

Welfare State Developments in the Russian Federation: Oil-led Social Policy and ‘The Russian Miracle’

Alfio Cerami

Abstract

This article investigates the main welfare state developments of the Russian Federation that have occurred since the fall of communism. It argues that the contemporary welfare expansion strictly depends on high oil and gas prices, and that this oil-led social policy makes the future of the ‘Russian miracle’ highly volatile. The main conclusion is that the Russian welfare state will be able to function properly and to ensure social integration and solidarity only under conditions of sustained oil-led growth. The article also identifies a variety of different, but equally important, endogenous, as well as exogenous, factors that have influenced the social policy developments in the Russian Federation since 1989. These correspond to the existence of few veto points present in the political arena, the lack of a well-structured system of interest representation, the presence of informality in the welfare state organization, but also to the presence of national economic vulnerabilities and/or strengths in the now open global economy, as well as to non-contingent decisions taken in strategic sectors of the state, such as those related to the energy or defence sectors.

Keywords

Russian Federation; Post-communist social policy; Welfare state developments; Factors of welfare state change; Oil-led social policy; Russian miracle

Introduction

After an extremely difficult and painful economic transition that reached its peak with the financial crisis of 1998, the economy of the Russian Federation is now booming. The strong performance of the economy seems, however, largely to depend on unexpectedly high global energy prices that have driven an increase in domestic consumption as well as, more recently, a growth in investments. In 2007, GDP growth reached 8.1 per cent, oil and gas exports contributed approximately 15 per cent of GDP (60 per cent of total exports), and investments increased by 20 per cent, while domestic consumption was

Address for correspondence: *Alfio Cerami, Centre d'études européennes, Sciences Po, 224 Boulevard Saint-Germain, 75007 Paris, France. Email: alfio.cerami@policy-evaluation.org*

growing at double-digit rates (Rosstat 2008; Hanson 2008; Sutela 2008). The long-term sustainability of this oil-led economic growth remains questionable even in the presence of increasing surplus in the Reserve Fund (the former Stabilization Fund).¹ As many studies have repeatedly emphasized (see especially OECD 2006; Hanson 2008; World Bank 2008), despite huge potential and the presence of a strong human capital, lack of innovation in the industry sector still represents a major problem for Russia's long-term growth. The R&D output of the Russian Federation is surprisingly modest if compared to other Western democracies (most notably Germany and the USA). In addition, even though the Russian authorities have used the increasing export revenues to ensure the effectiveness of macro-economic stabilization measures (for example, paying the large foreign public debt and accumulating funds, while, at the same time, increasing public sector wages), this has occurred, in several instances, at the expense of social pacification and democratic liberties. A drastic and painful restructuring has taken place in all spheres of social protection. Especially in recent years, welfare reforms have been enormous and aimed at introducing a residual, neo-liberal-oriented model of welfare arrangement, which – and this is the main argument that will be put forward in the course of this article – will be able to function properly and to ensure social integration and solidarity only under conditions of sustained oil-led growth.

This article also aims at responding to the question of which factors have driven welfare state developments since the collapse of the Soviet Union. As will be argued in the following sections, social policy developments in the Russian Federation have been driven by a variety of different, but equally important, factors. These have an endogenous, as well as an exogenous, character. Among the endogenous factors, the existence of few veto points present in the political arena, lack of a well-structured system of interest representation, and the presence of informality in the welfare state organization (Cook 2007) are, probably, the most notable examples. Not less importantly, however, other, only at first glance unrelated, exogenous factors also played a major role. These include the presence of national economic vulnerabilities and/or strengths in the now open global economy (see Scharpf and Schmidt 2000), but also non-contingent decisions taken in strategic sectors of the state, such as those related to the energy or defence sectors. These non-contingent decisions have facilitated an economic boom, which has then produced through a *spill-over* effect a major involvement of national authorities in the social arena, this notwithstanding their will to withdraw from direct intervention in the welfare state organization. In brief, it will be argued that *not only politics, institutions, and historical legacies matter* in the explanation of welfare state change, as the classical literature on comparative social policy has so far emphasized (see Bonoli and Palier 2001; Pierson 2001), but also non-contingent strategic decisions produced in the framework of the global arena (*globalization as well as economic and political intelligence also matter!*).

The article is structured as follows: the first section describes the developments in Russian social policy during the period subsequent to the fall of communism (1990–2006), while the second provides an overview of its current situation in terms of poverty as well as of the policy priorities promoted in the most

recent reform plans (2007–2010). The final section discusses the main actors and factors that have characterized the social policy reform process.

Post-Communist Social Policy in the Russian Federation, 1990–2006

After the fall of communism in 1989, a drastic restructuring of the welfare state involved all spheres of social protection.² Four main trends are identifiable. These can, in very few words, be summarized in terms of: (1) *privatization of provisions*; (2) *individualization of risks*; (3) *monetization of access*; and (4) *decentralization of management*. These four main trends have taken the form of the reintroduction (or strengthening) of the social insurance principle in the overall social security system, privatization and differentiation of benefits in the pension sector, dissolution of the Semashko health care model coupled with the introduction of a decentralized public/private mix of health care facilities, the establishment of a residual system of protection against unemployment coupled with a basic safety net of social assistance provisions for the poorest social strata, and the introduction of a private market in the education and housing sector.

To be more detailed, the current pension system in the Russian Federation is based on a social insurance notional and individual accounts system. It covers employed citizens, self-employed persons, and independent farmers, even though a special system exists for civil servants, military personnel, police officers, war veterans and other specified groups. Financing is based on contributions, but these are primarily paid by the employers, the state (in the case of deficits of the pension funds) or the self-employed. The government bears also the responsibility of covering the total costs of social pensions and special pensions for specified groups, while republics and local governments may finance supplementary benefits out of their own budgets. The amount of pension is now calculated on the basis of three components: (1) a basic flat-rate benefit according to different categories of beneficiaries; (2) a benefit based on the notional account, and (3) a benefit based on the value of the individual account (contributions plus interest) to be paid from the beginning of 2013. There is no officially stated minimum or maximum monthly pension (ISSA 2006; ILO 2008).

A German-style health insurance was introduced in 1991 with the law on medical insurance (with later amendments). Despite the fact that the system has been set to protect workers, the coverage is, in theory, universal, since the state is called to insure all non-employed persons. In reality, however, things are substantially different. The establishment of health insurance funds and decentralization to local authorities does not seem to have improved the quality of the system, and health care in the Russian Federation continues to face serious challenges associated with under-financing, as well as the poor quality of services. Health care is now based on the cost-sharing principle. The introduction of a private market and the persistence of 'gratitude money', however, contribute to exclude several categories of citizens who, due to financial constraints, are often not able to afford the costs of medical treatments.

The current law on unemployment benefits (1991 with later amendments) aims at establishing a system of social insurance followed by social assistance.

Despite the existence of the social insurance principle based on earnings-related benefits paid by contributions, financing unemployment benefits is still the full responsibility of federal and local government authorities. In line with Western new policy priorities for activation, before receiving benefits an unemployed person must be registered at an employment office and benefits can be reduced or suspended if the unemployed person violates the conditions for job placement. Benefits are earnings-related and can be paid for up to 12 months. In 2006, they were calculated as 75 per cent of the previous wage for the first 3 months; they decreased to 60 per cent for the next 4 months and then to 45 per cent of the previous wage for the last 5 months. The minimum monthly benefit corresponded to 720 roubles (approximately \$US 25 in 2006), while the maximum amount corresponded to 2,880 roubles (approximately \$US 100). Due to rising living costs, especially in large cities like St Petersburg and Moscow, the amount of unemployment benefits is not sufficient to ensure decent living standards (ISSA 2006; ILO 2008).

Since the collapse of communism, the family benefit sector has witnessed a drastic reorganization. This sector of social protection is now based on a combination of social insurance and social assistance principles (see Gassmann and Notten 2008). Coverage has been greatly reduced and family benefits now cover children younger than age 16 (up to age 18 if a full-time student). In particular, *child allowances* are payable to families with income below the locally determined minimum subsistence level. These allowances vary according to geographic region. *Child care leave allowances*, by contrast, are not universal in scope but are payable to employees, students engaged in vocational courses, and military personnel. The source of financing depends again on employers or federal and local government contributions, while the administration is now fully decentralized to regional and local authorities (ISSA 2006; ILO 2008).

Social assistance has been the sector of social protection that has probably witnessed the most radical transformation, with attempts at the establishment of a basic safety net based on strict means-testing and targeting (Gallagher and Struyk 2001). Social assistance provisions consist of cash and in-kind benefits. These have been subjected to continuous cuts. Linda Cook (2007) identifies several reasons why reform in this sector was addressed as necessary not only by international organizations, but also by national and local authorities. These reasons corresponded to the need, on the one hand, to provide coverage for the people really in need under conditions of increasing budget constraints and, on the other, to reduce the excessive privileges that the system provided to specific categories of citizens (e.g. ex-workers in strategic sectors of the state) at the expense of several other categories (e.g. single mothers or people living in rural areas). Huge regional disparities also complicated a situation which was already difficult, with social assistance beneficiaries in larger urban areas often having access to better services.

The housing sector was also subjected to drastic privatizations, which, according to planners and politicians, should have, on the one hand, provided the first tangible benefits following the fall of communism (citizens would finally have been able to own the flat in which they had been living for years), while, on the other, it would have ensured an increase in budget for the state.

At the same time, more private financial resources to refurbish old buildings were expected. Unfortunately, as in several other Central and Eastern European countries, privatization did not achieve the expected results. Many families were, in fact, not in a position to buy their own flat, especially in the central zones of the most important cities (which they were very often forced to leave), where the housing stock was bought by big national and international companies often in collusion with corrupt local bureaucrats. Also, the attempts to refurbish old buildings in several instances failed. Only big companies had the financial resources to afford the price of renovation, and when this was done, the aim was, of course, to sell the property at the highest possible price, that is to say, to sell it to wealthier families instead of giving it to the old tenants.

In addition, the education sector underwent a substantial transformation in terms of access and quality of the service. Reforms, primarily aimed at introducing more diversification in primary, secondary and higher education, were too often accused of pursuing political objectives limiting the aspirations of citizens. The introduction of a private market was also supposed to increase the budget possibilities for universities, which were under great financial constraints, while also promoting excellence in research in those areas that were underdeveloped, due to the constant neglect of communist leaders. Unfortunately, the restructuring of the education sector was more complex than expected, primarily because of the system of privileges already established during communism. Clientelism and informal payments to access the best universities persist, while a chronic lack of funds following the economic recession is reversing the primacy that the Soviet Union had achieved in its history of education.

Poverty and Unemployment in the New Russia

Russian economic transition has not only meant the transition towards a more democratic society, but it has also resulted in a 'social crisis' with the emergence of unemployment, the rise of poverty, infectious diseases, mortality, divorce rates, children in alternative care, drug and alcohol abuse, prostitution, and homelessness (OECD 2001; Davidova 2004; Manning and Tikhonova 2004; Cain *et al.* 2005; World Bank 2005; Cerami 2006b). In 2007, out of a total population of approximately 142 million persons, the economically active population corresponded to 75 million, of which 94 per cent are employed in the economy and the remaining 6 per cent unemployed (please note that before 1989 the number of economically active people and those employed in the economy virtually corresponded) (see table 1).

In the new post-communist Russia, wage differences are more accentuated, with people who have obtained higher educational levels now receiving in proportion a higher wage. Wages among different professional categories are also more diversified. Farmers are the occupational group that has seen its earnings drastically reduced, when compared to manual and non-manual workers (Cerami 2006b). As far as the gender dimension of earnings is concerned, the transition towards a market-based society seems to have reduced the egalitarian achievement of the socialist era. The increase in the

Table 1

Active population and unemployment

	1992	1995	2000	2005	2006	2007
Active population (mln.)	75.0	70.7	72.3	73.8	74.1	75.0
Total unemployment (%)	5.2	9.5	9.8	7.1	6.7	5.6
Men	5.2	9.7	10.2	7.5	7.0	6.0
Women	5.2	9.2	9.5	6.6	6.5	5.3

Source: Rosstat (2008).

gender wage gap that exists nowadays seems to be the result of several causes, among the most important of which is the change in economic structure, now aligned towards a male-breadwinner model. In the absence of the strong state regulation in force during communism, the economy of the Russian Federation has inevitably tended to facilitate the survival of men in a difficult labour market. Russian men are less subject than women to family duties (such as unpaid work at home, or child-raising responsibilities) and they have, as a consequence, more time for their career (Davidova and Tikhonova 2004).

The economic restructuring with the subsequent increase in income inequality (the Russian Federation has now one of the highest levels of income inequality among the advanced industrial democracies; see LIS 2008) has also coincided with an increase in poverty (in 2006 this was estimated at 16 per cent of total population; see Rosstat 2008) and with the formation and identification of specific poverty subcultures. The new poor consist of large sections of skilled specialists and blue-collar workers, who often have second vocational or even higher education, are middle-aged or elderly and, prior to reforms, belonged to the best-off strata among the population (World Bank 2005; Cerami 2006b). Unsurprisingly, the first 'socially excluded' Russians have been identified among those who do not have a residence permit and, hence, do not have the right of access to the welfare state. In 2006, there were approximately 3.5 million labour migrants available in the Russian labour market. The majority of these were ethnic Russians, even though the number of immigrants from indigenous ethnic groups of the CIS countries is increasing. Immigrants from Kazakhstan corresponded to 31 per cent of all immigrants, and approximately 32 per cent came from the other Central Asian countries. Political reasons (e.g. escape from conflict zones) were the main immigration motives during the first years of transition, but these have now been replaced by economic reasons (Mukomel 2006). Social stigma is the price that new immigrants pay and this can, to a large extent, be associated with wrong immigration policies. As in many Western democracies, immigration policies have often addressed immigrants, on the one hand, as 'price-cutting', unfair competitors

in the labour market, and on the other as potential terrorists. Social protection for migrant workers represents, in this context, a serious problem still in need of an adequate response. Due to strict implementation rules for obtaining a residence/work permit (in 2006 up to 90 per cent of Russian migrant workers had no residence and/or work permits), the majority of migrants remain largely unprotected, and this in spite of the huge demand for labour that the Russian Federation has (Mukomel 2006).

Nonetheless, other social groups, such as children, women, the disabled and pensioners, can now also be included in the context of extreme poverty. If an investigation of poverty rates by family and household composition is conducted, then it can be seen that poverty has primarily involved an increase for: (1) single-headed households; (2) single parents; (3) single women with children; (4) households with unemployed, part-time or atypical workers; (5) households with elderly members; (6) households with young people; and (7) households of ethnic minorities. For these groups of people extreme poverty still represents a major and unresolved problem (for a brief overview, see World Bank 2005; Cerami 2006b).

Finally, an important issue that needs special attention concerns the health situation of Russian citizens, which has dramatically worsened in recent years.³ Just to quote a few examples, statistics provided by the World Health Organization show that mortality rates are steadily increasing, from 1,160 per 100,000 inhabitants in 1989 to 1,510 in 2005. Alcohol abuse has also grown as a result of the transition: the pure alcohol consumption (litres per capita) in the Russian Federation has almost doubled (from 5.3 to 8.9). HIV/AIDS has also become a major problem: the number of new HIV infections in 2005 was 131 times higher than in 1989 (from 272 in 1989 to 35,739 in 2005), surpassing many third-world countries (WHO 2007). As emphasized by all international institutions (notably, the OECD, World Bank, IMF and WHO), a reform of the health care sector must be conducted without delay.

Oil-led Social Policy, 2007–2010

What has been highlighted above is the state-of-the-art of the Russian system of social protection before the economic boom that has taken place in the last few years, which, as mentioned, can be explained by unexpectedly high oil and gas prices. These have boosted the national economy (see table 2), but also international trust in the country, and, as will be shown, also has provided an increase in social protection for the citizens.

As can immediately be seen in table 3, oil and gas revenues to the Federal Budget, even though predicted to decrease slightly in the future, will still correspond to 5.2 per cent of total GDP in 2010 (approximating to one-third in terms of contribution to the total revenues of the Federal Budget), and will represent also for the next few years the main engine of Russian economic growth (see OECD 2006; Hanson 2008; Sutela 2008; World Bank 2008). In addition, it should also be mentioned that these are extremely prudent forecasts, as they are based on an oil price of approximately \$US 50 per barrel. Due to the recent global financial crisis, future oil and gas prices are now unpredictable.

Table 2

Main macro-economic indicators

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP (% change)	-5.3	6.4	10.0	5.1	4.7	7.3	7.2	6.4	7.4	8.1
GDP (RUR billion)	2,741	4,823	7,306	8,944	10,831	13,243	17,048	21,625	26,880	32,987
Inflation (CPI) (%)	84.4	36.5	20.2	18.6	15.1	12.0	11.7	10.9	9.0	11.9
Exports (\$ billion)	74.4	75.6	105.0	101.9	107.3	135.9	183.2	243.6	304.5	355.2
Exports, oil, oil products, natural gas (\$ billion)	27.9	30.9	52.8	52.1	56.3	73.7	100.2	148.9	190.8	218.6
Imports (\$ billion)	58.0	39.5	44.9	53.8	61.0	76.1	97.4	125.3	163.9	223.1
Industrial production (% change)	-5.2	11.0	11.9	2.9	3.1	8.9	7.3	4.0	3.9	6.3
Fixed investments (% change)	-12.0	5.3	17.4	10.0	2.8	12.5	13.7	10.9	16.7	21.1
External debt (% of GDP)	-	66.8	44.5	33.3	27.7	22.4	16.1	9.2	4.4	2.7
Stabilization fund (\$ billion)	-	-	-	-	-	-	18.9	43.0	89.1	156.8

Source: BOFIT (2008), CBRF (1998–2008).

Table 3

Basic parameters of Federal Budget (% of GDP)

	2007	2008	2009	2010
Total revenues	21.6	19.0	18.8	18.1
Oil and gas revenues	8.1	6.8	5.9	5.2
Expenditures	18.3	18.8	18.8	18.1
Reserve fund	8.7	9.0	10.0	10.0

Source: Ministry of Finance of the Russian Federation (2008).

Table 4

Federal budget dynamics by functional classification
(billion roubles, unless otherwise indicated)

	2007 (law)	2008 (projected)	2009 (projected)	2010 (projected)
Inflation	11.9%	6–7%	5.5–6.5%	5–6%
Total government expenditures	5,463.5	6,570.3	7,451.2	8,089.9
Housing	53.0	56.9	79.2	71.0
Education	277.9	308.9	315.5	341.1
Public health and physical fitness	206.4	218.3	234.2	274.6
Social policy	215.6	273.0	362.4	427.5

Source: Ministry of Finance of the Russian Federation (2008).

As affirmed in the reformed budget policy of the Ministry of Finance of the Russian Federation (2008), the financial resources available for the years 2008–10 will primarily be used to: (1) improve the quality of life of citizens; (2) promote stable economic growth; (3) ensure national security; and (4) foster confidence in the future of the country. Social cohesion becomes, in this context, a new policy priority. As shown in table 4, during the period 2007–10, expenditures for social policy will grow from 215.6 billion to 427.5 billion roubles, for education from 277.9 billion to 341.1 billion roubles, for housing from 53.0 billion to 71.0 billion roubles, and for public health from 206.4 billion to 274.6 billion roubles (in the meanwhile, expenses in the defence sector will grow from 822.0 billion to 1,191 billion roubles).

In more practical terms, this huge improvement in welfare efforts will be translated into a substantial increase in the amount of welfare benefits available to citizens. In 2010, the minimum wage is forecast to come close to, or to reach, the minimum subsistence level for the working population (in

2004 it was equal to 23 per cent of the minimum subsistence level, while in 2007 it corresponded to 56 per cent). Average pensions financed by the Federal Budget will increase by a factor of 1.7. Funds for home repairs will increase at 40 per cent annually; transportation services will be provided to over 6,000 disabled persons annually, increasing by a factor of 1.2; compensations for rent payments, housing and other services to over 46,000 families of killed (deceased) military personnel will correspond to a total amount of 1.1 billion roubles annually. Monthly cash paid to the disabled will increase from 138.5 billion roubles in 2007 to 216.0 billion roubles in 2010. In 2008, the federal government will also increase healthcare spending by 24 per cent in comparison with 2007 (in 2009 this figure will rise to 36 per cent). In addition to this, the budget to regional and local authorities will also be strengthened (from 260.4 billion roubles in 2007 to 373.8 billion roubles in 2010). Cash and in-kind benefits for specific professional categories in strategic sectors of the state (such as soldiers, officials of various ministries, and veterans of various wars) will also increase (Ministry of Finance of the Russian Federation 2008).

According to the Ministry of Finance's new policy directives, this new reformed budget is aimed at: (a) reducing the number of individuals living below the poverty line from 16 per cent to 10.7 per cent; (b) raising correspondence between the average salary for government employees and the minimum living standard for the working population from 1.7 to 2.6; (c) raising correspondence between the working pension and the minimum living standard for a pensioner from 1.01 to 1.32; (d) increasing the volume of new housing from 50.8 million cubic metres annually to 80.0 million cubic metres; (e) increasing life expectancy at birth up to 68.5 years (in 2006 it corresponded to 66.7); (f) increasing the birth rate coefficient, from 10.5 to 11.6 births per thousand people annually; and (g) reducing the mortality rate from 15.2 to 12.6–12.8 deaths per thousand people annually (Ministry of Finance of the Russian Federation 2008: 48). To put it very briefly, more than a 'Dutch miracle' (see Visser and Hemerijck 1999), we are now in front of a 'Russian miracle' whose destiny remains, however, highly volatile.

Indeed, if, on the one hand, the positive results of the Russian economy, to a large extent, depend on decisions taken by politicians and policy-makers in the financial but also in the energy and defence sectors, then, on the other, these positive results are also linked to the volatility of global markets with their worryingly unrestrained behaviour in financial speculation. To provide a quick overview, in the financial sector the main objectives have been to ensure a stable rate of economic growth, to reduce the inflation rate, to pay the large foreign debt (in 2007 the external debt of the Russian Federation was reduced by 2.7 per cent of GDP) (Ministry of Finance of the Russian Federation 2008), as well as to increase investments. In the energy sector, the main policy priorities of the state, by contrast, have been to drastically reduce the power of the oligarchs, to centralize and to expand its spheres of influence over the major oil, gas and electricity companies. This has materialized in the acquisition of Gazprom (the leading Russian oil and gas company), while pursuing, at the same time, an aggressive policy of acquisitions of other strategically important oil and gas companies, such as Mosenegro,

RAO UES, Tuapse oil refinery, Yuganskneftegaz, Tambeyneftegaz, Northgas, Selkupneftegaz, Sibneft, Verkhnechonskneftegaz, Udmurteft, Sibneftegaz and Novatek (OECD 2006: table 1.5, p. 38). In the defence sector, Russian authorities have opted for a policy approach aimed at securing the strategic interests of the country (e.g. securing control over the main roads for the delivery of oil). In some instances, cuts in the delivery of oil and gas have also been used as a weapon of political retaliation against possibly hostile republics (such as Ukraine). For the purpose of this research it is vital to emphasize that this form of social policy expansion based on volatile equilibriums present in the global arena is unlikely to be sustainable in the long run, even in the presence of the additional surplus in the Reserve Fund. The exact volume and extent of the explosion of the speculative bubble that has led the growth of oil prices is almost impossible to quantify. As the 2008 financial crisis in the US residential property sector shows, the consequences subsequent to the shock can be disruptive and have serious global repercussions.

Actors and Factors of Post-Communist Social Policy

This brief overview of the changes in welfare state organization that have occurred since the dissolution of the communist system has highlighted how a substantial shift in the main social policy logic has taken place. Reforms, however, have not been linear, but they have had stop-and-go phases as well as materializing in several attempts at reform, some of which have been successful, while others have not. Cook (2007) identifies three main stages of welfare state restructuring, each one characterized by different actors, power and interest constellations.

According to the author, during the first stage (1991–3) no effective representation of statist or societal interest was present in Russia. During this period, in the absence of a strong opposition coming from civic society and political forces, a strong liberalizing executive under Yeltsin was able to implement a non-negotiated radical liberalization of the welfare arrangements. Unconstrained policy change was, thus, the main feature of the policy process. In the second stage of reforms (1994–9), the first signs of a democratic policy process appeared. The executive, always under the leadership of Yeltsin, continued its liberalizing attempts but resistance from some political factions present in the Duma (Women of Russia and Yabloko) and civic society organizations (e.g. pensioners' associations) reduced the executive's room for manoeuvre in implementing its policy preferences. During this second phase, representation of statist and societal interests with ministries and legislature playing a veto role produced a moderate liberalization of the welfare state in which policy deadlocks as well as contested liberalization became the main characteristics of the policy process.

In the third stage of reforms (2000–4 [in my revised version of the table, 2006]), the Duma passed substantial institutional reforms of the welfare state working towards a more market-oriented welfare arrangement. This was made possible thanks to a strong liberalizing executive under Putin that actively pursued the representation of statist, elite, bureaucratic and institutional

interests. Major reforms in the period involved all sectors of social protection. Some resistance to the reforms, however, took place. During this period, Putin's attempts to replace in-kind with cash benefits (the so-called 'monetization' of benefits) faced unprecedented protests and blockages in the Duma, but also in the streets. In the eyes of many observers, this had to be expected since these reforms would have substantially reduced the role of the Russian welfare state, especially for the most vulnerable categories. To the three main stages identified by Linda Cook, a fourth one of oil-led expansion (2007–10) under the leadership of the new President Dmitry Medvedev can be added. The main characteristics of this stage are, again, the liberalization of the welfare architecture primarily negotiated within the elites' structures, as a result of Putin's institutional legacies, as well as, this time, the representation of societal interests made possible by increasing surplus in the Federal Budget (see table 5).

Before concluding, one very quick reference must, however, be made to the role of international organizations in the social policy reforms process of the Russian Federation. The role of international institutions in the reforms of Central and Eastern European social policy has often been debated. Some scholars have argued that they have played a crucial role (Deacon *et al.* 1997; Deacon 2007; Orenstein *et al.* 2008), while others have emphasized that they should rather be seen as mediators in the social policy reform process (see Cerami 2006a, 2009; Ingot 2008). In the case of the Russian Federation, as Cook (2007) has correctly argued, the role of international institutions should rather be seen, especially in recent years, as contingent, even though certainly not secondary. In fact, if, on the one hand, it is true that the World Bank and IMF have been key players, particularly during the first years of transition, promoting privatization in all spheres of social security, then, on the other, the real implementation of their reform strategy has been mediated in the political arena where the real battles for reforms have taken place. Under Putin's administration, not only have World Bank and IMF officials often been excluded from the policy process, but also technical assistance coming from these organizations, once a crucial strategy in their policy reform process, has, in several instances, been rejected.⁴

Conclusion

To sum up, which are the main factors that have led the social policy reform process in the Russian Federation? As has been argued in the Introduction, social policy developments have been driven by a variety of different, but equally important, endogenous and exogenous factors. These have included the presence of few veto points in the political arena due to the super-presidential (Beichelt and Eicher 2006) character of the system, a lack of a well-structured system of interest representation, the presence of informality in the welfare state organization as a result of the inherited communist system of social protection (Cook 2007), but also exogenous factors, such as those associated with the presence of national economic vulnerabilities and/or strengths in the now open global economy (see Scharpf and Schmidt 2000). The recent strong performance of the Russian economy has, in fact, been led by the oil

Table 5

Four stages of welfare state restructuring

	Economy	Executive	Interest representation	Policy process	Outcome
1991–1993	Deep economic crisis	Strong liberalizing executive under Yeltsin	No effective representation of statist or societal welfare interests	Non-negotiated liberalization	Unconstrained policy change
1994–1999	Deep economic crisis	Moderate liberalizing executive under Yeltsin	Representation of statist or societal welfare interests; ministries and legislature play veto role	Contested liberalization	Policy deadlock
2000–2004[6]	Recovery from economic crisis	Strong liberalizing executive under Putin	Representation of statist, elites, bureaucratic and institutional interests	Liberalization negotiated within elite	Policy change with elite compensation
2007–2010	Oil-led economic boom	Strong liberalizing/ socially-aware executive under Medvedev	Representation of statist, elites, bureaucratic and institutional interests; social interests now a priority	Socially-oriented liberalization negotiated within elite	Policy change with elite and social compensation

Source: Cook (2007: table 1.3, p. 25); author's modifications and amendments.

exports that have produced unprecedented surplus in the Federal Budget. This surplus has been used to stabilize the economy after the financial crisis of 1998, as well as, indirectly, to provide more resources for social protection. At first glance, non-related decisions taken in strategic sectors of the state, such as those related to the energy or defence sectors, have 'spilt-over' in other sectors (e.g. in the social sector), producing substantial positive impacts in the reforms of social security (e.g. limiting the negative costs associated with the first retrenchment of the welfare state) while at the same time providing legitimacy to the political elites and their reform plans.

The article's main conclusion is that oil-led social policy is the key feature of the most recent reforms, but also that the current welfare expansion and subsequent diminution of inequalities will be sustainable in the future only under conditions of sustained oil and gas exports associated with high prices. Due to the impossibility of predicting the trends in global markets, the destiny of the 'Russian miracle' remains highly unpredictable. The article has also shown that not only *politics*, *institutions*, and *historical legacies* matter in the explanation of welfare state change, but also non-contingent strategic decisions produced in the framework of the global arena (*globalization* as well as *economic and political intelligence* also matter!). The development of welfare states in Europe should, in fact, be explained not only in terms of class struggles as the power resource model would suggest (see Korpi 1983; Esping-Andersen 1985; Baldwin 1990), or as a result of deindustrialization (Iversen 2005) or again as the consequence of increasing global economic competition (Rieger and Leibfried 2003), but also as an outcome of the strategy of confrontation during the Cold War (Cerami 2009) and, more recently, also of the post-September 11 new world economic and political order with the rising tensions in the Middle East which are influencing an increase in energy prices.

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Notes

1. The Stabilization Fund of the Russian Federation, recently divided into the Reserve Fund and Future Generation Fund – or National Welfare Fund – was established on 1 January 2004 to balance the federal budget when oil prices fall below a cut-off price, currently set at \$US 29 per barrel.
2. For more information on communist social policy, see Cerami (2006a).
3. For a review, see Titterton (2006).
4. For an interesting discussion on this topic, see Cook (2007).

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