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### The monetisation of **I'goty**: Changing patterns of welfare politics and provision in Russia

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# The Monetisation of *L'goty*: Changing Patterns of Welfare Politics and Provision in Russia

SUSANNE WENGLER & MICHAEL RASELL

## *Abstract*

This article explores the contentious 'monetisation' of in-kind benefits (*l'goty*) that converted them into cash allowances and redistributed responsibility for welfare provision between federal and local governments. We provide an empirical account of these reforms and discuss their implications for the conceptualisation, financing and regional dimensions of welfare provision in Russia. We find that budgetary pressures were not the primary motivation for the recent changes, nor were old forms of social provision fully abolished. Monetisation launched a process that shifts responsibility for well-being onto individuals and institutionalises the spatial differentiation of welfare provision.

FEDERAL LAW NO. 122, POPULARLY KNOWN IN RUSSIA as the law on 'monetisation', was one of the most contested pieces of legislation during Vladimir Putin's time in office. *L'goty* (in-kind benefits) have long been an important feature of the Russian welfare state and spontaneous protests broke out across the country when the law came into force in January 2005. Against the backdrop of 'coloured revolutions' in other CIS countries, these demonstrations triggered a political crisis for the Russian government. The provision of welfare services is arguably a key aspect of the interaction between the Russian state and its citizens and their restructuring therefore warrants in-depth analysis. *L'goty* reform is particularly significant as it affects a large part of the population, multiple public services and the overall development of Russia's market economy.

The first aim of this article is to give an account of the developments in *l'goty* provision. We outline the changing role of *l'goty* in the post-Soviet period, trace the events that led to the 2005 reforms and assess the uneven results of the new system. We also discuss the mass protests that erupted across Russia when the law came into force. Our second aim is to re-evaluate some of the main arguments that have been made about the Russian welfare state in the light of the *l'goty* reforms. We address three longstanding questions about the Russian welfare state: the extent to which Soviet-era

legacies matter, the importance of budgetary constraints in driving social reform, and the role of regions in social provision. We assess whether these questions remain salient and consider how events since the implementation of Law 122 shed new light on the functioning of Russia's welfare system.

Before focusing on the details of the *l'goty* system, it is important to understand how the Russian welfare system developed in the post-Soviet period (Cook 2000, 2007; Kapstein & Mandelbaum 1997; Cook *et al.* 1999). With the end of the USSR came the dismantling of the main pillars of the Soviet welfare system—compulsory employment, free services and subsidised consumer goods. Although many welfare rights and entitlements continued to exist on paper, realities in the social sector were shaped by the collapse of economic output, the decline in state resources and the huge structural changes in the economy. This combination of plummeting finances and macro-economic shocks resulted in a crisis of welfare provision that was both broad and deep: 'broad' in the sense that it affected many areas of welfare provision, including healthcare, pensions and unemployment insurance, housing, education and transport; 'deep' as all these sectors faced the task of fundamentally reorienting provision in line with the country's rapidly changing economy and society. As a result of the economic crisis and failing safety nets, poverty rates surged and Gini indices of inequality rapidly increased (World Bank 2001). Despite these challenges, however, welfare reform was not a priority during the 1990s. Designing and implementing far-reaching reforms of the welfare state was a huge task and one that the relatively weak Yel'tsin government did not confront. Some new institutions were created, for example the unemployment insurance fund and poverty benefits. However, they existed alongside mechanisms from the Soviet period and were largely ineffective at alleviating deprivation (Fox 2003, p. 11).

In contrast to the social policy inertia of the Yel'tsin period, welfare reform was a prominent feature of Putin's time in office. Major changes have been implemented in such sectors as healthcare, pensions, housing and utilities (Cook 2007). The *l'goty* system runs across all these branches of the Russian welfare state and over a quarter of the Russian population makes use of in-kind benefits. Their reform was thus both significant and contentious.

#### *The l'goty system*

As the extensive use of in-kind benefits is a distinctive aspect of communist and post-communist welfare states, we will discuss the contours of the *l'goty* system as it was before the reform and the problems that arose during the 1990s, before turning to the reforms themselves. *L'goty* were special benefits or privileges that entitled eligible recipients to the free or discounted use of various public services, including transport, housing, utilities, medicines and sanatoria. Categories of recipients included military veterans, people with disabilities, Heroes of the Soviet Union, inhabitants of the Far North, victims of the Chernobyl disaster and many others, including pensioners and policemen. Some *l'goty* allowed unlimited consumption of services, for example on public transport, while others granted free services up to levels set by the government.

*L'goty* were characteristic elements of the Soviet welfare system, where they served a number of functions. They were generally awarded on the basis of merit or service to

the Soviet state, as in the cases of military and labour veterans. Alternatively, *l'goty* served as incentives to encourage people to move to strategically important or remote areas, attracting workers, doctors and teachers to rural areas and the Far North. In certain circumstances, these benefits were granted to raise the living standards of certain groups, for example disabled people, former *gulag* prisoners and those affected by the 1986 Chernobyl nuclear disaster. Across the board, they were imbued with symbolic capital beyond their material benefits. They became an important source of pride and identity among recipients, with Soviet society coming to believe that *l'gotniki* deserved and were legitimately entitled to these special privileges (Bogdanova 2005, p. 2).

It is important to stress that *l'goty* were not originally designed to relieve hardship and thus are not equivalent to the social assistance that operates in market economies. Rather, the majority of recipients were granted *l'goty* on the basis of merit, irrespective of material need. However, these benefits became crucial sources of support for many households during the economic turmoil of the early 1990s. They were an important bulwark for people who had not been vulnerable to deprivation in the Soviet period. As elsewhere in Eastern Europe, new forms of deprivation emerged in Russia during the 1990s, affecting such groups as the intelligentsia, the unemployed and public sector workers (Braithwaite 1997; Silverman & Yanowitch 1997). *L'goty* acted as a safety net, ensuring that recipients received basic services despite their financial poverty. As individual incomes plummeted, the relative importance of these free services in household budgets increased. In 2003, the value of in-kind benefits represented at least 10% of the income of poor households receiving *l'goty* (Ovcharova & Pishnyak 2005, p. 11).<sup>1</sup> It would nonetheless be wrong to regard *l'goty* as an effective way of reducing hardship or providing social assistance, for a number of very serious problems with the *l'goty* system grew over the years. Three distinct issues were pertinent: their poor financing, their non-monetary nature, and their untargeted distribution. These points have long been recognised and discussed by welfare specialists and politicians, but only in 2005 did the Russian government tackle the thorny issue of reforming the country's benefit behemoth.

The first concern was that the *l'goty* system was unwieldy and underfinanced. During the 1990s, social spending in real terms fell dramatically. The gap between state guarantees and the funds available for social programmes therefore grew, not least because Yel'tsin's governments expanded entitlements to *l'goty* during this period. Particular problems were caused by 'unfunded mandates'—federal instructions to regions to award *l'goty* that were not accompanied by requisite funds (World Bank 2005, p. 114). During the post-Soviet period, regions and municipalities also awarded their own benefits, adding to the complex array of *l'goty* inherited from the USSR. In Soviet times, various ministries and levels of government allocated benefits to different categories of people without recording who was entitled to what and the value of these awards. By 2003, 236 different categories of the population were eligible for more than

<sup>1</sup>This is a conservative estimate. Other measures suggest that it was closer to 15% in 2002 (Klimantov & Kovalevich 2005, p. 3). Either way, the figure is likely to have been much higher in the 1990s, although we are not aware of statistics for earlier years.

156 social payments at the federal level alone (Maleva 2006, p. 20). Overall, legislation delineated more than 1,000 varieties of benefit in Russia (Volchkova 2005, p. 2).

The problem with the byzantine range of *l'goty* was not only that it was difficult to administer, but also that it was woefully underfinanced at all levels of government. Experts estimate that 70% of legislation concerning *l'goty* did not provide the required funds for the provision (Ovcharova & Pishnyak 2005, p. 6). As a result, far from all people entitled to *l'goty* actually received them: only 30% of eligible benefit recipients made use of them in 2003 (Volchkova 2005, p. 13). Furthermore, local service providers—utilities and municipal transport systems—often had to bear the costs of providing the discounts.<sup>2</sup> Such budgetary problems arose from the fact that cost was not a primary concern in the Soviet planned economy, where the provision of in-kind services was more a question of allocation than expenditure. However, the cost of providing goods and services started to matter as the Russian economy began to liberalise and marketise. This was problematic because the government lacked defined procedures for the accounting and financing of *l'goty* and thus neither knew the real value of *l'goty* nor provided the requisite funding.

In the eyes of the Putin administration, the second problem with *l'goty* was that their in-kind nature impeded the liberalisation of public service sectors and development of a market economy in Russia. Liberal reformers in the country have long been eager to create markets for public services and they see in-kind benefits as incompatible with a market economy that relies on hard-budget constraints and transactions that can be valued in cash terms. For much of the 1990s, many public service providers—utilities, municipal transport and the Russian railway in particular—provided services in-kind and below cost to households and selected industrial consumers. They also played an important role in the barter and non-payment crisis of the mid-1990s (Woodruff 1999). Given the economic difficulties arising from barter, reformers argued that the welfare system should become cash-based in order to increase accountability and transparency and to solve the financial problems faced by public service providers (World Bank 2005, p. 114).

The third major concern with the *l'goty* system was that it was ineffective at tackling poverty, principally because benefits were not allocated on the basis of need. While some categories of recipients were highly likely to experience deprivation (disabled people and former political prisoners), the *l'goty* system did nothing to ameliorate such significant issues as child poverty or hardship among unemployed and low-paid workers. *L'goty* were quite broadly distributed in Russia, with 27% of the population eligible for at least one benefit in 2003 (Ovcharova & Pishnyak 2005, p. 7). Yet, richer households were both more likely to receive benefits and to consume greater quantities of discounted and free services (NISP 2005, ch. 2, p. 9). The *l'goty* system thus suffered from both high leakage as resources went to non-poor households and poor coverage in that large numbers of poor did not receive assistance. International financial institutions and liberal reformers in Russia have long recommended that Russia change the principles underlying the distribution of *l'goty* and introduce targeted

<sup>2</sup>Public service providers were often not compensated in full by the responsible level of government. This meant that many such companies operated at a loss, reducing investment and depleting infrastructure.

(means-tested) benefits (Gref Programme 2000; Foley & Klugman 1997; World Bank 1999a). The government's Medium-term Programme for Socio-Economic Development (2002–2004) envisaged cancelling most social benefits and changing entitlement so that state assistance was only given to vulnerable people (Aleksandrova *et al.* 2005, p. 32). Yet, as we shall see, such plans have yet to become reality, for the social reforms of 2005 did little to alter the eligibility principles for social assistance.

### *The l'goty reforms*

As the problems of the *l'goty* system mounted, the question became not if, but how and when they would be tackled. The need to address these problems was apparent throughout the 1990s, but major reforms were only initiated during Vladimir Putin's second term as president. A constellation of political and economic factors explains the timing of Law 122, which was rapidly passed by the *Duma* during the summer of 2004 and came into force on 1 January 2005. At this time, presidential and parliamentary elections were far off, providing a window of opportunity for potentially controversial and painful welfare reforms. Even though a diverse coalition of forces vocally opposed the reforms, and protests took place on the streets in front of the *Duma*, the legislation was passed with little debate. United Russia (*Edinaya Rossiya*) had gained an absolute majority in the State *Duma* in 2003, meaning that the Communist Party and other opposition groups could no longer block welfare reform as they had during the 1990s.<sup>3</sup> The financial preconditions for reform were provided by several years of sustained economic growth that increased both household incomes and budgetary revenues. This combination of political and economic factors prompted the 'liberal' faction of the government—Finance Minister Aleksei Kudrin, Economics Minister German Gref and Health Minister Mikhail Zubarov—to deem Russia ready for welfare reform. They were proponents of market-oriented reform and strongly concerned with regularising and systematising Russia's economy and public finances. There is some evidence to suggest that Russia's Prime Minister, Mikhail Fradkov, was uneasy about the plan to monetise *l'goty* and attempted to steer Putin away from legislative action (Kolerov 2005). Yet, his opposition was sidelined, for the monetisation project fitted well with longstanding aims to reform public administration.

Law 122 had three important aims: to regulate federal–regional welfare responsibilities, to clarify the financing of public services, and to convert in-kind benefits into cash payments. As expressed in the law's title,<sup>4</sup> a key task was to divide

<sup>3</sup>In particular, the *Duma* rejected the introduction of means-testing for most forms of social assistance in 1997 ('Duma Rejects Most Government-Backed Social Reforms', *RFE/RL NEWSLINE*, 1, 60, Part I, 25 June 1997).

<sup>4</sup>Federal'nyi Zakon ot 22 August 2004 N 122-FZ 'O vnesenii izmenenii v zakonodatel'nye akty Rossiiskoi Federatsii priznanii utrativshimi silu nekotorykh zakonodatel'nykh aktov Rossiiskoi Federatsii v svyazi s prinyatiem Federal'nykh Zakonov 'O vnesenii izmenenii i dopolnenii v Federal'nyi Zakon "Ob obshchikh printsipakh organizatsii zakonodatel'nykh (predstavitel'nykh) i ispolnitel'nykh organov gosudarstvennoi vlasti subektov Rossiiskoi Federatsii" i "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniya v Rossiiskoi Federatsii"'. Official version available on *Rossiskaya Gazeta* website at: <http://www.rg.ru/2004/08/31/samoupravleniye-dok.html>, accessed 11 March 2008.

administrative and financial responsibility for providing *l'goty* between the federal centre and individual regions. Certain categories of benefit recipients now receive assistance directly from the federal budget while other *l'gotniki* are the responsibility of individual regions. This marks a change to earlier practice where tasks were divided on a sectoral basis rather than by category of benefit recipient. Table 1 indicates the delineation of major recipient categories.

The new division of responsibility means that regions now support two-thirds of all benefit recipients—close to 30 million people (Shenberg 2005). They are in charge of the largest group of *l'gotniki*—labour veterans—who are workers with distinguished work records. As of 1 September 2006, there were 16.7 million federal benefit recipients, of which 69.8% were disabled people, 8.9% Chernobyl patients, 6.1% military veterans and the remainder orphans or veterans of the Second World War (MZSRRF 2006). The government did not explicitly state the logic behind the division of responsibilities. It seems to be the result of the prioritisation of categories, with the central government assuming responsibility for the politically and socially most important categories—military veterans and the disabled. Regions were saddled with responsibilities for the officially less important though more numerous categories such as labour veterans and home-front workers. This created a hierarchy among the categories. Note for example that home-front veterans and military veterans are treated differently even though both served during the Second World War—the association with the armed forces earns military veterans the status of federal *l'gotniki*. The new delineation also suggests that the Kremlin does not feel a strong obligation to compensate victims of political repression by the Soviet regime, who are now looked after by individual regions.

Law 122 acquired the name 'law on monetisation' because it cashed out the benefits of federal benefit recipients. Instead of receiving discounts or the free use of public transport, housing, healthcare and sanatoria, federal *l'gotniki* now receive a monthly cash payment with which they can pay for these services. This use of money as a social policy tool is relatively novel in Russia, where unemployment and low-income benefits are small and allocated to a very small fraction of the population. The size of the cash payments varies by category: when the system came into force people with minor disabilities received 800 rubles each month while those wounded during military action

TABLE 1  
DELINEATION OF FEDERAL AND REGIONAL BENEFIT RECIPIENTS

<i>Federal benefit recipients</i>	<i>Regional benefit recipients</i>
Disabled people	Labour veterans
Heroes of Russia and the Soviet Union	Veterans of the home front
Victims of radiation (incl. <i>chernobyl'tsy</i> )	Victims of political repression
Military veterans	Children, students and pensioners
Participants in the Second World War	
Families of deceased soldiers and participants in the Second World War	

Source: Adapted from Ovcharova and Pishnyak (2005, pp. 13–14).

were given 2,000 rubles (Ovcharova & Pishnyak 2005, pp. 13–14).<sup>5</sup> Regions were strongly encouraged to monetise the benefits of the *l'gotniki* for which they are responsible, but Law 122 allowed them to decide the details and timetable for implementation.

There is some evidence that the Russian government suspected that the welfare reforms would be controversial. That Law 122 was rushed through the *Duma* betrayed the urgency of politicians and their concern about the political and societal reaction to the legislation. The second and third readings took place within the space of four days in August, with the Federal Council approving it immediately thereafter. This short span obviously gave parliamentarians little opportunity to debate the provisions of the law and its possible consequences (Bandenko 2005). An extensive promotional campaign on state-controlled television channels pre-emptively tried to convince Russians to embrace monetisation. It suggested that the new system was fairer as all benefit recipients would receive the same cash amount and that it would increase consumer choice and living standards.<sup>6</sup> True to the genre of political PR, these bulletins provided *l'gotniki* with little concrete information on what would happen when the new system came into effect.

The monetisation reforms provoked mass demonstrations by benefit recipients soon after they came into force. Protests broke out across the country after the New Year holidays finished despite the ferocity of the winter weather in 2005. Spontaneous gatherings took place in most major cities, including Moscow, St Petersburg, Samara, Perm and Novosibirsk. Tactics included blocking major traffic routes, most notably the motorway between Moscow and St Petersburg. Many cities also reported clashes between *l'gotniki* and bus drivers who tried to enforce the new rules (Yablokova 2005). Independent analysts recorded over 55 protests in January 2005 alone, half of which consisted of more than 1,000 people (Schroder 2005). In some cities protestors were arrested on the pretence that they had failed to obtain official permission for public gatherings. What was striking about these events was their grassroots and uncoordinated organisation: opposition parties and movements only became involved in the protests at a later stage (Klimov 2006, p. 33). The protestors had several concerns: that certain benefits had been abolished, that people would suffer materially as a result of monetisation, that inflation would erode the value of cash payments and that the state was abandoning its responsibilities towards groups that traditionally enjoyed high status in society.

The grievances of protestors were exacerbated by the clumsy implementation of the reforms. A considerable number of benefit recipients only received their cash payments at the end of January 2005 even though public services started to charge them in full

<sup>5</sup>In 2004, the size of pensions and other benefits awarded to disabled people were made dependent on the severity of their 'inability to work' (*stepen' ogranicheniya sposobnosti k trudovoi deyatelnosti*) as determined by a medical commission. Of the three possible degrees, the first degree is the least serious. The cash payments are indexed for general inflation in the same way as basic pensions.

<sup>6</sup>The government's claim that distributing cash could be fairer than granting discounts for services was based on the fact that many of those entitled to benefits were unable to make use of them in their in-kind form due to personal circumstances or the unavailability of the services (especially in rural areas).



from the beginning of the year. In part this was due to the legislation, which left important questions unaddressed. It was unclear, for example, how regions that could not afford to pay cash benefits were to be compensated from the federal budget. Many regions turned out to be administratively and financially unprepared to implement the provisions of Law 122. They received little advice from the federal centre on how to assume responsibility for large numbers of benefit recipients. Other problems arose from incomplete and conflicting lists of eligible recipients. The Pension Fund added 95,000 people to its register of those receiving federal compensation in January 2005 alone (Shenberg 2005). The problematic realisation of Law 122 was compounded by the fact that other legislative changes came into effect at roughly the same time, including laws on local self-governance and the 'unified social tax' (Yurova 2005). These issues, together with a lack of practical information for *l'gotniki* and conflicting rumours about the new system, gave rise to the wave of public discontent with the reforms.

Despite protests and significant media criticism, the government and United Russia initially maintained a positive line concerning monetisation, refusing to acknowledge even obvious flaws in the legislation (Arkhangel'skaya *et al.* 2005, p. 16). However, the protests made Kremlin politicians nervous, not least because they came in the wake of mass uprisings in other post-Soviet states. With public opinion strongly supporting the protestors, the government was forced to reassess its position. After a period of silence on the topic of social reform, Vladimir Putin intervened decisively with hefty criticisms of past and present governments (Putin 2005). Beyond conciliatory public statements, the government moved to raise pensions ahead of schedule, bring forward the indexation of public sector wages and award supplementary benefits to *l'gotniki*. Discounted transport tickets were made available to all *l'gotniki* and additional funds were granted to regions to cope with their welfare burden. Finally, the government's timetable of other socially important reforms was adjusted to delay further change. Despite these attempts to appease public opinion, monetisation was widely regarded as an 'anti-people' reform (Kolerov 2005, p. 56). It still has singularly negative connotations in popular discourse today, being viewed as an example of the arrogance of public officials with no concern for ordinary people.

More than three years after Law 122 came into force, monetisation has progressed largely as planned after the initial modifications. The most important tenets of the reform remain in place—the new delineation of federal–regional responsibilities and the move to cash payments. This raises the question of how the changes affect academic understanding of the post-Soviet welfare state. It has not been an easy task for the literature on Russian policy to keep up with the rapidly changing realities of social service provision in the country. The Soviet-era welfare system has undergone substantial modification over the last 15 years despite its low political priority during the 1990s. Given that Law 122 significantly changed the principles and realities of social provision, a re-evaluation of Russia's social system at the end of the Putin presidency is useful. In the following section, we explore how the reforms of the *l'goty* system are relevant to three concerns that dominated academic analysis during the 1990s: the importance of Soviet-era legacies; the role of budgetary pressures in shaping social policy; and the regionalisation of welfare provision. These issues are each inter-linked, explaining why welfare reform in the country is so difficult to conceptualise and implement.

*L'goty as Soviet legacies*

A recurrent theme in the literature on post-Soviet 'transitions' has been the relative importance of 'legacies' from the Soviet period in shaping processes and outcomes in the region. For a brief period in the early 1990s, Russian and Western reformers assumed that a set of 'shock therapy' policies could reset the economic fundamentals of centrally-planned economies back to a presumed natural state where freed prices and incentives would align with a market logic (Sachs 1991). Developments in the post-Soviet period quickly showed that economic reforms do not generate a 'clean slate' upon which markets develop quickly and naturally. Rather, post-Soviet economic and social reforms build on and interact with existing institutions and practices. In light of this recognition, academic debates then focused on the relative importance of 'legacies' *vis-à-vis* new practices and policies (Braithwaite *et al.* 1999; Cook 2000; Nies 2003). These accounts of change in the Russian welfare system draw on the wider legacies literature in post-Soviet studies, variously stressing cultural, institutional and 'infrastructural'<sup>7</sup> aspects of the Soviet-era inheritance.

How do the *l'goty* reforms inform the 'legacies' debate? On the one hand, the provisions of Law 122 were cautious. Russia's welfare state is still far from cash-based due to important exceptions to monetisation at the federal level<sup>8</sup> and its slow implementation in many regions. The current reforms only monetised *l'goty* in the transport and healthcare sectors and allowed regions to decide the fate of other in-kind benefits, most importantly those related to housing and utilities [*ZhKKh* (*zhilishchno-kommunal'noe khozyaistvo*) in Russian]. Key principles underlying the allocation of state welfare provision have been retained from the Soviet period: Law 122 did nothing to change the categories of recipients who receive support. Despite lip service to the need for means testing and targeting, the federal government decided not to include these policies in the *l'goty* reforms.<sup>9</sup> That the introduction of targeting was missing in Federal Law 122 was arguably due to the political consequences of curbing longstanding welfare provision to large groups of the population and the effect this would have on the well-being of *l'gotniki*.<sup>10</sup> It would thus seem that Law 122 was not particularly radical in the scope of change that it entailed—there are significant continuities in the welfare provision of the Soviet and post-Soviet periods.

On the other hand, the monetisation law did make important changes to Russia's welfare system. Many *l'gotniki* now receive cash payments instead of in-kind benefits,

<sup>7</sup>An interesting branch of this literature examines how social infrastructure that belonged to enterprises was transferred or transformed to become state and municipal concerns (Healey *et al.* 1999; Lefevre 2001).

<sup>8</sup>From 2006, federal benefit recipients have been offered a 'social package' of free local transport, medicines and sanatoria treatments, which effectively preserves key in-kind benefits in return for a smaller cash payment. By late 2005, 51% of benefit recipients had chosen to accept the social package, indicating that far from all *l'gotniki* favour cash payments (MZSRF 2005).

<sup>9</sup>Means-testing and targeting are widely regarded as key elements of a liberal welfare model (Esping-Andersen 1990, pp. 26, 43). For a discussion of the difficulties of targeting benefits in Russia, see Aleksandrova *et al.* (2007), Struyk and Kolodeznikova (1999) and Rasell and Wengle (2008).

<sup>10</sup>Paul Pierson's insight that the politics of retrenchment operates in contexts created by earlier welfare policies is helpful in understanding the political relevance of *l'gotniki* in post-Soviet Russia (Pierson 1994, p. 2).

which marks a fundamental break with the past. While the provisions of Law 122 were quite limited, monetisation was one of a series of reforms designed to restructure Russia's public and welfare services. Cashing out benefits is a step towards a more liberal welfare regime and paves the way for the market-based and targeted provision of subsidised public services—key foci of the 'modernisation' efforts in the healthcare, transport and utilities sectors. The new delineation of financial and administrative responsibilities prioritises spending efficiency and cost effectiveness. Although such aims are commonplace in most countries, they are a clear departure from the Soviet-era rationale behind *l'goty*, according to which they rewarded merit or achievement. Overall, the changes made to the welfare system have material and symbolic consequences for millions of Russians.

Welfare reform in Russia is often contrasted with that in Central and Eastern European countries, where external and transnational influences had a much stronger effect on the design and implementation of social policy.<sup>11</sup> The recent changes in Russian welfare provision have parallels with what Lynne Haney has termed the 'materialisation of need' in post-socialist Hungary, where state assistance and entitlement to it came to be defined in strictly financial terms (Haney 2002). While the Russian equivalent of monetisation has been milder than reforms in Central and Eastern Europe, the aims and discourses of Kremlin officials much resemble the policies of their counterparts in new EU states. The actual *l'goty* reforms may not have been as far-reaching as some of the reformers desired, but monetisation nonetheless represents a watershed between an era when unlimited public services were available to many different recipients (although not all who were entitled to them) and an era when people must economise with fixed sums. The moves to limit consumption of welfare services and to make recipients bear greater responsibility for their well-being are key aspects of neo-liberal governmentality (Lemke 2001).

In sum, Russia's welfare system combines the Soviet-era logic of *l'goty* with forms of social assistance characteristic of neo-liberal welfare states. In this respect the concept of 'legacies' seems inadequate as a description of the current logic of welfare provision in the country. The implied sharp distinction between old and new does not capture how Soviet-era institutions, practices and values are being reshaped in a dynamic interaction with more recent market-oriented influences. The Russian welfare state is today a distinctive mix of policies that defies characterisation as either Soviet or market-neoliberal. As a result, it is inappropriate to assess the country's welfare system in terms of the degree of liberal reform carried out (Collier & Way 2004). Instead of this one-dimensional assessment, the experience of the *l'goty* reforms fits far better with analyses that speak of hybrid forms and 'recombinations' of old and new institutions in post-communist countries (Stark 1998; Stark & Bruszt 1998). For the analysis of post-Soviet welfare provision this means paying attention to the complex mixes of social policies that have emerged.

<sup>11</sup>On social policy developments in Central Europe see Deacon (2000), Ferge and Juhasz (2004), and Manning (2004). The influence of international institutions on Russian welfare policies has changed over the years. Whereas the governments in the early period of the Yel'tsin presidency worked closely with foreign advisors, President Putin resolutely denounced the advice of international experts. Nonetheless, certain reforms undertaken during the Putin period do seem to incorporate policy recommendations made by international advisers during the 1990s (Cook 2007).

*Resource constraints on social policy*

A second major theme in work on post-Soviet welfare provision explored how limited household and government resources were a major source of the malaise in post-Soviet welfare provision. The gap between the welfare commitments of post-Soviet states and their budgetary revenues was an acute problem. Janos Kornai argued that Eastern European countries had 'premature' welfare states because their obligations exceeded available resources. He consequently viewed cuts in entitlements as inevitable and a necessary prerequisite for the modernisation of welfare provision (Kornai 1997). The World Bank and other multilateral development organisations have similarly emphasised that financial constraints necessitate the efficient and targeted allocation of limited welfare resources (World Bank 1999b, p. 21; ILO 2001, p. 141). These views were representative of a widespread consensus at the time that socialist-era levels of welfare expenditure were incompatible with the fiscal austerity needed to encourage markets and economic growth.

The issue of available resources continues to matter in Russia, although somewhat differently than predicted in the 1990s. Kremlin figures hold that a lack of budgetary means made welfare reform unaffordable during the 1990s (Kudrin 2005). Indeed, the *l'goty* reforms required a substantial increase in welfare spending.<sup>12</sup> Higher expenditure was necessary because all federal *l'gotniki* now receive a cash payment regardless of whether they previously used free services. Estimates of the cost of implementing Law 122 increased continuously between the drafting of the legislation and its implementation. In the light of the concessions made by the federal government in January 2005, the cost of monetisation rose from the 170 billion rubles originally planned to over 500 billion (Gontmakher 2005).<sup>13</sup> The increase in social spending was particularly salient for regional welfare budgets, which more than quadrupled between 2004 and 2005, with partial compensation from the federal budget (Klimantov & Kovalevich 2005). The state was able to afford these reforms largely because high oil prices and increasing fiscal capacity generated healthy budgetary revenues.<sup>14</sup>

However, this is not to say that the funding difficulties that plagued that Russian welfare state during the 1990s have been solved. Even three years after Federal Law 122 came into force, there are problems at the federal and regional levels. For example, the funding for medicines provided to federal benefit recipients is insufficient (Parfitt 2007). The government has admitted that there are shortages of certain medicines due to inadequate financing, as a result of which only 95% of prescriptions for free medication were filled in 2005 (Zurabov 2006). Such protracted funding problems suggest that although there is less urgency to restrict welfare expenditure now than during the 1990s, financial concerns remain pertinent to social policy in Russia.

The role of household incomes in welfare politics has also changed since the 1990s. Liberal policies aim to shift a larger share of spending on housing, health and social

<sup>12</sup>On the other hand, even greater budgetary means would have been required had the government fully funded the extensive commitments from the Soviet era, meaning that in an indirect way monetisation was a move to curtail spending on social provision.

<sup>13</sup>This expenditure may be offset by a reduction in subsidies to service providers, especially in the long-run.

<sup>14</sup>Linda Cook reaches a similar conclusion (Cook 2007, ch. 4).

insurance to individuals. Reforms to this effect were not attempted during the Yel'tsin period when inflation, wage arrears and economic depression made welfare restructuring politically and financially untenable. Low household incomes were thus regarded as a major obstacle to welfare reform during the 1990s since the population was struggling to make ends meet (Cook 2000, p. 357). Since 2000, average household incomes in Russia have, however, risen substantially (World Bank 2005, p. 61). Healthier household budgets undoubtedly contributed to the government's willingness to push ahead with reforms by reducing the political and socio-economic risks of implementing welfare reform. The increase in average household incomes does, however, conceal that many Russians continue to live on small monthly salaries and pensions, and that the cost of living has ballooned in the last few years.

A related question thus arises—do individuals now carry a greater burden of welfare costs? Many *l'gotniki* certainly expected that their well-being would deteriorate as a result of monetisation (Khakhulina 2005). They were distrustful of cash allowances, given how inflation eroded the real value of pensions and savings during the 1990s. There was widespread scepticism that the government would index the payments in line with inflation and that they would be sufficient to purchase the services that had previously been provided for free. There is evidence that the reforms did increase the burden on household incomes, although making general conclusions is difficult in the light of the highly differentiated impact of monetisation. One year after receiving cash payments instead of *l'goty*, most *l'gotniki* (82% of recipients) stated that their monetary compensation did not fully cover the services they previously received (Klimov 2006, p. 39). Leading Russian experts estimate that monetisation hurt approximately half of benefit recipients, in particular those categories of *l'gotniki* that are now the responsibility of regions (NISP 2005, ch. 2). These negative effects in part stem from the fact that the monetisation of *l'goty* came into effect at the same time as large increases in the cost of public services, most notoriously the *kvartplata* (combined bill for utilities and housing services).<sup>15</sup>

In addition to the material effects of the reforms, equally important is evidence of changing usage patterns of public services as a result of monetisation. Now that *l'gotniki* must pay for these services, they report that they make fewer trips on public transport, visit friends and family less frequently and travel less often to medical facilities (Struyk *et al.* 2006). Furthermore, the number of sanatoria trips available to federal benefit recipients fell in 2006 compared with 2005 (MZSRRF 2005). These consequences have implications for social inclusion and well-being in the country, even in cases where household incomes were not negatively affected by monetisation.

It would thus seem that the role of resources in shaping social policy decisions has changed in Russia since the 1990s. State finances are now much healthier, which has allowed the government to make large concessions in order to calm the significant protests that threatened to jeopardise the monetisation project. Nonetheless, the country's welfare state is far from fully financed, also demonstrated by the modest

<sup>15</sup>The prices of most public and welfare services in Russia have been growing far more quickly than average consumer prices. Whereas overall inflation in 2005 was 10.9%, prices rose by 15.8% in the transport sector and 32.7% for housing and utilities (Federal'naya Sluzhba Gosudarstvennoi Statistiki, available at: [http://www.gks.ru/free\\_doc/2007/b07\\_11/24-06.htm](http://www.gks.ru/free_doc/2007/b07_11/24-06.htm), accessed 11 March 2008).

benefits paid to regional *l'gotniki*. While household incomes are higher and more stable than in recent years, they remain low, especially outside large cities. Further welfare reform may thus be similarly controversial, particularly in poorer regions and if it affects such symbolically and politically important groups as pensioners and military veterans.

*The regionalisation of the Russian welfare state*

A third concern of the literature on Russian social policy has been the role of regions in welfare provision. Significant regional differences in levels of service emerged during the early transition years as the Soviet system of universal support disintegrated. For much of the 1990s, the *de jure* responsibilities of regions were unclear in light of conflicting legislation and unfunded mandates. In some cases, responsibilities for social policies were based on bilateral negotiations between regions and the centre. Funding levels tended to reflect a region's bargaining power *vis-à-vis* the centre (Nies 2003, p. 64). Resource scarcity at all levels of government expanded the *de facto* role of regions in shaping social policy (Stoner-Weiss 1999). This increased regional inequality in welfare provision because the fiscal capacities of regions greatly varied. Since coming to office, Vladimir Putin was keen to streamline and clarify federal–regional relations in all fields of state activity. Law 122 embodied his intention to create a 'vertical' line of authority in the welfare sphere, comprehensively setting out the financial and administrative responsibilities of the federal centre and regions.

Despite greater legislative regularity, regional inequality in welfare provision increased as a result of Law 122. The law institutionalised cross-regional differences as regions can choose whether and how to monetise regional level *l'goty* depending on their own priorities. Each of Russia's 85 regions has different policies on benefits, with the size of cash payments and availability of discounted services depending on regional administrations. The eagerness of regional governments to implement monetisation greatly differed. Tatarstan and Tver, for example, were leaders in the drive to cash out *l'goty* and welfare services. Leningrad and Vologda *Oblasts* had ambitious plans to cash out most benefits, but swiftly reversed them in light of the protests in January 2005. At the other extreme, Moscow City opted to keep almost all benefits in-kind and even provides support to groups of the population for which it is legally not responsible (Ogloblina 2005). As such, it is one of 30 regions that infringe federal laws and norms associated with Law 122 (Zurabov 2006).

In general, the propensity of regions to monetise benefits depended largely on regional governors: those appointed during the Putin years were more inclined to implement significant changes than more experienced incumbents (Aleksandrova *et al.* 2005).<sup>16</sup> However, most regions have heeded the advice of the Kremlin to monetise *l'goty* and are quietly moving in this direction. After hesitating to change *l'goty* related to housing and communal services under a previous governor, Altai *Krai*, for example,

<sup>16</sup>Tatarstan is an interesting exception to this rule, having abandoned its formerly paternalist social policy in favour of significant welfare reform despite considerable cadre continuity. This move arguably reflects the close ties between Mintimer Shaimiev and Vladimir Putin, as well as the governor's propensity to tackle reforms that are perceived as 'modernising' the Republic.

decided to monetise these benefits as of January 2008 (Regnum 2007). The financial capacity of regions and the number of benefit recipients (which varies greatly across regions) were also important influences on the decision to monetise benefits and the size of benefits. Wealthy regions with natural resources tend to pay generous cash payments to the benefit recipients for which they are responsible, whereas poorer regions can only afford to award small sums of compensation. For example, home-front workers receive 597 rubles per month in Khanty-Mansi Autonomous *Okrug*, whose government also makes payments to Second World War veterans, even though they are the responsibility of the federal government.<sup>17</sup> In contrast, many regions (including Tatarstan, Tver, Yaroslavl, Penza) award 324 rubles to this group. There are also discrepancies in the relative amounts paid to different categories of regional benefit recipient; in some places, former political prisoners receive more than home-front workers, while in others this is not the case.

An interesting geographical aspect of Law 122 has been the cancellation of special *l'goty* for workers and residents of the Far North whose wages and benefits have traditionally been enhanced to compensate for the area's inhospitable conditions and high living costs.<sup>18</sup> Law 122 shifted responsibility for many supplements and welfare services away from the federal centre and onto employers (Kharitonova & Vizhina 2005, p. 8). The availability of Northern Benefits now depends on the ability of enterprises to pay bonuses, which varies greatly across sectors and cities. This move represents the implementation of a long-stated government intention to curb the special financial and legislative privileges of the Russian North and treat it as any other region on a strictly economic basis.<sup>19</sup> Yet, such harmonisation on the legislative level has increased differentiation in welfare provision, explaining why inhabitants and politicians of the Far North have been among the fiercest critics of Law 122 (Shirov 2004).

In sum, while Law 122 clarified responsibilities for social spending, it also created new regional inequalities in welfare provision. The difference between the regionalisation of the 1990s and of the Putin period is that Law 122 has institutionalised regional inequalities. Although a degree of social policy decentralisation is needed in such a large and diverse country as Russia, there is a risk that the way in which monetisation was implemented will harm societal well-being and cohesion, not least because of the fiscal limitations faced by many poorer regions.

### Conclusions

The first aim of this article was to discuss the *l'goty* reforms in Russia in some detail. Beyond its implications for assessments of Russian domestic politics, our analysis

<sup>17</sup>Section on social sphere, official website of Khanty-Mansi Autonomous *Okrug*, available at: <http://www.hmao.wsnet.ru/socium/index.htm>, accessed 29 October 2007.

<sup>18</sup>Another geographical aspect of Law 122 concerns benefits for rural teachers and doctors. While the requisite federal funding was cancelled, some regions have taken on the responsibility for 'rural qualified workers' (Klimantov & Kovalevich 2005).

<sup>19</sup>The Gref Programme that guides budgetary and administrative policy states that the North is 'part of the overall economic space of Russia across which universal economic conditions and "rules of the game" must apply' (Gref Programme 2000).

serves as a comparative referent for similar reforms in other CIS countries. Most post-Soviet states have started to reform *l'goty*, although in different ways and for different reasons. All these countries face the task of 'rationalising' state spending and adjusting welfare provision to the needs of the population and to a rapidly changing economy. Armenia and Kyrgyzstan have implemented the most significant changes to *l'goty*, replacing most forms of social assistance inherited from the USSR with a single means-tested poverty benefit as recommended by the World Bank (World Bank 2003, p. 111; Upadhyaya & Ouchi 2006; Cardais 2007). Belarus recently restricted the distribution of *l'goty* for transport, utilities and healthcare to students and labour veterans.<sup>20</sup> Moldova and particularly Kazakhstan have gone further than Russia in monetising, simplifying and targeting Soviet-era benefits (Aleksandrova & Struyk 2007, p. 164). Nonetheless these two countries continue to grant some social assistance to some categories of recipient, indicating that overhauling the *l'goty* system, particularly the criteria for eligibility, has also been difficult in neighbouring states.

Our second aim was to draw a set of broader conclusions about welfare provision in post-Soviet Russia in light of the *l'goty* reforms. Examining three important debates from the 1990s, we emphasised the need to conceptualise the new benefit system as a re-combination of Soviet and liberal elements rather than as a 'legacy' from the USSR or as a step in the direction of a more liberal system. A number of Soviet-era tenets continue to shape welfare provision in Russia. However, events in the tumultuous 1990s—regional differentiation and the falling real value of cash payments—are also important for understanding social policy processes and outcomes in the country. Law 122 changed the nature, financing and regional dimensions of the *l'goty* system, which have implications for academic understanding of federalism, welfare politics and state budget dynamics in Russia.

Overall, we stress that Law 122 marks a watershed for Russia's welfare system. Social policy in today's Russia differs qualitatively and quantitatively from that in the Yel'tsin era. Recent legislation has brought much greater clarity to the financial and administrative aspects of welfare provision, although it is far from certain that the population has benefited from these changes. The reforms introduced logics of cost effectiveness, accountability and transparency. A process is underway that shifts the burden for welfare provision from state budgets onto individuals, for *l'gotniki* must now economise with limited cash allowances. These are key characteristics of a liberal welfare system and a clear departure from the Soviet-era rationale of *l'goty*. The adoption of such policies is happening at different speeds and to different degrees across Russia in line with the politics and economic geography of specific regions. These processes of individualisation and regionalisation in the welfare sphere are unlikely to bolster the constitutional claim of the Russian Federation to be a 'social state' whose citizens are entitled to equal social protection. Whether and how social reform will proceed following the elections of 2007 and 2008 remains unclear, although preconditions similar to those that prompted monetisation are likely to exist in the near future. The restructuring of the Russian welfare state is an

<sup>20</sup> 'Belarusian Legislature Withdraws Some Social Benefits', *RFE/RL NEWSLINE*, 11, 95, Part II, 24 May 2007.



ongoing project whose rocky start in 2005 suggests that we should not ignore developments in this field, for they touch on broader political, economic and social issues in the country.

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