

“We Have No Middle Class In This Oblast’--
There Are Rich and Poor”:
The Dilemma of Russian Social Policy

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The project:

“‘Silent Heroes’: State and Middle Class in Contemporary Russia” (funded by National Council for Eurasian and East European Research, 2009-2011)

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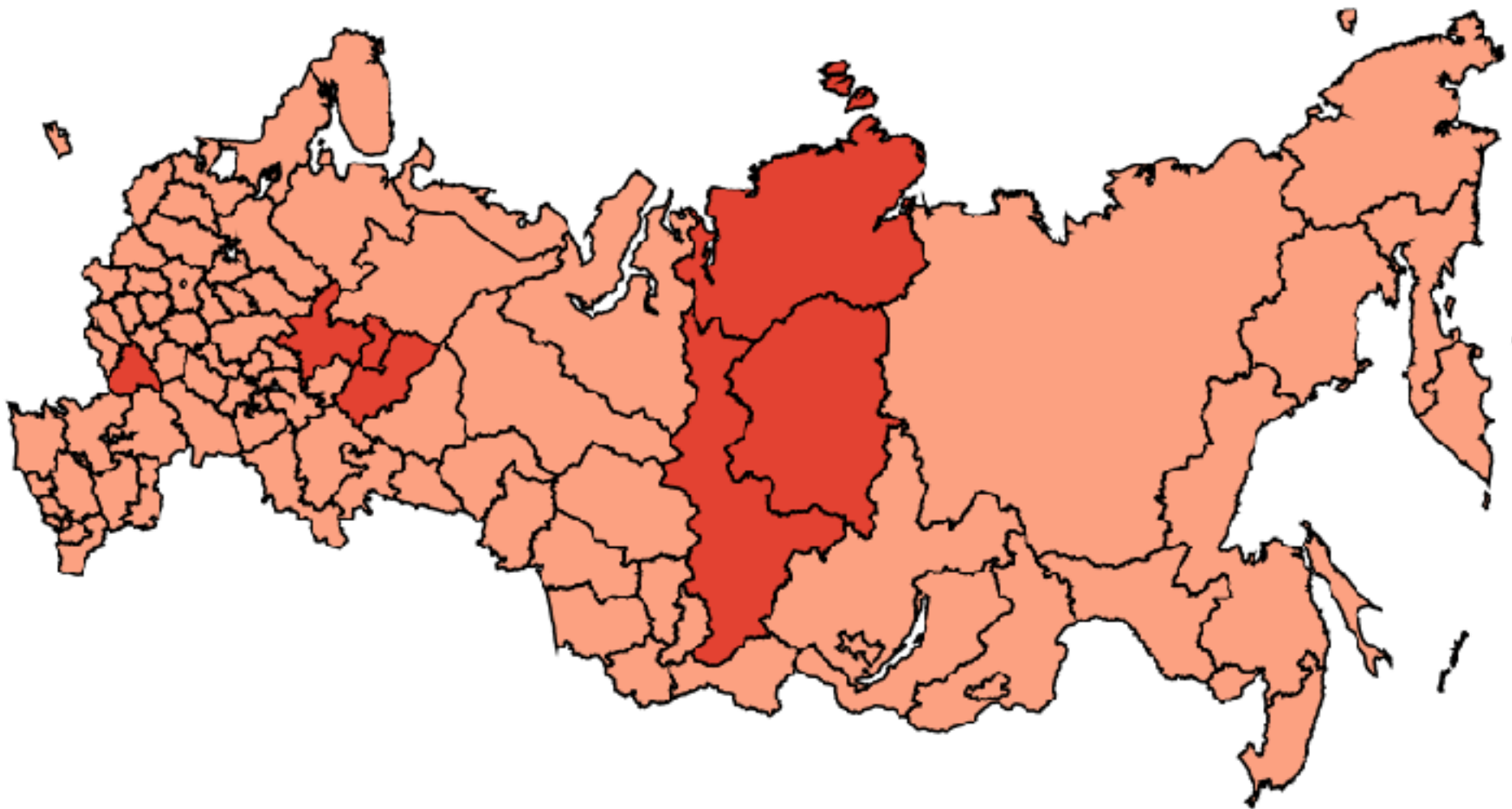
12- 15 interviews each in four regions (Perm’, Krasnoyarsk, Kirov, Voronezh)
Respondents: Experts, regional authorities, business representatives

Research question: what are regions doing to build up middle class?

Short answer: Nothing. Governors don’t see that as goal

Instead, goal is to protect vulnerable social strata (to avoid social unrest) while building up entrepreneurship, attracting investment, increasing economic output

Kirov, Voronezh, Perm', and Krasnoyarsk regions



The Middle Class is on the Government's Agenda



From Putin's address to State Council, February 8, 2008: "We must see to it that all citizens of our country, using their knowledge and abilities, and, where needed, the help of the state, have the opportunity to receive a high-quality education, support their health, obtain housing, receive a worthy income. That is, to have a standard of living defining their belonging to the so-called middle class. And I believe that the minimum threshold for the share of the middle class in the social structure by 2020 must be no less than 60% and perhaps even 70%. *And the differentiation in family incomes must be reduced from the current absolutely unacceptable 15-fold gap to one more reasonable.*"

Soviet-Era Incomes and Social Benefits by Source and Type

Source	Monetary	Nonmonetary
Federal and regional government	Pensions, maternity benefits	Subsidized free or discounted rights to public transportation, medications, rent, utilities
Workplace	Basic wages, bonuses, supplements	Housing, preschool care, clinics, recreation vouchers, some food and scarce consumer goods

Two policy dilemmas:

1. How can nonmonetary benefits be monetized given high costs, low incomes?
2. How can social responsibilities of enterprises be turned over to government?

The institutional environment for regional government:

Low information (“the business climate isn’t a climate, it’s a fog”); short time horizons

Governors have wide autonomy to set social and economic policy

Governors differ in goals, strategies (eg oriented to political career vs. own business)

All use frequent ad hoc consultation with business associations (but raising fears of crony capitalism absent clear rights of participation, representation)

Organized labor everywhere irrelevant

1st basic goal: avoid social unrest. "We have restless pensioners. They will bang on pots and pans, block the tram lines. Here they went on strike, dragged a bus, turned it over, and blocked the road to a gas station."

2nd.: Ensure high vote for United Russia; 3rd: economic growth

Regions depend on federal funds for major programs, projects (eg new maternity hospital in Perm’—1000 beds, but no support departments)

Krasnoyarsk goals: develop small business to boost employment, absorb labor

But little initiative coming from business itself: “you can’t say that anyone here is articulating or aggregating the interests of small and medium business.”

Deliberately mild tax regime, but high expected contributions to finance “administrative resource” in elections

Goal: reduce tax burdens both for business and local districts: “the more you work, the more everyone receives...same for the regions...why can’t our donor regions work on the basis that the better they work, the more they keep? But right now, it's the other way round: the better we work, the more is taken away.”

Basic problem--as in Russia generally: “we have too many social subsidies. There is always an alternative: either to receive a certain amount, or to receive nothing... we have too many social programs that assist people, eg helping pay the housing and utilities bills.”

Kirov: Belykh trying to pursue pro-market policy but region impoverished

Belykh: "The goal of our social-economic policy is to pull out of poverty the majority of the population. That is, in fact, to help the poor strata. We don't have specifically economic programs of support. Instead we are stimulating civic activity. We don't have direct measures directed to the financial support of the middle class. We have indirect programs of support for those who could after some time become 'lower middle class' ...We have no middle class, we have rich and poor."

2nd official: "the policy in the oblast' is more social than directed toward developing business. I.e., in the first instance that means pensioners."

Maria Gaidar in charge of social policy

example of policy: unemployed can get 1 year's benefits to start new business

Education, health care becoming commercial; but leads to corruption, moonlighting rather than improvement of service

Poverty, aging population, poor infrastructure, flight of youth mean "the region is gradually turning into a social welfare institution" (*prevrashchaetsia v sobes*)

Voronezh: Gordeev's 2 goals: attract outside investment, protect the poor

Region has highest number of pensioners per capita of all 4 regions

Governor focusing on building an industrial zone, inviting Siemens to invest and obtaining state program funds; uses contacts in federal government

Heavy budget spending in rural periphery—high electoral turnout, high poverty (eg 15 new sports centers built outside capital city, none in it—only private facilities built there)

Regular consultations with 2 business associations—insiders see them as effective, outsiders as irrelevant except for lobbying purposes

Business influence exercised through UR, regional legislature

Perm': clear tilt toward support for market development:

Governor Chirkunov: we have to learn how to “sell our brains”;
Government is a “business project”

The state should get out of public services, eg health care and education,
open opportunities for commercial activity (cf President Medvedev)

On forcing budget sector employees to commercialize public services:
“Those who are inefficient are against our policy. It’s hard for them in
the marketplace. I call this the zoo effect: It was warm, you more or less got
fed, not a lot, but every day. And now let that animal out into the wild—
and he will die.”

Conclusions:

Similar trade-offs, different strategies re balancing social and economic aims

All want to develop market economy, business sector. BUT:

1. Maintaining social guarantees (eg subsidized utilities rates) costly
2. Market can't improve efficiency, dissipate rents through competition
3. Market therefore can't simultaneously generate both growth and equality
4. Developing middle class as stratum with common interests not a goal
5. Institutional environment for pooling benefits, costs of market growth poor
6. No institutional guarantees of representation, participation in policy-making; weak capacity for monitoring government actions;

So: the state too strong to commit itself to provision of public goods, refrain from predation; is stuck between old state socialist social welfare system and rampant rent-seeking