https://npa31.org/spip.php?article5858

Russia

With its controversial pension reforms, Russia is looking after its rich

- IV Online magazine - 2018 - IV527 - December 2018 -

Publication date: Saturday 29 December 2018

Prime Minister Dmitry Medvedev announced a drastic reform of Russia's pension system this June, just as the World Cup began: the retirement age would be increased from 55 to 63 for women and from 60 to 65 for men. Although President Vladimir Putin tried to stay out of the debate, the announcement caused his approval rating to plummet from 80 per cent to 63 per cent. After hundreds of protests around the country, Putin went on television to tell the nation he would change the planned reform, revising the pensionable age for women to 60 and promising a significant increase in the value of pensions.

This PR campaign was only partly successful. The street protests petered out, but Putin's United Russia party was punished at the polls. In September's regional elections, four candidates from Putin's party, all incumbent regional governors, were forced to take part in a second round of voting, which is unusual in Russia. In the Vladimir and Khabarovsk regions, the far-right nationalist opposition (the Liberal Democratic Party of Russia, LDPR) won. The authorities annulled or postponed elections in Primorsky and Khakassia to stop the communists making headway.

The pace and scope of Russia's pensions overhaul are striking compared to policies introduced elsewhere. By 2029, Russian workers will have to work five years more for their pension, as the retirement age will increase by six months a year.

In 1998, the South Korean government also increased retirement age by five years, but it was phased-in over 20 years. The government in Germany has raised the retirement age by a year, to 62, and France has raised it by two years, to 67, at a rate of one or two months a year.

Defenders of the Russian pension reform cite arguments heard elsewhere. The population is ageing. In 2017, according to official Rosstat statistics, there were 36.5 million pensioners in Russia and an active workforce of approximately 83 million, a ratio of 2.3 workers to every pensioner. In 2002 the ratio was three to one. But this is a temporary phase: the generation from the chaotic 1990s will soon be joined on the labour market by the larger cohort born in the 2000s, a period of strong economic and demographic growth.

How long will pensioners live? The second demographic argument is that Russian retirement age has not changed since 1932, while life expectancy has improved markedly.

According to Rosstat figures quoted by Medvedev, average life expectancy was just 35 years in the early 1930s, compared to 72.7 today; but the very high infant mortality rate in the 1930s significantly reduces the average for that period and taking it as a comparison makes it possible to present one of the lowest life expectancies in Europe as an achievement. In 1932, only a minority of old people got a pension, a right that was extended to all city-dwellers in 1956 and workers on collective farms and peasants in 1967. A baby born in the USSR in 1967 could expect to live to 69.3. In 2018 the new age at which men become eligible for a pension is a year and a half more than their current life expectancy of 66.5 years (for women life expectancy is 77).

Neoliberal economists object that the important figure is not life expectancy at birth, but the number of years that people can expect to live after retirement age. Research by Moscow's Higher School of Economics, cited by journalists and defenders of the reform, highlights the fact that those who have reached retirement age, even if it is deferred, can expect to live a further 13.4 years for men and 21.7 years for women. Demographer Anatoly Vishnevsky has pointed out that this has barely improved since the 1960s and may decline if working life is prolonged.

The “sandwich generation”

Another issue often raised is the societal role traditionally played by women, who leave the labour force at 55. The youngest belong to what sociologist Elena Zdravomyslova calls the â€˜sandwich generation’, with a pivotal role looking after their grandchildren, so enabling their children to work, and also taking care of their own elderly parents, for whom there is little state provision. How else does the government envisage enabling young mothers to work? And who will look after the elderly?

Supporters of reform make the economic argument that a longer working life will make it possible to raise pensions, which both reformists and their opponents currently regard as inadequate. The average monthly pension is currently 13,300 roubles (approximately US$203), around 34 per cent of the average wage, so 40 per cent of men and 66 per cent of women continue in paid employment for five years after they become pensioners. This practice existed at similar levels during the Soviet period, but pensioners then enjoyed better state provision â€” in 1976, the average pension was over half the average wage â€” and better access to healthcare.

Pension-age women continue to work in sectors traditionally regarded as â€˜female’ and under-paid, such as teaching, healthcare, social services and culture, while pension-age men resort to low-paid casual work. In his television address, Putin promised monthly pensions would average 20,000 roubles (US$306) by 2024, but this is less generous than it seems; if inflation continues as it has the past six years, it only means spending power will remain static.

Putin has the image of a statist leader keen to restore top-down power. During his first two mandates (2000-08), the government regained control of strategic economic sectors ceded to oligarchs, especially oil and gas. A return to economic growth made it possible to pay salaries and pensions regularly again. This secured Putin’s popularity with the middle and working classes, the â€˜ordinary people’ he likes to praise.

But many observers overlook the fact that since he came to power, Putin has carried out a modernisation of the social state, reining in public spending and establishing a tax system that favours business and the rich.

He set a flat rate of income tax at 13 per cent in 2002, reformed the health and education systems by subjecting (much-reduced) federal spending to efficiency and productivity criteria (2006-12), and adopting new labour laws which favour employers (2002).

The pension system has not been spared. In 2002 the government instituted the current, highly unfair, regressive contributory system: most workers pay 22 per cent of their gross salary into the state pension system, but those currently earning over 67,900 roubles (approximately US$1,040) a month â€” the top 15 per cent â€” pay just 10 per cent of their salary above this threshold. In 2002 the authorities grafted a new mandatory funded pension system onto the existing structure, under which 6 per cent of pension contributions go to financial intermediaries or private pension funds.

In 2005 a protest movement unprecedented in post-Soviet Russia halted austerity-driven reforms and forced a government rethink; opposition focused on the monetisation of social benefits, the proposed reduction of benefits in kind such as transport and health, available to many. Rising oil prices made it possible to offer sweeteners such as maternity (family) capital, a US$7,000 payment to mothers on the birth or adoption of their second child, and the launch of federal education, health and housing programmes. These were accompanied, temporarily, by higher pay for teachers and health workers and more state funding to improve housing.

After the 2008 crash

The global financial crisis of 2008 ended this. When recession hit Russia in 2014, after a fall in oil prices and western sanctions imposed after the annexation of Crimea, the Russian government relaunched austerity; first to be hit were welfare, health and education spending. Aid and tax credits were given to the biggest companies, though they made the most profit, and tax rates were reduced for the billionaires in Putin's inner circle, who were hit by the sanctions and are denied the right to travel to the West. According to Russia's Accounts Chamber, these tax breaks caused a federal budget shortfall of 11 trillion roubles (US$168 billion). The budget for 2018 will be reduced to 15 trillion roubles (US$230 billion).

The latest reforms â€" higher retirement ages, increased value added tax (up from 18 to 20 per cent), higher flat-rate income tax â€" are in line with the trend for reducing welfare benefits and lower tax on capital, while increasing the tax burden on workers, especially the least well off. The authorities exhort people to make sacrifices for the sake of Russia's international prestige. But tapping other revenue sources would make it possible to leave the retirement age unchanged and increase pensions, especially as pensions are just 7 per cent of GDP, half the level in France, Poland or Portugal.

Russia's Accounts Chamber has recommended limiting the exemptions granted to large state companies that want to reduce the dividends they pay back to the state. For good reason: this sort of income fell by 75 per cent in 2017, when it amounted to 667.6 billion roubles (US$10 billion).

The main advocate for social causes in the Duma, Oleg Shein (formerly of A Just Russia, centre-left), has called for an end to tax loopholes, a single scale for social security contributions and robust action against businesses that commit fraud or conceal the size of their workforce from the tax authorities; some estimates put the number of Russians employed in the informal economy at almost 35 million.

Real income has fallen by around 10 per cent since 2014, but the government is more concerned with looking after the rich. Putin signed off the new pensions law in October, which may have reduced the urge to protest, but the authorities have not emerged unscathed. Ilya Budraitskis, historian and left-wing activist, said: "Invoking â€˜the traditional values of the majority' and the â€˜spiritual bonds' to bind society together around its national leader is of no use when it comes to such an unpopular measure."

For many Putin supporters seduced by his image as protector of ordinary people, the evidence is now clear: the interests of the working and middle classes count for little compared to those of the economic and financial elites. Summer 2018 may have marked the end of the euphoria that began with the annexation of Crimea.

Equal Times