in the early 2000s. While the global financial crisis of 2008 also hit Russia, the country was able to use reserve funds from oil revenues to cover pension fund deficits, increase social spending (including pensions), and even stimulate continued economic growth, though at a slower pace than previously. The more recent dramatic fall in oil prices, however, combined with Western sanctions and Russian counter-measures, integration of Crimea into the Russian economy, and other economic challenges suggest a potentially more long-term recession. Though import substitution and stronger integration with the Asia-Pacific region may compensate somewhat, external financial pressures are likely to remain a major constraint on the pension system. (“Russia too” 2015).

A second, more direct, potential external influence comes from international and supranational organizations. International Financial Institutions (IFIs), especially the World Bank, were actively involved in advising Russian policymakers and clearly influenced the widespread pension privatization in Central and Eastern Europe in the 1990s and early 2000s (Matveev 2016; Orenstein 2008; Appel and Orenstein 2013; Orenstein 2013). However, privatization had mixed results and the IFIs no longer promote a consensus model of pension reform, nor are they included in Russia’s domestic policy deliberations. Russia’s strained relations with the West and skepticism toward much of the neo-liberal advice given by IFIs during the 1990s further undermine the potential influence of international actors. Our informants never mentioned the World Bank or IMF when asked about actors with an influence on Russian pension reform, and when asked directly confirmed that these institutions had been virtually absent from recent pension reform process.

Informants did, however, mention that the OECD has had some influence on the reform. In the current round of reforms the OECD made several recommendations for Russia: to maintain a mandatory funded tier with diversified investment; to raise the age of pension eligibility; and to create stability, consistency, and improved long-term predictability for current and future pensioners (OECD 2013). According to one of our interviewees, from the Ministry of Economic Development, Russia seeks membership in the OECD, so it needs to show developments in different spheres of the economy, including on pensions:

We strive to become members of the OECD […] In order to become a member we have to convince them that we [have the right policy] in all sectors. […] We need to understand the universal principles that they have put down, we have to share these principles, and they [OECD] check that our legislation is in accordance with these principles.10

The OECD’s advice, billed as “suggested … recommendations,” was much more tentative than that given by IFIs in the 2002 reform (OECD 2013). The assessment implicitly acknowledged the “double bind” and other financial stresses motivating Russia’s policies, and the advice did not appear to strongly influence the course of reform.

The third type of external influence is diffusion and learning from the experiences of other countries. Different countries of the world represent a laboratory of pension reforms, adjustments, reversals, and standstills in the past decades. Russian policymakers and pension bureaucrats
have been eager to learn from such practices and experiences. Numerous conferences have been organized and analytical papers and policy briefs produced that analyse the Russian pension system within a comparative framework (see, for example, Belozerov and Viktortovna 2015). The adoption across countries of notional defined contribution schemes as well as pension privatization, the two main features of Russian pension reforms, has revealed striking correlations in space and time (Brooks 2007). Furthermore, the 2014–2016 moratorium on individual pension accounts and partial reversal of privatization is likely to have been influenced by similar measures in other, mostly post-communist states (including Hungary, Poland, the Baltic states) as responses to the 2008 financial crisis. In sum, Russian domestic actors are closely attuned to international policy debates and practices not only of neighboring but also more distant countries.

To conclude, then, although we can observe at best a modest direct influence of international and supranational actors on the ongoing Russian pension reform, both global financial pressures and aspects of diffusion and learning appear to have significant impact on developments surrounding the pension issue.

DISCUSSION: EXPLAINING THE POLICY PROCESS AND OUTCOMES OF PENSION REFORM

Our study raises several analytical questions. First, why did the “social bloc” usually get its way—that is, the moratorium continued, the question of invested accounts remained open, and the pension eligibility age was unchanged for most pensioners? We conclude that the social bloc’s preferences fit the leadership’s urgent need to find a source of budgetary relief as the recession dragged on (worsened in 2014 by the costs and sanctions resulting from Crimea’s absorption). The moratorium reduced the Pension Fund’s deficit while allowing it to maintain payout levels. The policies advocated by the Ministry of Economic Development would have provided no short-term relief for the Pension Fund or the budget. The recession produced similar pressures in a number other, mostly post-communist countries, which also managed the effects by adopting temporary moratoria, and in a couple of cases permanently eliminated their funded tier (Sokhey 2017; Naczynj and Domonkos 2016).

The economic-financial bloc was significantly weaker than it had been in 2002, when the funded tier was introduced. NSPs, disillusioned by the low level of pensioners’ investments and the campaign for tighter regulation, were no longer a strong ally. The IFIs were less committed to privatization and in any case largely out of the picture, and there was no well-connected reform team championing privatization. As noted above, the Economic and Finance ministries eventually split on the key issue of the moratorium because the Ministry of Finance was more concerned about the budget deficit in the post-2012 economic contraction. In the social bloc, by contrast, only the state Pension Fund proved a weaker voice.

The leadership and the social bloc also shared a strong interest in maintaining the incomes and prerogatives of current pensioners. Russian pensioners account for close to 40 percent of the electorate, and they are much more likely to vote than younger generations. Despite the manipulation of elections, mobilizing votes for Putin and United Russia is a central imperative of the leadership. In the spring 2005 election following the anti-monetization protests, United Russia’s support in regional elections declined. The political leadership arguably worried about provoking this large, relatively organized group by again cutting nearly universal benefits. Instead, the leadership imposed losses on younger workers who were paying into funded accounts. Their losses were not immediate or tangible; the money would not be paid out until far into the future, when the generations born after 1967 began to retire. As one of our interviewees noted:

Traditionally people here do not think about their pension, even when only 10 years remain until their pension age, people even then don’t think about it. […] So the problem will manifest itself for real only when people start to receive … converted real money. That’s when the first problems linked to the point-system [pension reform] will come.11

Russian leaders’ decisions thus complement Pierson’s now-classic study of Ronald Reagan and Margaret Thatcher’s strategy of obscuring welfare reform’s costs by pushing them far into the future, thus avoiding political responsibility or blame in the present (Pierson 1994).

Although the social bloc more often prevailed in pension battles, by 2017 three of the four contentions issues—maintaining the funded tier, continuing the moratorium, and pension eligibility age—had still not been resolved. Why has the policy process been so protracted, Russia’s government so indecisive? Here we find Gelman and Starodubtsev’s (2016) argument—that successful reform requires strong endorsement by the president—insightful. Their characterization of policymaking in Russia as a “complex, and often-inefficient series of bargains and ad hoc agreements between state agencies [in which] top officials spend countless resources to win intra-governmental struggles” (Gel’man and Starodubtsev 2016, 102) fits very well the process of the pension reform.

Indeed, even Putin’s intervention seemed insufficient to resolve pension issues. Thomas Remington (2015) reports that Putin, while generally refusing to intervene in ministries’ battles, did take clear positions at two points—siding with the social bloc in support of a moratorium in 2013, and with the economic bloc in support of retaining the mandatory funded tier in 2015—but neither of these interventions resolved the issue for long. In 2016 the fate of the funded...
tier was again debated, and the decision to continue the moratorium on contributions was again made late in the fall. At the same time the annual level of indexation was made dependent on the budget, neither guaranteed as in the past, nor cut. Here we argue that deep uncertainty about the future length and depth of the recession generated uncertainty about how much political risk to take—how deeply and permanently to reduce pension entitlements.

Russia’s leadership has not committed to comprehensive pension reform. While recognizing the need for a more sustainable pension system, they have responded to more immediate political risks. They appear wary of public opinion and the need for the population’s continued trust. Putin hinted at this during the live Q&A session in April 2015 when he explained his hesitance to increase the pension age, though he found such an increase “theoretically correct”:

But if we are going to act without paying attention to what takes place in real life, then, it seems, we could […] very quickly slide into the situation of the early 1990s when trust in the authorities is lost and we will have to plug the social problems that have emerged with a much larger amount of money than is foreseen today. (“Putin prizval” 2015)

Putin’s hedging on reform fits his risk aversion and own preference for continuing current policies, as it gives the regime much more control over the economy even if it reduces the prospects for economic growth. According to a former economic minister, Yevgeny Yasin, “Putin makes political and geopolitical decisions confidently, but delays on the economic ones because they are harder for him” (cited in Pismennaya and Arkhipov 2016). In sum, the Russian leadership seems unwilling to risk societal backlash for the more thorough-going pension reform recommended by economic experts. A public consultative council with high-level participation from various societal arenas has been proposed to promote the idea and make it more acceptable to the public (Butrin 2015). The council has so far not materialized, however, possibly because its proposal received some negative media publicity. Meanwhile, the first increase since 2014 in Russians’ real disposable income resulted from the promised one-time R5000 payment to pensioners in January 2017 (Ntellinews.com 2017).

CONCLUSION

In this article we have assessed influences on Russian pension policy from above, inside, below, and outside. We have explained the positions of key governmental actors and argued that their influence fluctuates with the state of the Russian economy and with short-term efforts to balance the budget. This opens space for continuous struggles between actors with opposing views. The four controversial issues that we have discussed remain high on the agenda. Even if non-state actors and opposition parties seem to have little impact on pension reform, the leadership seems to be attuned to public opinion on the issue, especially opinions of current pensioners. There is also evidence that the Russian leaders look to experiences in other transition countries when designing pension policy.

Russia’s current government has been far less effective in reforming the pension system than its 2002 predecessor. Facing both severe financial constraints and the expectations of pensioners, it has allowed an intra-governmental struggle over the shape of the pension system to continue for more than four years. Seeming victories for one of the blocs have not been long-lasting, and they tend to be followed by new initiatives from the opposing bloc, tilting the balance in the other direction. The result is a continuing and unpredictable battle, and a zig-zagging reform, leaving the public with limited trust, as evidenced by public opinion polls on the pension system.

Concerned with keeping its part of the social contract, so far the Russian government has seemed reluctant to introduce more radical steps to solve the pension fund deficit crisis. With only gradual introduction of measures to reduce the burden on the federal budget, the Russian leadership apparently seeks a compromise between much-needed reform and public acceptance. However, where to strike the balance between different positions is highly contested among the key stakeholders, and the leadership appears unwilling or unable to resolve the contention and implement a coherent pension reform.

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NOTES

1. Representative of the Pension Fund of Russia. Project interview.
2. Representative of Labor Ministry. Project interview.
4. Representative of Ministry of Economic Development. Project interview.
6. For a different perspective, which sees the unions as gaining significant influence after 2011 but provides no evidence of their specific effects on pension or other policies, see Olimpieva and Orttung 2013.
7. Representative of RSPP. Project interview.
8. See for example www.rospensioner.ru/node/3146 (accessed January 23, 2017) informing about the pros and cons of prolonging the deadline for making a decision on staying with the insurance pension (PAYG) or to opt for the funded pension type.
REFERENCES


