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Analysis

The Politics of Welfare Reform in Russia: The Dominance of Bureaucratic Interests

By Linda J. Cook, Providence

Abstract

The postcommunist Russian state inherited a large social sector. Much of the population depended on that sector for social services and subsidies, while state-bureaucratic welfare stakeholders relied on public expenditures and administration for their resources and roles. When the Yeltsin and Putin administrations initiated welfare reform policies of retrenchment, privatization and decentralization, they met resistance. During the Yeltsin period, bureaucratic actors as well as unreformed Communist parties in the Duma blocked change in welfare state structures, even as economic decline forced defunding of these structures. Under Putin, the Duma and societal interests were marginalized, while statist-bureaucratic actors continued to play a major role, producing an elite-dominated politics that at once permitted and moderated reform.

The Soviet Welfare Legacy

The postcommunist Russian state inherited a distinctive system of welfare provision, one that was created by the state through a top-down process. The state monopolized the social sector, and administered it through centralized bureaucracies that were articulated down to regional and local levels. By the end of the Soviet period, much of the population depended on the state for basic health and educational services, pensions, and pervasive social subsidies. Moreover, some 15 percent of the labor force worked in the social sector, relying on public expenditures for employment, income and professional status. Yet, unlike in European and other more democratic systems, popular demand-making had played almost no role in the construction of the Soviet welfare state. Labor and political repression had prevented the formation of autonomous supporting interest groups in society. Russia's political economy was characterized by extensive popular dependence and attachment to the welfare state, but lacked the kinds of organized societal interest group networks that defend it in other polities.

At the same time, the postcommunist polity did include large inherited social sector bureaucracies that also relied on public expenditures and administration. In other words, Russia had an additional set of statist-bureaucratic welfare stakeholders that was stronger than any counterpart in other, more democratic systems. Threatened by the welfare reform policies of retrenchment, privatization and decentralization that were promoted by both the Yeltsin and Putin administrations, they resisted reform. I argue below that both weak societal and stronger statist welfare interests played roles in blocking and moderating welfare state liberalizing in

Russia. Statist-bureaucratic stakeholders, particularly the central social ministries and social funds, worked to block policy changes, to dilute their effects, and to gain compensation for reductions in their roles and control over social expenditures.

During the Yeltsin period, bureaucratic actors as well as unreformed Communist parties in the Duma blocked comprehensive changes in welfare state structures, even as economic decline forced retrenchment and defunded those structures. Under Putin, the Duma and societal interests were marginalized, while statist-bureaucratic interests played the major role in negotiating change across most areas of welfare provision. The outcome was an elite-dominated process that at once permitted and moderated reforms. (The January 2005 Social Benefits Reform, the subject of "Reforming the *L'goty* System" by Michael Russell and Susanne Wengle, in this issue of *RAD* (p. 6), was a major exception to this characterization of welfare policy, an area in which popular pressure and protest played a large role in moderating reform.)

The Yeltsin Period: The Politics of Polarization and Retrenchment

The market transition and economic recession that began in the early 1990s rendered Russia's inherited welfare system unsustainable, and the Yeltsin administration responded with a liberalizing program of expenditure cuts, privatization, and reduction of the central state's role in welfare provision. Beginning with the first Duma election in late 1993, however, pro-welfare parties challenged this liberalizing project and created a contentious politics of welfare. Moderate socially-oriented parties such as Women of Russia and Yabloko,

supported by women's groups and public sector workers, pressed to maintain social benefits, public sector wages, and state commitments to education. Health and especially education workers engaged in significant activism, becoming the most strike-prone sector of Russia's mainly quiescent labor force. The passivity of these groups in the face of retrenchment and liberalization has often been overstated. But these moderate socially-oriented political parties remained small and weak, public sector strikes brought limited concessions, and the influence of these groups on policy remained quite limited.

Effective opposition to liberal welfare reforms did emerge in Russia through the victory of hard-left parties in the 1995 Duma election. Unreformed, anti-market Communist and Agrarian successor parties that were supported by older, poorer, rural and state-dependent strata formed a dominant coalition in the Duma of the mid-1990s. Especially in rural areas, these were clientelistic parties whose support was based in the broad distribution of benefits and subsidies during the communist period. The legislative record shows that the Duma became a key veto actor for the remainder of the decade, blocking the executive's efforts to dismantle the statist system of social provision, as well as its attempts to construct new private markets for public goods. The Duma rejected numerous reformist proposals to restrict pension eligibility, and passed legislation that increased social benefits and subsidies for older citizens. It opposed legislation to develop a health insurance system, placed a moratorium on privatization of state schools, and blocked formation of new private ones. In 1997 the Duma turned down a major package of welfare legislation that would, *inter alia*, have partially privatized the pension system, reduced employment-related benefits, and replaced the massive existing system of social subsidies with a streamlined system of means-tested anti-poverty measures. In sum, despite the deep and sustained economic decline that lasted until 1999, the Duma resisted or rejected measures that would have restructured and adapted the welfare system. Deputies also pressed for increased social expenditures, repeatedly passing raises in pensions, benefits, and public sector wages. Yeltsin vetoed nearly all of these measures, and real spending on social transfers and services fell precipitously in line with the drop in GDP.

Statist-bureaucratic stakeholders, in particular the Health and Education Ministries and the Pension Fund, also resisted reforms, waging a rear-guard campaign against the executive's efforts at privatization and marketization of welfare. The Health Ministry fought to maintain central control over health care spending, standards, and appointments. The Education Ministry opposed both privatization and closing of schools. The

Pension Fund stood against proposals for partial privatization of the system. Combined societal and statist opposition blocked restructuring efforts, locking much of the old welfare state in place, preventing adjustment of structures to new economic constraints. The outcome of this "politics of polarization" was an incoherent policy that retained programs and entitlements with diminished funding, contributing to the fall of benefit levels and public sector wages below poverty levels, arrears, breakdowns, and large-scale poverty among those who depended on the social sector for benefits or salaries. (see Table 1 on p. 5)

The Putin Period: Liberalization Negotiated Mainly "Within the Elite"

At the end of the 1990s, a political shift broke the deadlock between the executive and the Duma, and appeared to open the way for liberalizing welfare state reforms. The shift toward a pro-executive legislative majority after the 1999 Duma election ended the left's dominance and the legislature's veto role, further weakening the potential for societal or electoral constraint.

Established parties, both reformist and unreformed Communist, were replaced by new "parties of power" that had shallow roots in the electorate and largely subordinated themselves to the president. Between 2000 and 2004, the Duma passed the executive's liberalizing and privatizing reforms across the welfare state, including pensions, social assistance and benefits, housing, education, and labor code reforms. (For a summary of these reforms, which were encapsulated in the Gref Social Sector Reform Program, see Table 2 on p. 6) It is significant that welfare liberalization in Russia coincided with a period of sustained economic growth and fiscal surpluses. Real social expenditures were increased in some areas, but the government committed itself to keeping welfare effort low and institutionalizing a limited state commitment to public provision.

But the Putin administration's liberalization program continued to face important political resistance and constraint. State-based welfare stakeholders, who had preserved their positions in the largely unreformed social sector through the 1990s, retained influence in Russia's welfare politics. Putin's power was based in the government, and he sought to build a reform consensus through a governmental team under the leadership of German Gref, in consultation with social ministries. Instead, the social ministries and other statist actors continued to pursue "departmental interests," and to resist reforms. Russian "managed democracy" produced a distinctive politics of welfare reform negotiated mainly within the elite. This politics is illustrated below for the areas of pension and education reform.

Pension Reform

Pension reform was one of Putin's first welfare initiatives, designed to reduce the burden of public expenditure for pensions that had become unmanageable. The reform entailed partial privatization of the pension system through the establishment of individual investment accounts as a component of pension savings, and it provoked deep conflicts within the government. The main division emerged between the Ministry of Economic Development and Trade and the head of the state Pension Fund. The Pension Fund controlled the largest pool of money in the social security system, and the reform threatened it with loss of control over contributions that would go into new individual investment accounts. The Pension Fund's Chair pressed for continuation of the existing system. The Economic Development Ministry favored a large invested component and reliance on private investment mechanisms, in part to deepen Russia's capital markets.

The "Pension War" between these two government agencies dominated negotiations over reform, with only token representation of societal interests. A broader consultative mechanism was created only very late in the process, when key decisions had already been made. Russian pensioners in any case had no significant national organizations that could articulate their interests. The trade unions and Labor Ministry, institutions that typically defend public pension systems in more democratic systems, played very minor roles in Russia. Legislators did resist the more radical proposals for investment funds, but the social implications of the reform, particularly its projected long-term negative effects on women and lower-paid workers, received little consideration. The final legislation was a compromise, with private investment accounts to be introduced while a somewhat reduced public system continued in place. The Pension Fund retained a major role, and was compensated by new legislation that consolidated its control over pension distribution.

Education

Reform initiatives were also taken to re-organize the education sector in order to increase competition and create pressures for streamlining and modernization. Reformers proposed to move most state financing for post-secondary education from direct state support of schools to a voucher system in which "money follows the student." Students would be funded on the basis of their performance on a national exam, and free to choose a school. Vouchers would introduce a market for educational services, while schools that could not attract sufficient enrollments faced the risk of closing. Introduction of a standardized exam, to be administered by the Education Ministry, would undermine the

system of preparatory courses and tutoring for individual schools' exams that had developed during the 1990s, and that contributed to veiled corruption in admissions. In sum, the proposed reforms directly threatened the interests of higher educational institutions in guaranteed state funding as well as supplementary income, while expanding the role of the Education Ministry in the reformed system.

The Economic Development and Finance Ministries strongly promoted the reform, and both standardized exams and vouchers were introduced on an experimental basis in 2001. They met resistance from both the lower levels of the Education Ministry and the influential Union of Rectors of the state university system, which strongly opposed both national testing and the transfer of state funding to vouchers. At its 2001 Congress, the Rectors' Union expressed fears that the new financing system would worsen their financial problems, and called on the government, not to place the educational system "under the complete control of the invisible hand of the market." The Union organized regional universities to refuse to accept applicants based on the national test.

There ensued a "battle of ironclad university interest groups," with the "red rectors" opposing reform while prestigious new Moscow institutes supported it. The Education Ministry was caught between the Finance Ministry and educators and internally-divided over the reform. The government ultimately compromised with the rectors, conceding that a part of student recruitment would remain under the control of the schools, while the system of vouchers and national testing controlled by the Education Ministry also moved forward. For both the rectors and the Ministry, the outcome demonstrates once again the capacity of elite stakeholders to negotiate for concessions that serve their narrow institutional interests.

Conclusion

In sum, the politics of welfare in Russia has become elite-dominated, its outcome largely a product of negotiations among ministries and other statist actors. Strong popular protest did emerge against Putin's broadest and most tangible welfare cuts, the "monetization" of social benefits in early 2005. But for the most part, societal actors have been weakly-organized and represented in Russia's welfare politics. As a government advisor who was deeply involved in the Putin-era reform process, interviewed by the author in Moscow in June, 2001, said, "The major obstacle to reform is conflict within the government. Pension reform, education reform, are completely feasible in the sense of technical constraints. In most cases, practically the executive branch can get the Duma to do as it wants. The question is of political

feasibility – a lack of homogeneity of views and interests within the government.” Social policy has been less about the welfare function of the state, and more about the competing interests of inherited elite and state-based stakeholders in controlling pools of social

security funds and access to services and resources. The importance of these actors must be recognized in order to understand Russia’s postcommunist welfare politics.

About the author

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Table 1: Basic Social Guarantees and Social Sector Wages, 1993–2002
 (% subsistence level, January 1 or first quarter)

	1993	1999	2000	2001	2002 Q4
Minimum Wage	39	10	6.8	13.2	22
Wage rate for 1st Grade of Public Sector Wage Scale	41	10	10.7	13.2	2.2
Monthly benefit for each child to 16 yrs.	19	7	5.0	5.0	3.7
Min. student stipend, VUZ	39	19	13.6	13.2	10
Old Age Pensions: Minimum*	63	42	48.2	44.0	36.5
Average	138	70	76.4	89.5	100.0
Invalid’s pensions Group 1	105	30	30.6	31.7	--
Wages in Health Sector Average	195(1992)	99	107	126	166
% Workers below Subsistence	--	67.2	65.7	61.0	38.8
Wages in Education Sector Average	185(1992)	93	99	117	153
% Workers below Subsistence	--	70.5	67.5	61.3	41.4

Notes: *with compensation payments.

Sources: *Sotsial’noe polozhenie i uroven zhizni naseleniia Rossii: statisticheskii sbornik*, (Moscow: Goskomstat, various years).

Table 2: The Gref Program for Social Sector Reform

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

Analysis

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

By Michael Rasell, Birmingham, and Susanne Wengle, Berkeley

Abstract

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

The *L'goty* System

L'goty are special benefits or privileges that entitle eligible recipients to the free or discounted use of various public services, including transportation, housing, utilities, medicines and sanatoria. Some *l'goty* allow unlimited consumption of services, for example on public transport, while others grant free services up to levels

set by the government. *L'goty* were a characteristic element of the Soviet welfare system, where they were generally awarded on the basis of merit or service to the Soviet state, as in the cases of military and labor veterans. Alternatively, they served to encourage migration to politically important areas, attracting workers, doctors and teachers to rural areas and the Far North. In

certain circumstances, *l'goty* were granted to raise living standards of certain groups, such as disabled people, former gulag prisoners and those affected by the 1986 Chernobyl nuclear disaster. Across the board, they were imbued with symbolic capital beyond their material benefits. They became a source of pride and identity among recipients, with Soviet society coming to believe that *l'gotniki* legitimately deserved these special privileges.

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

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

Problems with *L'goty*

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

forcing them to operate at a loss and starving them of investment.

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

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

Reforming the *L'goty* System

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

Federal Law 122, which soon became known as the "monetization law," had three important aims: to regulate federal-regional welfare responsibilities, clarify the financing of public services and convert in-kind benefits into cash payments. It was this last point that caused uproar across Russia: significant protests erupted when *l'gotniki* discovered that they were now being

awarded relatively low amounts of compensation to pay for services that were previously free. These protests were the most significant expression of public discontent with the economic policies of the Putin administration, which had otherwise largely managed to shield itself from popular criticism. Public pressure in January 2005 forced the federal government to make concessions and prompted several regions to reverse their own monetization plans. Three years after the new system came into force, monetization still has singularly negative connotations in popular discourse, being viewed by the population as an example of the arrogance of government officials with no concern for ordinary people. Two issues continue to make monetization topical today: the regionalization of the Russian welfare state and the move towards targeted (means-tested) social assistance.

Institutionalizing Regional Differences

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

Despite greater legislative regularity, regional inequality in welfare provision has increased as a result of Law 122. Regional differentiation in social policy in Russia is nothing new, having emerged *de facto* during the 1990s. The key difference is that in the Putin period cross-regional differences were institutionalized, as the new law let regions decide whether, and how, to monetize regional level *l'goty*. Each of Russia's 85 regions has its own policy on benefits, with the size of cash payments and availability of discounted services depending on regional administrations. The eagerness of regional governments to implement monetization varied greatly. The propensity of regions to monetize benefits generally depends on regional governors: those appointed during the Putin years have been on the whole more inclined than experienced incumbents to implement significant changes. Only Tatarstan and Tver monetized all benefits in January 2005 (reflecting the influence of a new, reformist governor in Tver and Mintimer Shaimiev's strong support for Putin in Tatarstan). In contrast, Moscow City opted to keep almost all benefits

in-kind. Financial considerations also played a role in how regional administrations implemented the provisions of Law 122. Richer regions could better afford the expensive process of paying cash benefits and awarded higher amounts of compensation for privileges previously awarded in kind. Wealthy regions with natural resources thus tend to pay the most generous cash payments to their benefit-recipients. For example, home front workers in Khanty-Mansiisk Autonomous Oblast receive almost twice as much as their counterparts in most other regions.

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

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

The Issue of Targeting

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

is also important – in poorer CIS countries they have demanded targeting in return for financial assistance.

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

Despite the targeting rhetoric that often surrounds their programs, most regions continue to award support to specific categories rather than on the basis of individual need. This continuation of Soviet practices suggests that it is difficult to restructure longstanding institutions of social assistance. The complexity of accurately measuring well-being in transition countries where much economic activity takes part in the informal sector is also important. Regional social protection departments have received little guidance or information about targeting and thus often lack the

technical expertise to create such mechanisms from scratch. Overall, targeted programs account for only a small share of Russia’s welfare spending – 0.4 percent of GDP, compared to the 5.5 percent of GDP spent on non-contributory social assistance.

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

Conclusions

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

About the authors

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Susanne Wengle is a PhD candidate at the Department of Political Science, University of California Berkeley. Her research examines the creation of market institutions and the politics of market making in Russia’s electricity sector.

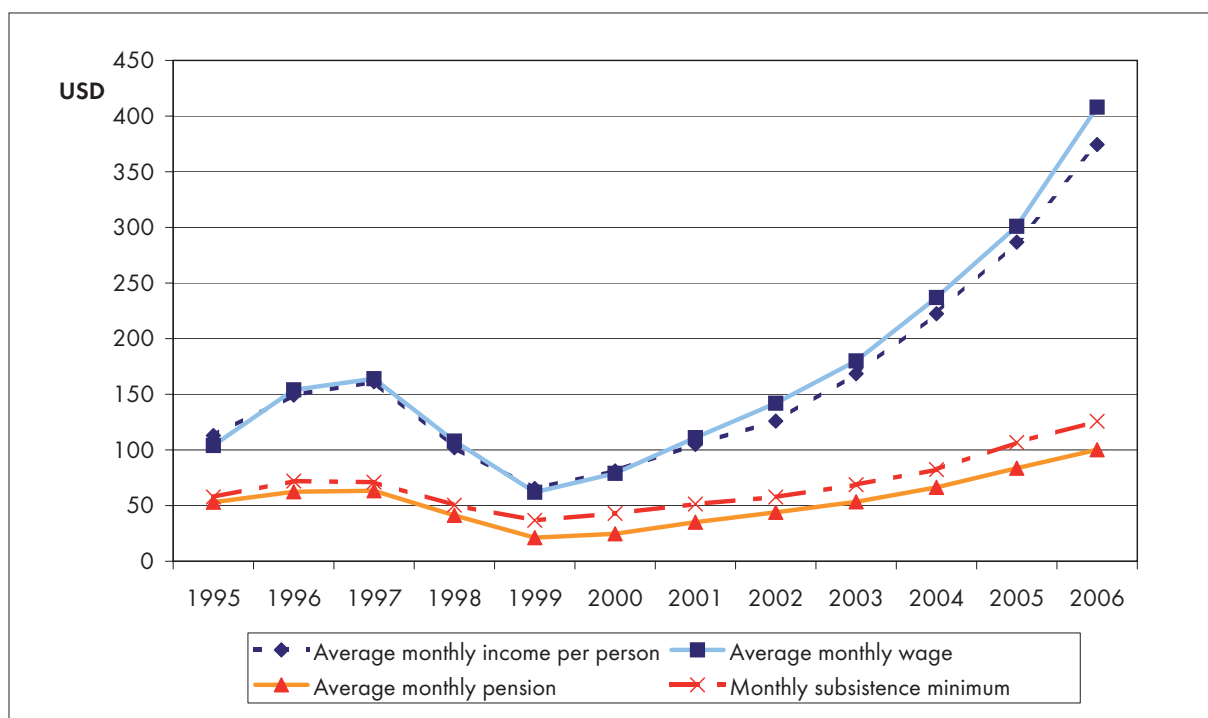
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Statistics

Part 1: The Dimensions of Social Welfare in Russia

Development of Wages and Pensions 1995–2006 (in USD)

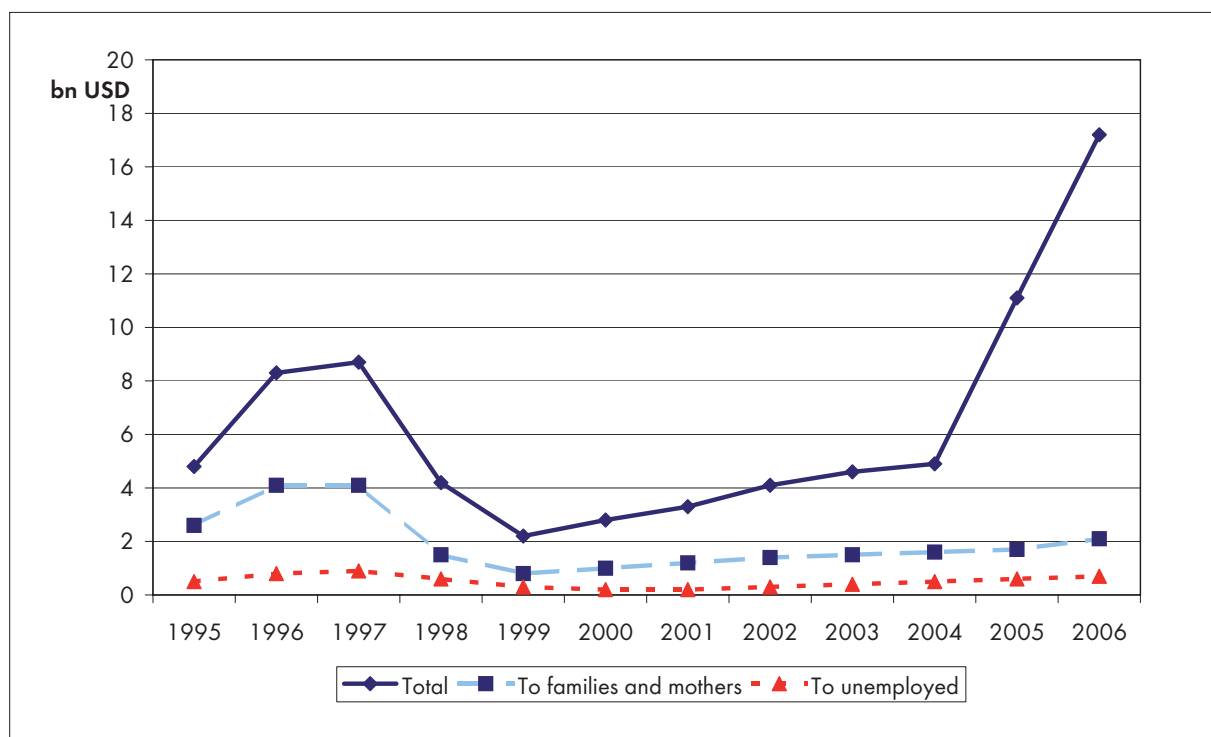


	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Average monthly income per person	112.9	149.3	161.3	102.0	65.3	81.1	105.0	125.9	168.5	222.4	286.7	374.4
Average monthly wage	104	154	164	108	62	79	111	142	180	237	301	408
Average monthly pension	53.1	62.4	63.3	41.2	21.2	24.7	35.1	44.0	53.4	66.4	83.6	100.2
Monthly subsistence minimum	57.8	72.0	71.0	50.4	36.8	43.0	51.4	57.7	68.8	82.4	106.7	125.8

Note: Rouble values have been converted into US-Dollars using the average annual exchange rate of the respective year.

Source: Rossiiskii statisticheskiy ezhegodnik, Moskva 2000; Federal'naya sluzhba gosudarstvennoi statistiki, http://www.gks.ru/bgd/regl/b07_13/lssWWW.exe/Stg/d02/06-01.htm and http://www.gks.ru/free_doc/2007/b07_12/07-01.htm

State Expenditure on Social Welfare 1995–2006 (in bn USD)

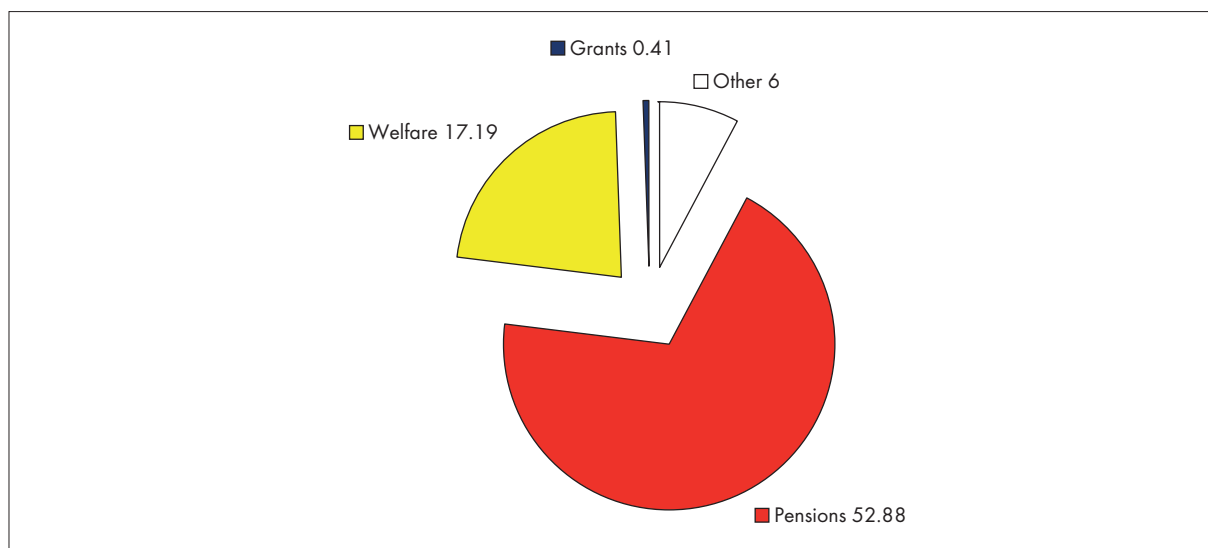


	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total	4.8	8.3	8.7	4.2	2.2	2.8	3.3	4.1	4.6	4.9	11.1	17.2
To families and mothers	2.6	4.1	4.1	1.5	0.8	1.0	1.2	1.4	1.5	1.6	1.7	2.1
To unemployed	0.5	0.8	0.9	0.6	0.3	0.2	0.2	0.3	0.4	0.5	0.6	0.7

Note: Rouble values have been converted into US-Dollars using the average annual exchange rate of the respective year.

Source: Rossiiskii statisticheskii ezhegodnik, Moskva 2000; Federal'naiia sluzhba gosudarstvennoi statistiki, http://www.gks.ru/bgd/regl/b07_13/lssWWW.exe/Stg/d02/06-16.htm

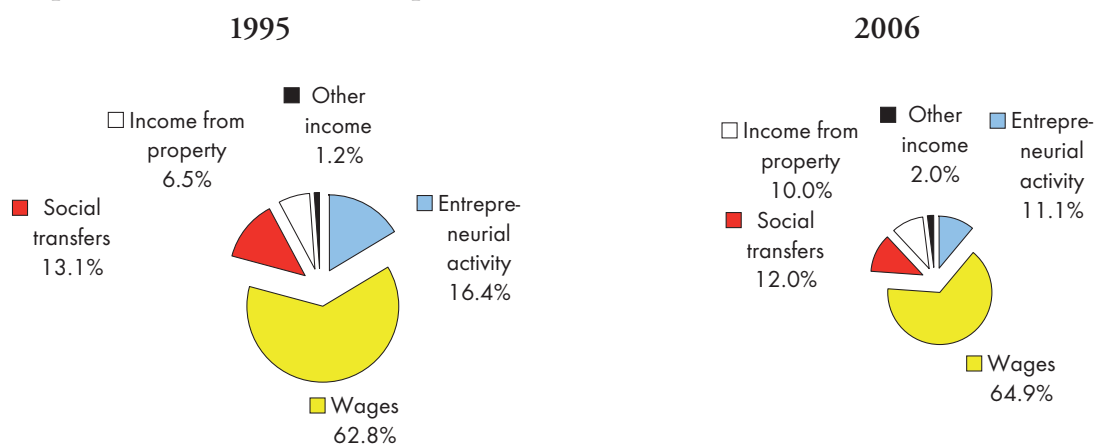
Social Transfers and Social Welfare Payments to the Population in 2006 (in bn USD)



Note: Rouble values have been converted into US-Dollars using the average annual exchange rate of the respective year.

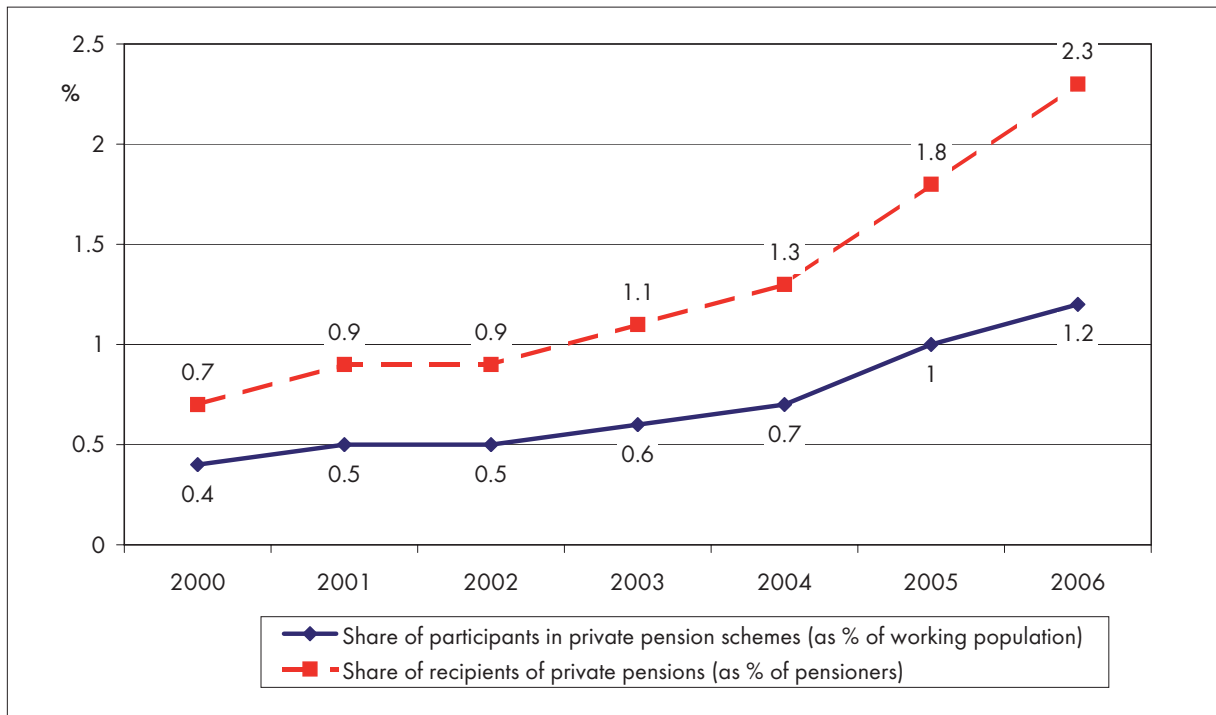
Source: Federal'naia sluzhba gosudarstvennoi statistiki, http://www.gks.ru/bgd/regl/b07_44/lssWWW.exe/Stg/d01/06-06.htm

Composition of Income of the Population 1995 and 2006



Source: Federal'naia sluzhba gosudarstvennoi statistiki, http://www.gks.ru/bgd/regl/b07_13/lssWWW.exe/Stg/d02/06-07.htm

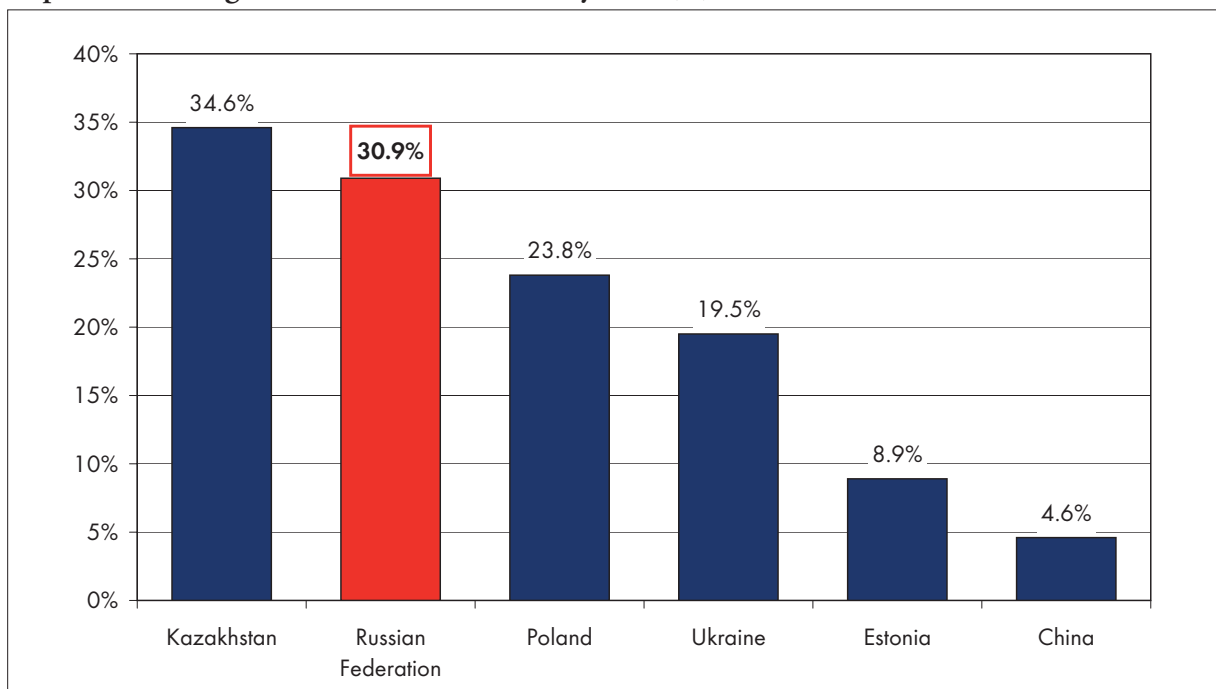
Private Pension Schemes



Source: Federal'naya sluzhba gosudarstvennoi statistiki, http://www.gks.ru/free_doc/2007/b07_12/06-01.htm and http://www.gks.ru/bgd/regl/b07_13/IssWWW.exe/Stg/d02/06-12.htm

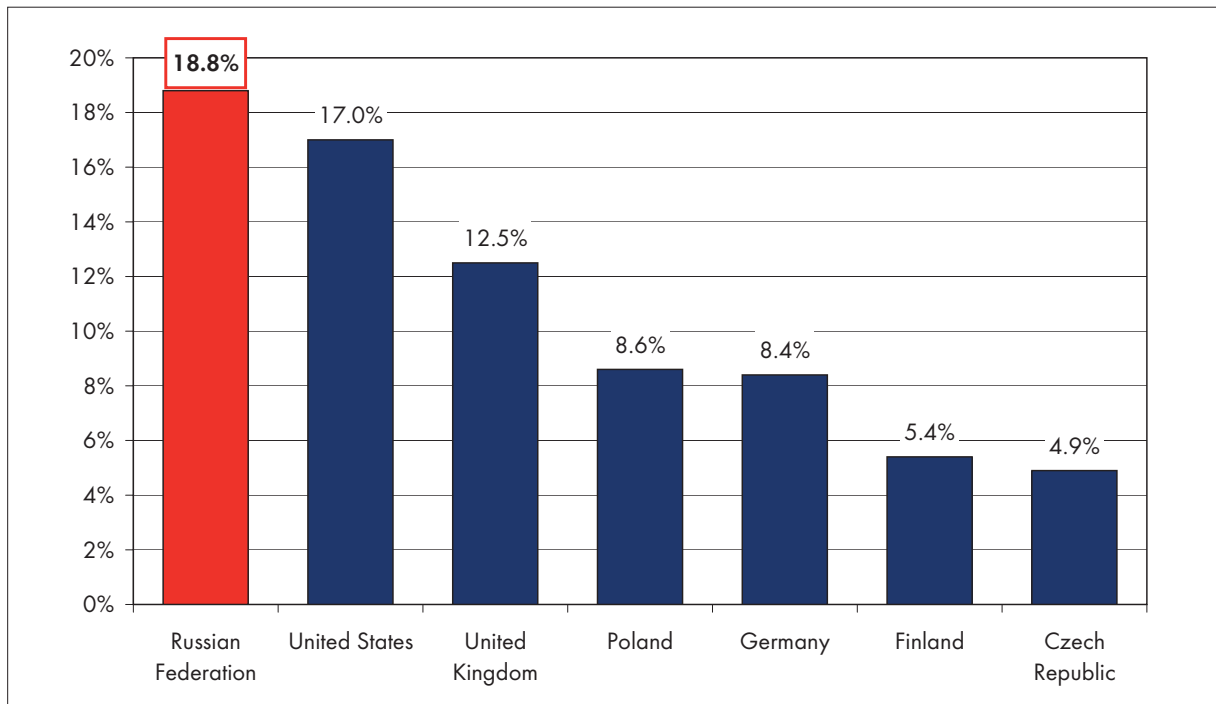
Part 2: Social Situation

Population Living below the National Poverty Line (%), 1990–2004



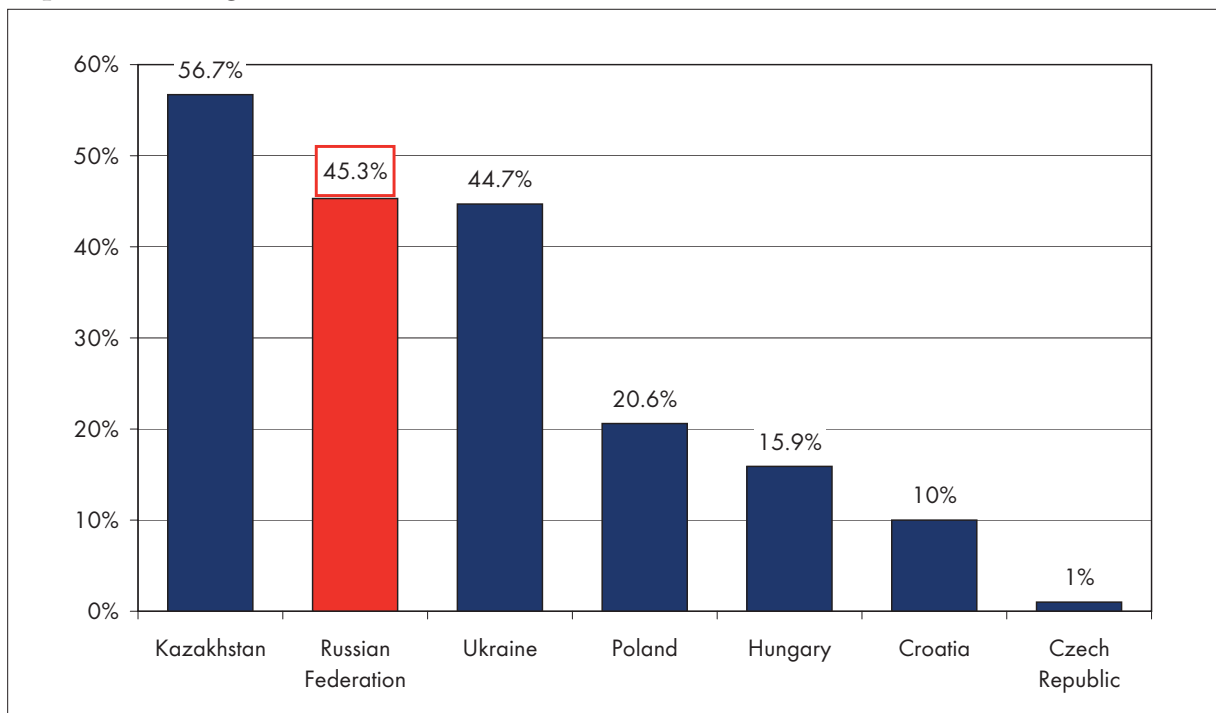
Source: Human Development Report 2007/2008, <http://hdrstats.undp.org/indicators/25.html>

Population Living on below 50% of Median Income (%), 2000–2004

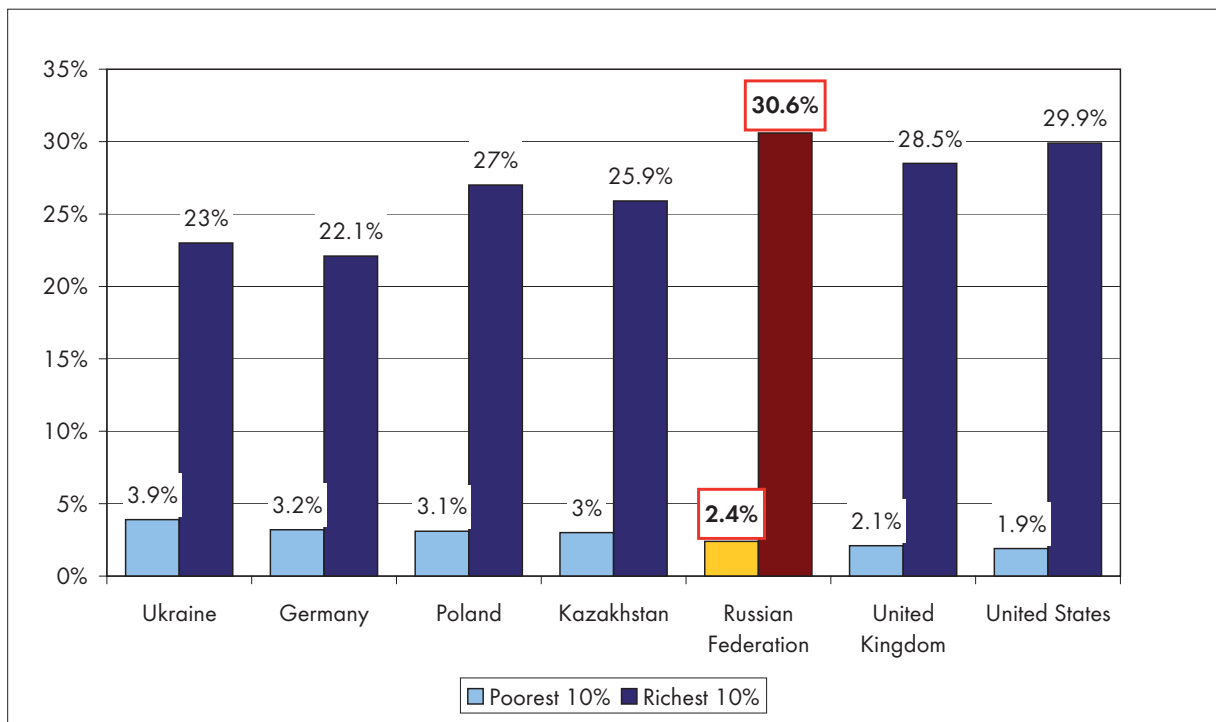


Source: Human Development Report 2007/2008, <http://hdrstats.undp.org/indicators/32.html>

Population Living on below \$4 a Day (1990 PPP US\$), 2000–2004



Share of Income or Consumption, Poorest 10% and Richest 10% (%), 2005



Source: Human Development Report 2007/2008, <http://hdrstats.undp.org/indicators/141.html> and <http://hdrstats.undp.org/indicators/144.html>

Statistics compiled by Judith Janiszewski

Analysis

Academic Studies at Russian State Universities: State Funding vs. Tuition Fees

By Christine Teichmann, Berlin

Abstract

In the former Soviet Union, university education was available without cost or tuition fees for students of the state universities. In the Russian Federation, on the other hand, fees have been charged since the first half of the 1990s, not only at private colleges, but also at state institutions that offer, in addition to state-funded places, further curricula for which tuition fees must be paid. The universities use the income thus generated to make up for some of the long-standing shortfalls in state grants. Nevertheless, one of the primary goals of education policy is to provide the citizens of Russia with “free competitive academic education”, as the constitution mandates.

After the collapse of state socialism and the attendant economic and financial difficulties, Russia’s educational system reached a stage of permanent crisis in the early 1990s that manifested itself in particular in the chronic under-financing of educational institutions at all levels. The government disbanded the traditional, strictly centralized system of financing, and the state withdrew partially from its financial (and administrative) responsibilities for the educational infrastructure. Article 40 (2) of the Russian Federation Law “On Education” (1996) stipulates that the state will ensure that no less than 10 percent of the national income will be spent annually on financing the educational sector (this corresponds to about 7 percent of the GDP). However, these obligations were never fully met during the 1990s, as the actual educational expenditures of 3.86 percent (1995) and 3.63 percent (1999) of the GDP remained far below the funding levels mandated under law.

Due to the drastic shortage of available resources, educational institutions were almost completely absorbed until the turn of the millennium with the struggle for survival, while – unlike in other sectors of society – introducing only rudimentary reforms, if any at all. During this period, state funding was only sufficient to pay the paltry salaries of instructors, and even these did not always arrive on time. Payments for municipal services were discontinued for years on end, and large amounts of debt accrued. Expenditures on new acquisitions were rare, and funding for modernization was out of the question. This situation led to a severe deterioration of the quality of training in the country’s schools and universities, which – measured by international standards in several areas – had been competitive as recently as the 1980s.

It was only through the incremental consolidation of democratic and free-market structures throughout

society that the groundwork was laid for urgent radical reforms in the educational sector. Shortly after attaining office in 2000, President Vladimir Putin designated the reform of the nation’s educational system as a top priority for his administration. Since that time, the Russian state has again begun to meet its regular financial obligations towards educational institutions and has even (slightly) raised its funding (but was only about 3.5 percent of GDP in 2004 and thus remains well below the target of 7 percent). Already at the end of 2001, the government had passed a bill on a “Concept for the modernization of the Russian educational system for the period until 2010”. This plan is centered on a reorganization of the financing mechanisms in the educational sector based on a free-market regulatory approach. In concrete terms, this means that the financing of state universities will successively be shifted from supply-side state funding to demand-oriented financing.

Commercialization of Education – The University Model

In a survey conducted by the distinguished Levada Center in the summer of 2007, 67 percent of respondents said that the most important factor determining their ability to take up university studies was the question of funding. This concern about financing is hardly a surprising answer, especially considering that currently more than half of the students at the nation’s institutes of higher education pay tuition fees for their academic schooling. Such fees have been charged at both private and state universities since the first half of the 1990s. While private institutions are free to demand the charges they see fit for the courses they offer – depending on the “market conditions” in the academic sector – the state institutions are confronted with more or less rigorous state intervention when it

comes to the distribution of university places that are subject to tuition fees (in addition to those funded by the state). Nevertheless, income derived from tuition fees is an important source of funding for state universities that helps them close at least some of the holes in the university budgets that have been permanently in deficit at least since the early 1990s.

Looking Back: University Admissions and Funding in the Soviet Union

Universities and other institutes of higher learning were exclusively state-funded in the Soviet Union. Higher education was free of charge for students according to the constitutions of 1936 and 1977. Unlike in most Western European countries, university admissions were always regulated by way of a separate entrance examination for a specific university (after completion of 11th grade). However, those politicians and educators who today look back on the free access to university and unique state subsidization of the educational system during the Soviet period and demand a continuation of, or return to, this status in the academic sector are ignoring two key conditions of free academic education during that time: First of all, after completing their educations, all university graduates earned comparatively low salaries that were usually no higher than the wages of skilled workers. The reason given for this was that the state had provided them with a free academic education.

Furthermore, university graduates were obliged to accept a job assigned to them by the state and remain there for at least three years, and thus to “work off” the costs of their studies. These two requirements no longer apply under the new conditions of the free market today. To put it differently: On the one hand, the state continues to invest considerable sums from the national budget in the academic sector, but this funding is no longer sufficient to cover the requirements of institutes of higher learning due to the growing numbers of student admissions and education costs. On the other hand, the state often receives no “return” for its investment, since many university graduates are unavailable to the (state) labor market for a variety of reasons – some accept better-paying jobs in the private market, others go to work abroad, while still others do not take up a job in the vocational field in which they were trained, etc.

Free Academic Education in the Russian Market Economy – Only on a Competitive Basis

Tuition as a new source of funding in the Russian Federation’s educational sector has visibly increased over the past years, especially in the state and municipal institutes of higher learning. Compared to the non-

state (purely commercial) institutes, which have experienced an eightfold growth in the number of students over the past decade, the number of paying students alone in state universities has increased by a factor of 12 during the same period. For example, in the academic year 2005/2006, there were 755,900 freshmen who paid tuition at state universities. During the same period, another 753,000 received state-funded places.

The current national constitution (like the old one) states that “... university education is provided at no cost by the state on an exclusively competitive basis.” As mentioned above, “competitive” refers to the mandatory entrance examinations. Only such applicants that have successfully passed this exam are (constitutionally) entitled to a state-funded university place. However, the number of applicants for national institutes of higher learning has skyrocketed in the 1990s compared to the Soviet era, considerably overstretching the capacities of the existing state institutions, particularly in terms of financial and personnel resources. Therefore, many universities have been unable to guarantee free university places to the large number of applicants who passed the entrance examinations. Furthermore, the state is attempting to intervene with regulatory measures by fixing a “norm” in the education legislation according to which there should be state-funded university places for at least 170 students per 10,000 inhabitants. But this parameter has been exceeded repeatedly in the past decade: For example, in 2005, there were 209 state-funded students per 10,000 inhabitants. Thus the new state norm will not fix the problem. However, a general drop in student numbers is anticipated for the coming years, since the low birth rates in future cohorts will reduce the number of high school graduates considerably, with the number of students at state universities is expected to be reduced by 25 to 30 percent by 2010.

Under the conditions outlined above, the introduction of university places that are subject to tuition fees was an acceptable model both for the institutes of higher learning, which were able to develop new, state-sanctioned sources of funding, and for unsuccessful applicants who had failed to pass the entrance examinations and now had the option of “purchasing” a university place. Nevertheless, the occasionally low intellectual standards among paying students have had a negative impact on the quality of education at Russian universities.

State Oversight of Student Admissions

In the first few years after the introduction of tuition fees at state universities, the state limited the numbers of paying students there to a maximum of 25 percent of new admissions. However, this quota was con-

stantly being undermined by the institutions due to their continuing financial plight (caused by the withholding of state funds), leading to real-world adaptation of the legal requirements. Since 2004, the last barriers limiting admissions in certain disciplines such as law and economics to 50 percent of applicants have been removed. Today, state universities are permitted to admit an unlimited number of paying students as long as they meet the state's strict accreditation guidelines for academic education that aim to safeguard a government-mandated quality of teaching. Universities are confronted with stringent legislation in this area: If the number of paying students exceeds a certain limit, the institutions lose state funding or subsidies, so that an excessive increase in the number of paying students makes no sense and is not commercially viable.

The main concern of the state today remains the maintenance of a sufficient number of state-funded university places to guarantee its citizens' constitutional rights. Nevertheless, the past years have witnessed repeated reductions of this contingent. For instance, the Ministry of Education recently announced that there would be approximately 525,000 tuition-free places at federal universities in the academic year 2008/09 as well as an overall reduction by 2 per cent of state-financed places at institutions of higher learning, in doctorate programs, and at vocational training schools. These cuts would affect in particular the humanities (-7.2 per cent) and economic (-4.8 per cent) disciplines. At the same time, these measures were intended to increase the amount of available funds per university place in the national budget. In 2006, the annual average for this sum reached \$800. Fee-paying students at state institutions, on the other hand, were required to pay approximately \$1,000 per year on average.

Can Standardized Admissions and New Finance Models Resolve the Crisis?

The sometimes very demanding admissions tests, which were the rule in the Soviet system and were largely organized by the universities themselves until the beginning of this century, have recently been discredited as an obvious source of corruption (bribes paid to the admission commissions and decision-makers at the universities, etc.). Since 2001, work has been underway on an

experiment to replace the university's own entrance exams with nationwide standardized tests at the end of high school. The test results would at the same time be presented to the universities in the application for a place and would replace the admissions tests currently in use. Although the experiment is being successively expanded to include more and more parts of the country, it still lacks acceptance – especially with the universities. Nevertheless, the government's educational policy is adhering to the goal of introducing this standardized test as the (single) mandatory prerequisite for access to all universities by the year 2009. According to the Ministry of Education, nearly 50 percent of all freshmen in the academic year 2006/07 were admitted on the basis of their results in the new standardized examination.

The introduction of the standardized test is also linked to a new model of financing for universities that has given rise to further criticism and rejection of the new examination mode. After the examination, high school graduates receive a kind of education voucher for university education, the value of which is variably dependent on the test results (the number of points scored) and will, in the best case, guarantee the student a completely state-financed university place, or otherwise admit the student to a state university place for which a certain amount of additional payment is required. Universities will then receive funding from the state treasury for the education vouchers of their applicants. This model aims, on the one hand, to create more transparency in admissions tests, and on the other hand to optimize the allocation and use of funds at universities. Critics of the scheme have recently restated their opinion that this close linkage between the level of state funding and the results of a standardized test is a clear violation of the constitutional right to education. They believe that the state must guarantee the same rights to all those who have passed a test to receive a state-funded university place – independently of the individual number of points scored in the exam, which is supposed to be linked to varying levels of state funding for the university place. Otherwise, they believe that the right to education will inevitably be (even) further curtailed for various parts of the population.

Translated from German by Christopher Findlay

About the author

Christine Teichmann has a PhD in linguistics. Since the 1990s, she has been working on the sociology of science and education. Her studies focus on the transformation of university systems in the post-Communist states of Eastern Europe and Central Asia. She is currently working as an independent academic in Berlin.

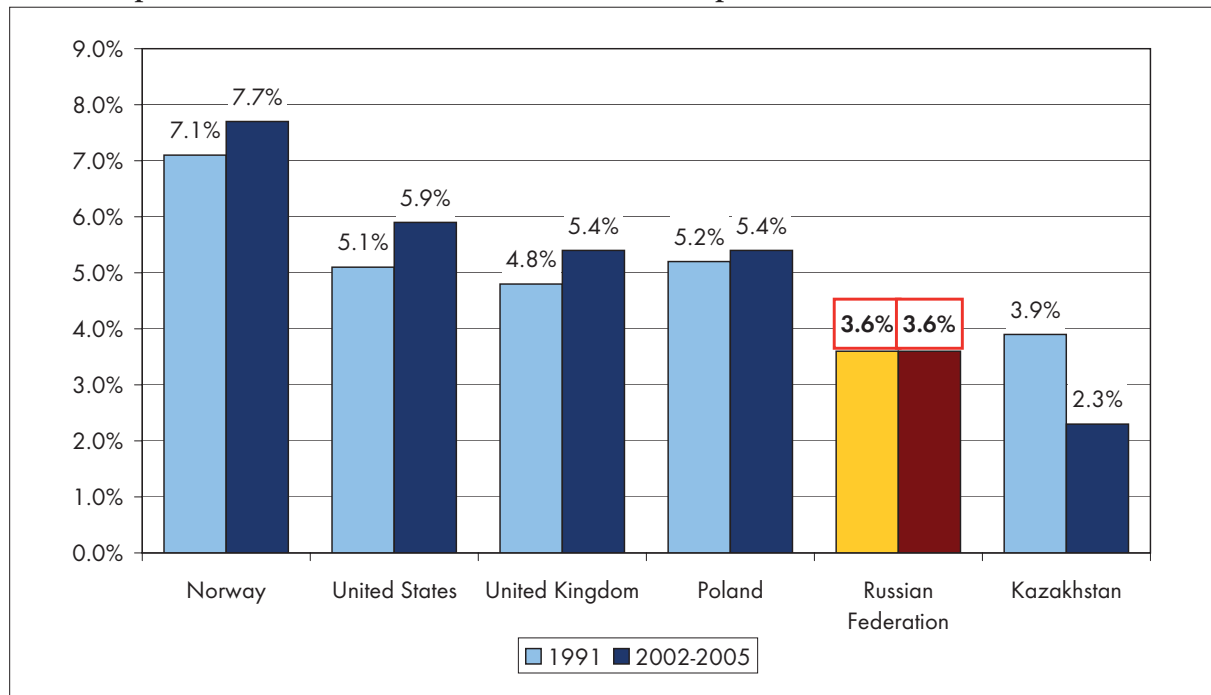
Further reading

- Sonja Steier (ed.). *Bildungspolitik und Bildungsfinanzierung in Russland zwischen Staat und Markt* (Münster: Waxmann Verlag, 2005) [in German].
- Christine Teichmann. *Die Hochschultransformation im heutigen Osteuropa. Kontinuität und Wandel bei der Entwicklung des postkommunistischen Universitätswesens* (Stuttgart: ibidem-Verlag, 2007) [in German].

Statistics

Russian Universities

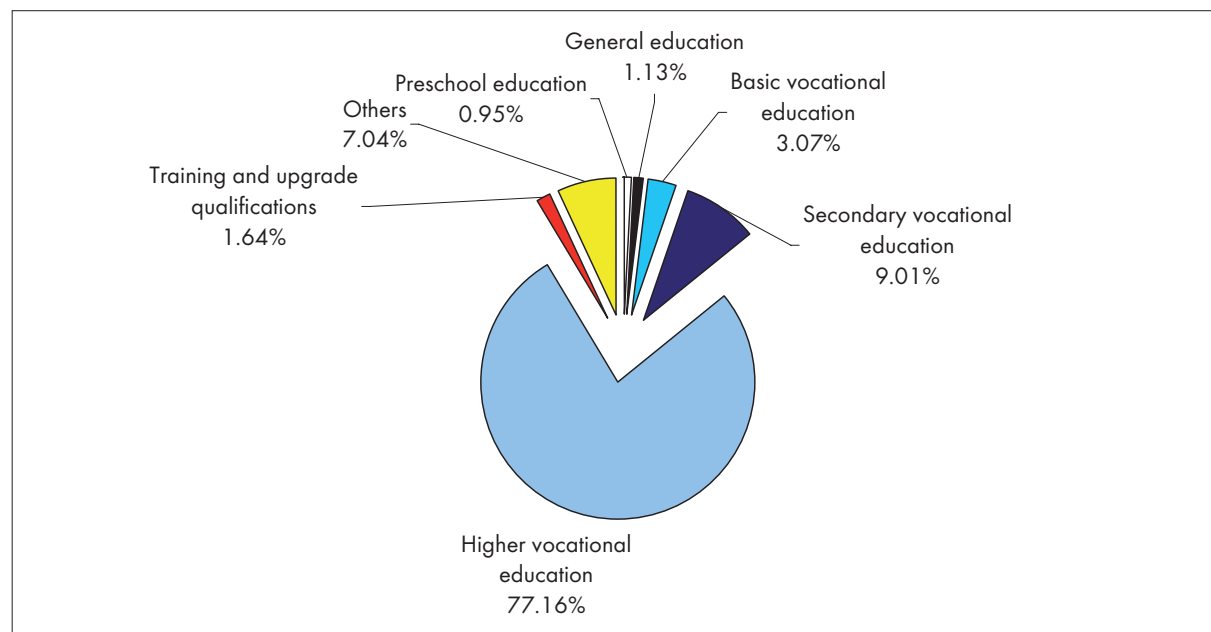
Public Expenditure on Education in International Comparison (% of GDP)



Note: Data for 2002–05 refer to the most recent year available during the period specified.

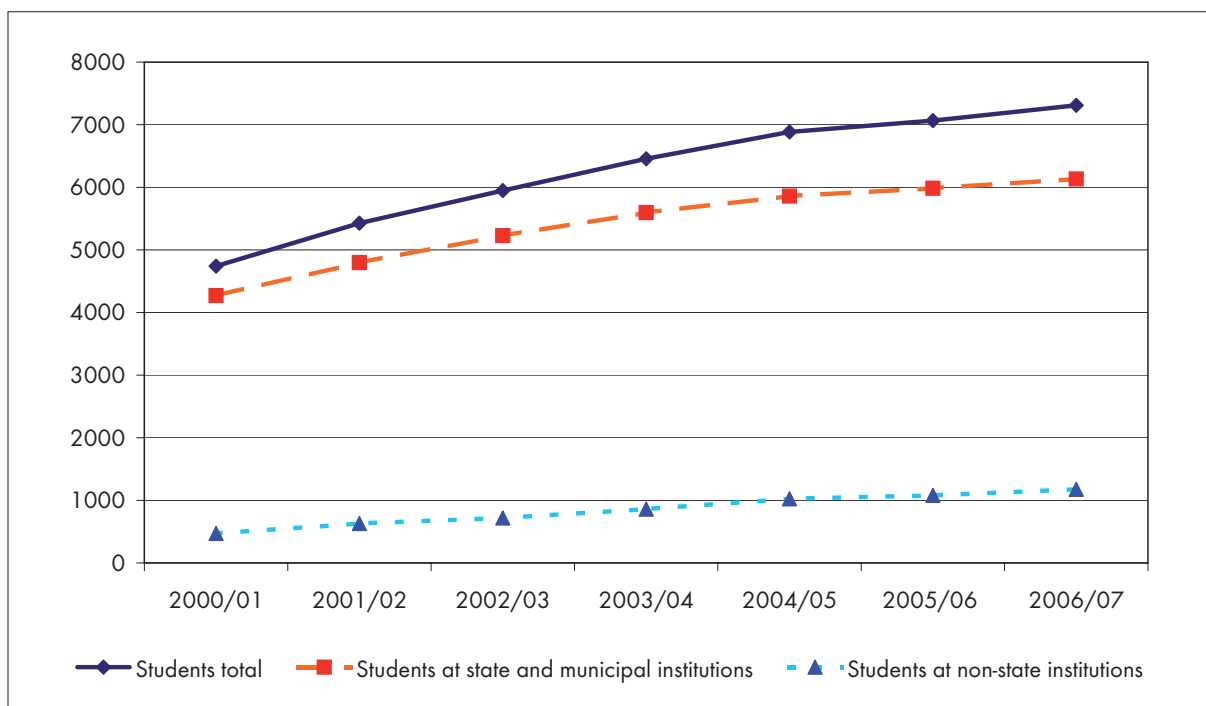
Source: Human Development Report 2007/2008, <http://hdrstats.undp.org/indicators/100.html>

Composition of Expenditures of the Russian Federal Budget on Education 2007 (in %)



Source: Tsentr fiskalnoi politiki, <http://www.fpcenter.ru/themes/basic/print-version.asp?folder=1635&FoundId=19532>

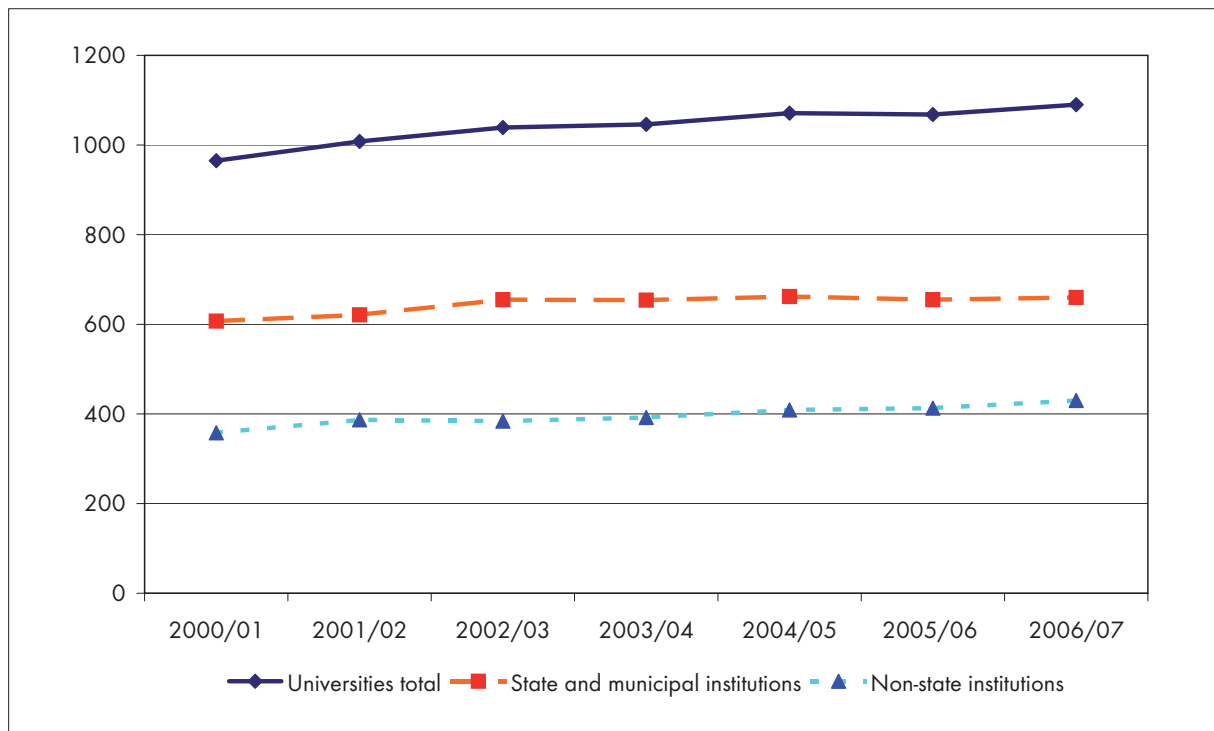
Number of Students at Public and Non-Public Universities from 2000/2001 to 2006/2007 (thousands)



Academic year	Students total (thous.)	Students at state and municipal institutions (thous.)	Students at non-state institutions (thous.)
2000/01	4741.4	4270.8	470.6
2001/02	5426.4	4797.4	629.5
2002/03	5947.5	5228.7	718.8
2003/04	6455.7	5596.2	859.5
2004/05	6884.2	5860.1	1024.1
2005/06	7064.6	5985.3	1079.3
2006/07	7309.8	6133.1	1176.8

Source: Goskomstat Rossii: Rossiiskii statisticheskii ezhegodnik, Moskva 2007.

Number of Public and Non-Public Universities from 2000/2001 to 2006/2007



Academic year	Universities total	State and municipal institutions	Non-state institutions
2000/01	965	607	358
2001/02	1008	621	387
2002/03	1039	655	384
2003/04	1046	654	392
2004/05	1071	662	409
2005/06	1068	655	413
2006/07	1090	660	430

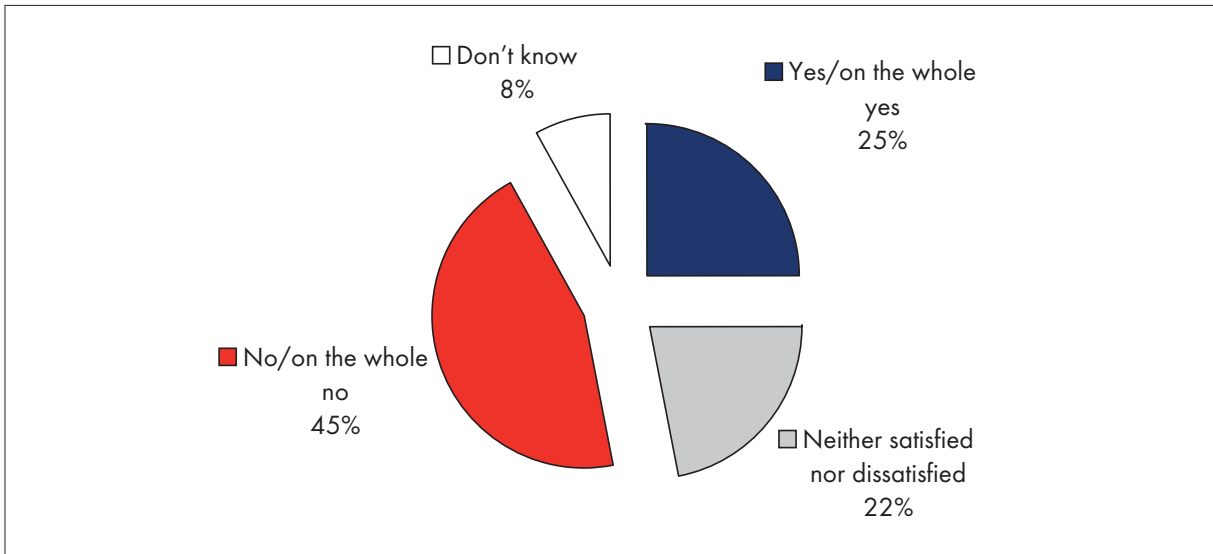
Source: Goskomstat Rossii: Rossiiskii statisticheskii ezhegodnik, Moskva 2007.

Universities and Students in the Russian Federation (Academic year 2006/2007)

Universities total	1090
of which:	
State and municipal	660
Non-state	430
Students total	7310 thous.
of which:	
at state and municipal universities	6133 thous.
at non-state universities	1177 thous.
Students total per 100.000 inhabitants	514
of which at state and municipal institutions	431

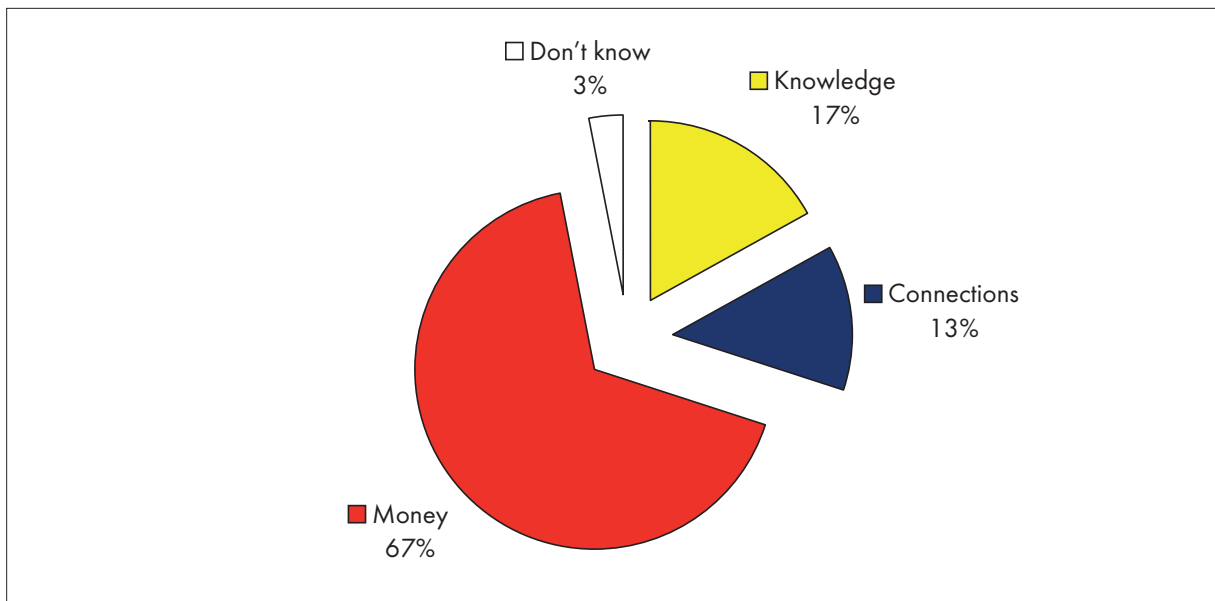
Source: <http://www.gks.ru>

Opinion Poll: Are You Satisfied with the Present Educational System? (2006)



Source: Representative poll of the Russian population by Levada Center, <http://www.levada.ru/education.html>

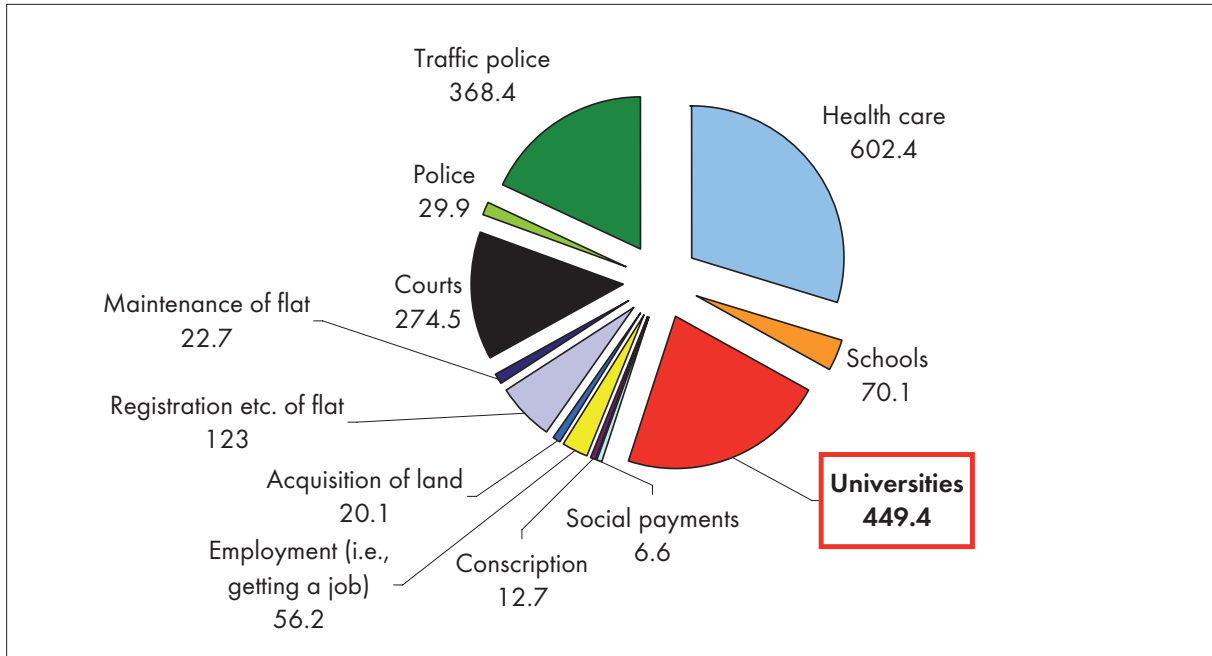
Opinion Poll: What is Today most Important to get Accepted at a University: Knowledge, Connections, Money? (2007)



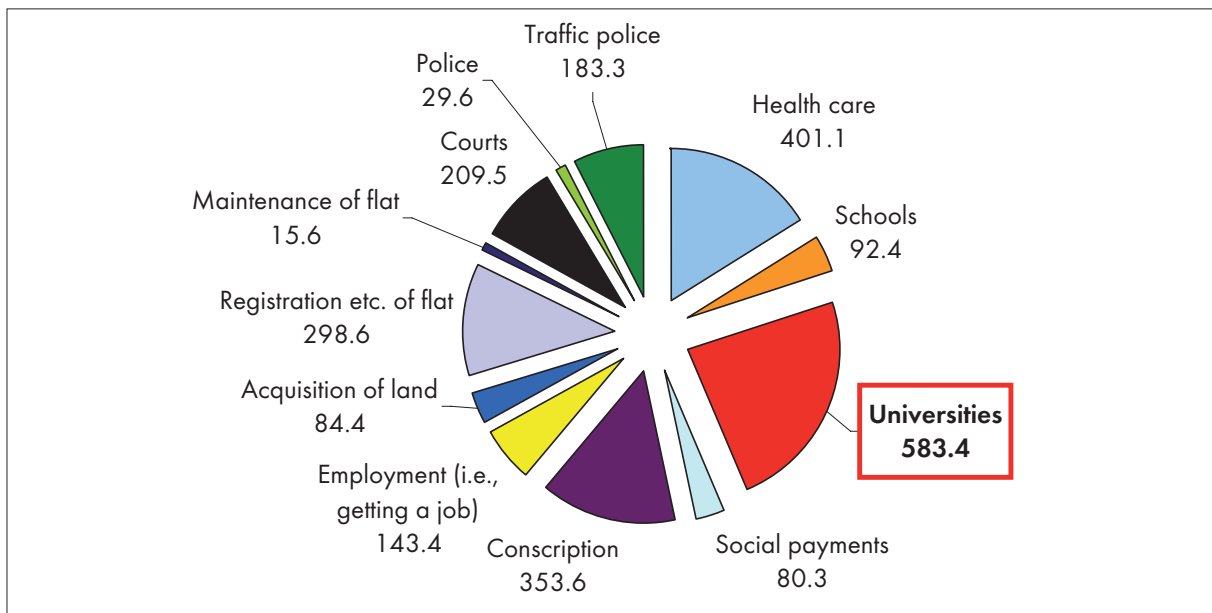
Source: Representative poll of the Russian population by Levada Center, <http://www.levada.ru/education.html>

Bribe Payments of the Population by Sector (in mn. USD)

2001



2005



Source: Extrapolation by INDEM on the basis of a representative survey,
http://www.anti-corr.ru/indem/2005diagnost/2005diag_present.ppt

Statistics compiled by Judith Janiszewski

About the Russian Analytical Digest

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen (www.forschungsstelle-uni-bremen.de) and the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich). It is supported by the Otto Wolff Foundation and the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language *Russlandanalysen* (www.russlandanalysen.de), the CSS analytical network on Russia and Eurasia (www.res.ethz.ch), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen

Founded in 1982 and led by Prof. Dr. Wolfgang Eichwede, the Research Centre for East European Studies (Forschungsstelle Osteuropa) at the University of Bremen is dedicated to socialist and post-socialist cultural and societal developments in the countries of Central and Eastern Europe.

The Research Centre possesses a unique collection of alternative culture and independent writings from the former socialist countries in its archive. In addition to extensive individual research on dissidence and society in socialist societies, since January 2007 a group of international research institutes is participating in a collaborative project on the theme "The other Eastern Europe – the 1960s to the 1980s, dissidence in politics and society, alternatives in culture. Contributions to comparative contemporary history", which is funded by the Volkswagen Foundation.

In the area of post-socialist societies, extensive research projects have been conducted in recent years with emphasis on political decision-making processes, economic culture and the integration of post-socialist countries into EU governance. One of the core missions of the institute is the dissemination of academic knowledge to the interested public. This includes regular email service with nearly 15,000 subscribers in politics, economics and the media.

With a collection of publications on Eastern Europe unique in Germany, the Research Centre is also a contact point for researchers as well as the interested public. The Research Centre has approximately 300 periodicals from Russia alone, which are available in the institute's library. News reports as well as academic literature is systematically processed and analyzed in data bases.

The Center for Security Studies (CSS) at ETH Zurich

The Center for Security Studies (CSS) at the Swiss Federal Institute of Technology (ETH Zurich) is a Swiss academic center of competence that specializes in research, teaching, and information services in the fields of international and Swiss security studies. The CSS also acts as a consultant to various political bodies and the general public.

The CSS is engaged in research projects with a number of Swiss and international partners. The Center's research focus is on new risks, European and transatlantic security, strategy and doctrine, state failure and state building, and Swiss foreign and security policy.

In its teaching capacity, the CSS contributes to the ETH Zurich-based Bachelor of Arts (BA) degree course for prospective professional military officers in the Swiss army and the ETH and University of Zurich-based MA program in Comparative and International Studies (MACIS), offers and develops specialized courses and study programs to all ETH Zurich and University of Zurich students, and has the lead in the Executive Masters degree program in Security Policy and Crisis Management (MAS ETH SPCM), which is offered by ETH Zurich. The program is tailored to the needs of experienced senior executives and managers from the private and public sectors, the policy community, and the armed forces.

The CSS runs the International Relations and Security Network (ISN), and in cooperation with partner institutes manages the Comprehensive Risk Analysis and Management Network (CRN), the Parallel History Project on NATO and the Warsaw Pact (PHP), the Swiss Foreign and Security Policy Network (SSN), and the Russian and Eurasian Security (RES) Network.

Any opinions expressed in Russian Analytical Digest are exclusively those of the authors.

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Editors: Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder

Layout: Cengiz Kibaroglu, Matthias Neumann

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