WELFARE REFORMS IN POST-SOVIET STATES: A COMPARISON OF SOCIAL BENEFITS REFORM IN RUSSIA AND KAZAKHSTAN

by

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A thesis submitted in conformity with the requirements for the Degree of Doctor of Philosophy
Graduate Department of Political Science
University of Toronto

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Abstract:

Concerned with the question of why governments display varying degrees of success in implementing social reforms, (judged by their ability to arrive at coherent policy outcomes), my dissertation aims to identify the most important factors responsible for the stagnation of social benefits reform in Russia, as opposed to its successful implementation in Kazakhstan. Given their comparable Soviet political and economic characteristics in the immediate aftermath of Communism’s disintegration, why did the implementation of social benefits reform succeed in Kazakhstan, but largely fail in Russia?

I argue that although several political and institutional factors did, to a certain degree, influence the course of social benefits reform in these two countries, their success or failure was ultimately determined by the capacity of key state actors to frame the problem and form an effective policy coalition that could further the reform agenda despite various political and institutional obstacles and socioeconomic challenges. In the case of Kazakhstan, the successful implementation of the social benefits reform was a result of a bold and skillful endeavour by Kazakhstani authorities, who used the existing conditions to justify the reform initiative and achieve the reform’s original objectives. By contrast, in Russia, the failure to effectively restructure the old Soviet social benefits system was rooted largely in the political instability of the Yeltsin era, and a lack of commitment to the reforms on the part of key political actors. And when the reform was finally launched, its ill-considered policies and the government’s failure to
form the broad coalition and effectively frame the problem led to public protests and subsequent reform stagnation.

Based on in-depth fieldwork conducted in Russia and Kazakhstan in 2006 and 2008, my study enriches the literature on the transformation of post-communist welfare regimes, and contributes important insights to the central question in the literature on public policy, that is, when, why and how policies change. It also enhances our understanding of political and public policy processes in transitional and competitive authoritarian contexts.
To the two most important people in my life—my husband Denis and my dearest daughter Natasha. Thank you for waiting patiently “until mama finishes her book.”

To my parents, whom I deeply love and who always believed in me. Thank you for your love, support and patience.
Acknowledgments

I am deeply indebted to all those who contributed to and helped me in the realisation of this work. First of all, I would like to sincerely thank my supervisor, Professor Peter Solomon, for his valuable advice and guidance throughout the conceptual and practical development of this dissertation. I am also very grateful to Professors Edward Schatz and Joe Wong for their insightful and valuable comments and continuous support throughout all these years. I also want to extend my heartfelt gratitude to all the people who assisted me during the various stages of my research in Russia, Kazakhstan and Canada. In particular, special thanks go to Tatiana Pomytkina, Natalia Evdokimova, Svetlana Koval’skaia and Zauresh Battalova. Finally, I also want to thank Petra Dreiser for proofreading the text and making sensitive observations about it.

My gratitude also goes to my friends Olga Klymenko, Adilia Riou-Boulgakova and Vera Ashvarina who helped me immensely during these years. I am indeed blessed to have such wonderful friends.
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>CIT</td>
<td>Corporate Income Tax</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FITU</td>
<td>Federation of Independent Trade Unions of Russia</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GULAG</td>
<td>Glavnoe Upravlenie Ispravitel’no-Trudovykh Lagerei (Chief Directorate of Prison Camps in Former Soviet Union)</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>KLSS</td>
<td>Kazakhstan Living Standard Survey</td>
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<tr>
<td>KMG</td>
<td>Kazmunaigaz</td>
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<tr>
<td>LDPR</td>
<td>Liberal Democratic Party of Russia</td>
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<tr>
<td>NEP</td>
<td>New Economic Policy</td>
</tr>
<tr>
<td>NOBUS</td>
<td>National Survey of Household Welfare and Participation in Social Programs</td>
</tr>
<tr>
<td>PAYG</td>
<td>Pay-as-you-go Pension System</td>
</tr>
<tr>
<td>PIT</td>
<td>Personal Income Tax</td>
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<tr>
<td>RLMS</td>
<td>Russian Longitudinal Monitoring Survey</td>
</tr>
<tr>
<td>RSFSR</td>
<td>Russian Soviet Federative Socialist Republic</td>
</tr>
<tr>
<td>SIF</td>
<td>Social Insurance Fund</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Enterprises</td>
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<tr>
<td>TSA</td>
<td>Targeted Social Assistance</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
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<tr>
<td>VTsIOM</td>
<td>All-Union Center for the Study of Public Opinion</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WWII</td>
<td>World War Two</td>
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Note on Transliteration and Style

Where I have transliterated from Russian into English, I have followed the Library of Congress system except where alternative English equivalents have become well established. For example, some names are spelled according to their most common usage, i.e. Yeltsin instead of El’tsin, Yegor instead of Egor, Yavlinsky instead of Iavlinskii, etc. Also, the Communist Party of the Russian Federation is abbreviated as the CPRF, starting with ‘C’ and denoting its connection to the ‘Communist’, and not with ‘K’ as it is often used by the scholars.

To improve readability of the text, names of political parties and social movements are given in italics, i.e. the CPRF, United Russia, Nur Otan.
CHAPTER 1

SETTING THE SCENE: REFORMING THE POST-SOVIET WELFARE STATE

1.1. Introduction

Established in the West, public policy discipline is abundant with studies of failed policy programs, in which scholars tackle the questions of what factors are to blame for these failures and of what to do to raise the effectiveness of public policy process. Of all public policy fields, social policy-making is perhaps one of the most challenging areas of public policy due to the complexity of the problem and its high political sensitivity. Indeed, social policy research is rich in analysis of social reforms that unfolded under seemingly benevolent conditions, but ended in turmoil or stagnation.¹

Scholars attributed these failures to two fundamental factors, broadly defined – the poor quality of the social policy programs and problems at the implementation stage. Speaking of the poor quality of policy programs, these were usually the result of the lack of a comprehensive and systematic approach to social policy issues, the political underpinnings of welfare reforms, the role of interest groups, and the failure to consider implementation realities at the local level during the stage of policy formulation. Others pointed out that the future of policy initiatives depended primarily on the actors directly involved in the implementation process, such as the upper- and lower-level bureaucracy. The overall consensus, however, was that policy-making was a complicated and highly contingent process that depended on the combination of several factors, including the timing, the context within which the reform was implemented, and the strength of major policy actors.

With the collapse of the Soviet Union, scholars received numerous opportunities to study the process of policy change in a highly unique post-Soviet environment characterised by similar Soviet legacies. Initially, as the post-Soviet countries embarked on the process of political, institutional, economic, and social reforms, many believed that if the reformers conducted their policies in accordance with the principles of democratic politics and the Washington Consensus,


4. See, for example, Pressman and Wildavsky, Implementation.
promoted by the World Bank (WB) and International Monetary Fund (IMF), then no fundamental challenges to their implementation would have existed. In the majority of cases, however, the reforms produced mixed results. As time passed, some countries, such as Russia, illustrated unstable developments on both fronts – in the economic realm and democratic transition – whereas other countries, such as Poland, were soon viewed as examples of successful economic and democratic transformation. This led the scholars to question why similar reforms conducted in accordance with the principles of the Washington Consensus produced different outcomes. In trying to understand the causes of these failures, some scholars suggested, echoing the arguments made by the Western scholars about public policy-making in established democracies, that the success of the post-Soviet reforms depended not only on the initial policy


design, but also on several other factors, important during the implementation stage, including the timing, speed, and sequencing of reforms; the mode of interaction among various actors; the socioeconomic, political, and institutional legacies; and the capacity of the state to frame the problem effectively in such a way as to achieve the reform original objective.  

Over time, the focus of scholarly attention also changed. In the beginning of the post-Soviet transition, the majority of post-Soviet scholars focused primarily on political and economic reforms, with a few researchers analysing the social impact of the transitions, including large increases in unemployment and inequality levels, regression in the quality of welfare, health, and education services, the emergence of a large floating migrant population, the spread of crime and corruption, and so on. However, as the dramatic decline in the level of well-being of the majority of the post-Soviet population became more evident, more scholars and policy analysts started questioning the one-sided focus on economic growth and emphasised the importance of timely and well-developed social policies as an indispensable component of the


post-Soviet transformation. Slowly, the focus of analysis shifted to the welfare policy domain, with scholars analysing the effectiveness of various social, health care, and education reforms.\textsuperscript{9}

By the end of the 1990s, the research on the post-Soviet pension, health care, and education reforms grew.\textsuperscript{10} Some welfare reforms, however, were left without due scholarly attention. Such was the case of the social benefits reform in the post-Soviet states, in particular in Kazakhstan and Russia. With the notable exception of Linda Cook, Andrea Chandler, and a few other scholars, few studies that focused on the post-Soviet welfare reforms touched upon the Soviet social benefits system or its subsequent reform that aimed to replace the Soviet system of social privileges with monetary compensations.\textsuperscript{11} This is rather surprising given the fact that the Russian and Kazakhstani social benefits reforms present an interesting comparative case study: with similar policy objectives, the reforms produced different policy outcomes.


\textsuperscript{10} See, for example, Dash, “Education in Post-Soviet Russia: No More an Obligation of the State,” 1232-4; Eklof, Holmes and Kaplan, \textit{Educational Reform in Post-Soviet Russia}; Manning and Tikhonova, \textit{Health and Health Care in the New Russia}; Cook, \textit{Postcommunist Welfare States}; etc.

With this in mind, this dissertation aims to complement the existing stock of knowledge on the social benefits reform in the post-Soviet countries and offers a reader a systematic analysis of the reform in two selected countries. The social benefits reform refers to the replacement of Soviet in-kind social benefits (the so-called *natural’nye l’goty*) received by various groups of the population with monetary compensations. In particular, the peculiarity of the Soviet welfare state inherited by Russia and Kazakhstan was that it not only provided its citizens with various universal guarantees, such as secure employment, and free and accessible health care and education, but also with a myriad of in-kind and monetary social benefits and transfer payments. These social benefits were usually offered to strategically important population groups, including military personnel, labour heroes, World War II (WWII) veterans, Communist Party nomenklatura, and so on, as a reward for merit or service. These special privileges were provided in the form of monetary and in-kind social benefits, including personal pensions, subsidised housing, and communal services; privileged access to the best Soviet health care hospitals and facilities; free-of-charge medicine; transportation on the territory of the Soviet Union; regular vacations at Soviet resorts, and so on. Over time, the possession of these special privileges became the nominal indicator for one’s societal status, thus creating the so-called Soviet ‘status society,’ which divided the most privileged from the less fortunate. Such was the system inherited by the two countries in the aftermath of Communist disintegration.

The collapse of the Soviet Union and liberal economic reforms presented the two post-Soviet countries with highly sensitive questions. The imperatives of the liberal market reforms, which unfolded under conditions of deep economic and fiscal crises and that the WB and IMF actively promoted, demanded fundamental changes in the organisation of the Soviet welfare state
from the Kazakhstani and Russian governments. This was necessary to ease the enormous financial pressures on individual states in the short term and bring their welfare system in line with the demands of a capitalist market economy in the long run. Equally important was the need to assist the least protected groups of the population, whose situation during transition was especially alarming.

The complexity of the problem was related to the potentially high political costs of such a welfare initiative. Since the majority of the Soviet welfare recipients viewed their benefits as just compensation for their work and service, and given the fact that many of them depended on the state and had no alternative sources of income, they would obviously resist any changes to the old welfare arrangements. And given the fact that the majority of welfare recipients were eligible voters, the two governments faced extremely sensitive dilemmas. These dilemmas were more pronounced in Yeltsin’s Russia, than in Nazarbaev’s Kazakhstan or Putin’s Russia, due to greater openness of the political space under the leadership of Boris Yeltsin. Nonetheless, it would be a mistake to assume that Nursultan Nazarbaev and Vladimir Putin exercised a total control over the Kazakhstani and Russian state institutions and society and could implement the reform without paying attention to the possible political risks of such a decision. In addition, the situation was further complicated by the expectation that other groups, such as the old Soviet welfare bureaucracy, would also object to any changes in the existing welfare system.

In light of the political sensitivity of the issue and the divergent interests of various interest groups, the Russian and Kazakhstani governments faced the necessity of developing a strategy that would ensure the successful restructuring of the Soviet welfare state in a highly unstable social, political, and economic context. Kazakhstan was the first to reform its welfare system. The reform started as early as 1994, when the government cut several social benefits programs and drastically reduced its welfare spending. This helped the government to achieve its short-term objectives quickly: the retrenchment initiative minimised the percentage of people eligible to receive social assistance, and thus helped to somewhat relieve the fiscal burden faced by the state during the time of economic crisis. The restructuring of the old welfare system and the development of the targeted social assistance program, which only assisted the least-protected population groups, followed the retrenchment. By the end of the 1990s, with reduced state financing for social programs and strong linkages between social policy and political and developmental objectives, the new welfare system perfectly complemented Kazakhstan’s developmental model.

To be more specific, as evident from figure 1.1., following the collapse of the Soviet Union, government expenditures on education, public health services, and social protection have steadily decreased in Kazakhstan. For example, expenditures on education in 1991 came to 6.5

percent of Gross Domestic Product (GDP), and in 2006, it was 3.4 percent of GDP. Expenditures on public health services were 3.6 percent of GDP in 1991, and in 2006, it was only 2.3 percent of GDP. And expenditures on social protection were 4.3 percent of GDP in 2006 while they came to 4.9 percent of GDP in 1991. Needless to say, the retrenchment and the deep economic crisis affected the overall well-being of the Kazakhstani population (figure 1.2.). However, the situation showed signs of improvement toward the end of the 1990s, when the government managed to stabilise its economic performance and launched a complete restructuring of its welfare system. Review figure 1.2. for an overview of changes in Kazakhstan’s human development index since 1991, used to measure three basic dimensions of human development: health, education, and income.

Figure 1.1. Social Budget Expenditures in Kazakhstan, 1991–2006


What is most important is that the Kazakhstani government achieved remarkable results in poverty reduction with the help of its targeted social assistance program. By 2005, the level of poverty in Kazakhstan (measured by the number of people living below subsistence level) decreased by 2.9 times – from 34.5 percent in the late 1990s to 9.8 percent in 2005. Notably, poverty depth, defined as the average income shortfall of the poor to the poverty line calculated in relation to the entire population of the country, also shrank by 11.4 times between 2001 and 2009, when it stood at 1.3 percent. According to the Minister of Labour and Social Protection


Karagusova, this was the result of implementation of various employment and social programmes, as well as the provision of targeted state assistance. Figures 1.3. and 1.4. offer an overview of poverty trends in Kazakhstan.

**Figure 1.3. National Poverty Trends in Kazakhstan, 1997–2004**

![National Poverty Trends](chart)


**Figure 1.4. Percentage of Population with Consumption Income Below the Subsistence Minimum in Kazakhstan, 1996–2015**


In short, in Kazakhstan, the government welfare reform resulted in a successful policy change. The government succeeded in retrenching its old and expensive welfare system and bringing it in line with the principles of liberal market economy. At the same time, as evidenced by changes in poverty trends, it was effective in reducing poverty with the help of its targeted social assistance program. In that sense, Kazakhstan’s social benefits reform was a success: not only did the Kazakhstani government attain its economic and welfare policy objectives, but it was able to do so without causing major social upheavals.19

In contrast to Kazakhstan, Russia’s social benefits reform came much later, was more costly, and remarkably less efficient in terms of changing the existing welfare system and alleviating poverty. Gaidar’s liberal economic and welfare reforms had a dramatic effect on the Russian population and were soon challenged in the parliament. Caught between a deep economic and social crisis and a strong political opposition in the parliament represented by the Communist Party, the president decided to postpone any fundamental restructuring of the existing welfare system. Moreover, fearing an escalation of social protests, the government designed ad hoc and often populist social welfare policies, which, instead of contracting the costly welfare system, expanded it.20 In particular, the federal laws “On State Pensions of the RSFSR,” “On Additional Protection of Motherhood and Childhood,” “On Social Protection of Invalids in the Russian Federation,” “On Veterans,” and many other passed between 1990 and 1995 officially expanded the social responsibilities of the Russian government. In addition, the government extended the social benefits coverage onto new categories of people, such as the


Chernobyl victims and rehabilitated victims of the Stalin-era repressions. Furthermore, it introduced several other welfare programs that addressed specific problems of the transitional period, such as increasing poverty rates, high levels of unemployment, forced migration, escalation of ethnic conflicts, and so on.  

According to various accounts, welfare expenditures remained relatively stable during this period, having increased slightly for some categories in 1993 and 1994. This is not to say that no decline in real expenditures was reported across all major expenditure categories, but this was mainly attributed to economic collapse. As evident from table 1.1., social expenditures on education and health care collapsed by more than 40 and 30 percent, respectively. Family allowances, unemployment benefits, and pensions also drastically declined. Responding to this situation and worried about the social and political stability in the country during the period of deep economic crisis, the Yeltsin government preferred to expand the barely functioning welfare system further. In the end, such contradictory policies had a dramatic effect on the quality of social protection during the 1990s. In the words of Linda Cook: “reformers re-organised the welfare state in ways that worsened disparities in access to services and benefits across regions, disorganised coordinating mechanisms, and left the federal government with little ability to address rising poverty and unemployment.”

21. Ibid.


23. Ibid.


Table 1.1. Social Expenditures in the Russian Federation, Budget, and Off-Budget Funds, 1992–1995 (% of GDP)

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<td>Expenditures of the budget system as a whole</td>
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<tr>
<td>- Consolidated budget</td>
<td>45.8</td>
<td>42.7</td>
<td>45.2</td>
<td>38.9</td>
</tr>
<tr>
<td>- Federal budget (excl. transfers to territorial budgets)</td>
<td>27.1</td>
<td>17.5</td>
<td>18.5</td>
<td>16.9</td>
</tr>
<tr>
<td>- Territorial budgets (regional and local)</td>
<td>12.2</td>
<td>16.2</td>
<td>17.5</td>
<td>14.5</td>
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<tr>
<td>- Off-budget funds</td>
<td>6.5</td>
<td>9.0</td>
<td>9.2</td>
<td>7.5</td>
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<tr>
<td>Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Consolidated budget</td>
<td>2.45</td>
<td>3.58</td>
<td>4.09</td>
<td>3.41</td>
</tr>
<tr>
<td>- Federal budget</td>
<td>0.27</td>
<td>0.34</td>
<td>0.37</td>
<td>0.21</td>
</tr>
<tr>
<td>- Territorial budget</td>
<td>2.18</td>
<td>2.82</td>
<td>2.76</td>
<td>2.33</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Consolidated budget</td>
<td>3.58</td>
<td>4.03</td>
<td>4.36</td>
<td>3.40</td>
</tr>
<tr>
<td>- Federal budget</td>
<td>1.21</td>
<td>0.76</td>
<td>0.87</td>
<td>0.52</td>
</tr>
<tr>
<td>- Territorial budget</td>
<td>2.37</td>
<td>3.27</td>
<td>3.49</td>
<td>2.88</td>
</tr>
<tr>
<td>Social policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Consolidated budget</td>
<td>0.63</td>
<td>0.85</td>
<td>1.20</td>
<td>1.25</td>
</tr>
<tr>
<td>Consumer subsidies*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Housing-communal economy</td>
<td>-</td>
<td>-</td>
<td>4.60</td>
<td>3.66</td>
</tr>
<tr>
<td>- Social transport</td>
<td>-</td>
<td>-</td>
<td>0.56</td>
<td>0.75</td>
</tr>
<tr>
<td>Off-budget social funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Pension fund</td>
<td>4.83</td>
<td>6.06</td>
<td>5.92</td>
<td>5.33</td>
</tr>
<tr>
<td>- Employment and</td>
<td>0.66</td>
<td>0.22</td>
<td>0.38</td>
<td>0.33</td>
</tr>
<tr>
<td>unemployment fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Territorial budgets are the only source of housing and transport subsidies.


This situation changed with the coming-to-power of President Vladimir Putin, who launched a complete restructuring of Russia’s outdated social welfare system, beginning with the old-age pension reform of 2001. In 2004, the government passed Federal Law Nr. 122, known as “Monetisation of Social Benefits,” which in many aspects resembled the Kazakhstani social benefits reform. Yet even though the Russian welfare reform was conducted in a relatively stable political, socioeconomic, and institutional context under Putin, the government failed to achieve the desired reform objectives and faced significant public protests. In particular, the government
failed to cut its public expenditures (table 1.2.). Moreover, responding to continued social protests, the government increased the size of the budget allocated for implementation of the reform from the initially planned 170 billion rubles to 300 billion rubles.\(^\text{26}\)

**Table 1.2. Social Expenditures in Russia as a Share of GDP, 2006–2009**

<table>
<thead>
<tr>
<th></th>
<th>Consolidated Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2006</strong></td>
<td><strong>2007</strong></td>
</tr>
<tr>
<td>Total incl.</td>
<td>31.15%</td>
</tr>
<tr>
<td>Education</td>
<td>3.85%</td>
</tr>
<tr>
<td>Health</td>
<td>3.58%</td>
</tr>
<tr>
<td>Social Protection</td>
<td>8.77%</td>
</tr>
</tbody>
</table>


Yet perhaps more importantly, the reform did not result in any significant changes in the structure of Russia’s welfare system and levels of poverty, as well as failed to streamline the existing fiscal system and centre-periphery relations. As of 2006, a substantial part of social assistance was still spent on privileges, while very little was spent on targeted programs. According to the WB data, in 2006, the spending on social privileges accounted for 2.3 percent of GDP or 90 percent of total social assistance expenditures. At the same time, privileges generally did not reach the poor well, and hence achieved little in terms of poverty reduction (table 1.3.). Targeted social assistance accounted for only 0.2 percent of GDP, while monetised benefits accounted for 1.2 percent, and non-monetised federal and regional benefits combined

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were estimated to account for another 1.2 percent (figure 1.5.).\textsuperscript{27} Therefore, compared with other countries, the effectiveness of Russia’s targeted social assistance program is rather weak (figure 1.6.). As evident from figure 1.6., whereas the effectiveness of Kazakhstan’s targeted social assistance program was comparable with similar programs in the United States, Argentina, and Hungary, the Russian indicators were significantly lower.

**Table 1.3. Poverty Trends in Russia Prior and After the Social Benefits Reform, According to the Place of Residence, as % of the Population Size**

<table>
<thead>
<tr>
<th>Residence Place</th>
<th>Percentage of the Poor Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Including the social benefits, prior to the reform</td>
</tr>
<tr>
<td>City with more than 1 million people</td>
<td>21,3</td>
</tr>
<tr>
<td>City with 20–999,9 thousand people</td>
<td>30,1</td>
</tr>
<tr>
<td>Town with less than 20 thousand people</td>
<td>38,0</td>
</tr>
<tr>
<td>Village</td>
<td>41,3</td>
</tr>
<tr>
<td>Total</td>
<td>32,2</td>
</tr>
</tbody>
</table>


Figure 1.5. Social Assistance Expenditure in Russia by Type of Program, % of GDP


Figure 1.6. Share of Benefits that goes to Poorest 20% of the Population, Targeted Social Assistance Programs, Russia and Kazakhstan Compared with Selected Countries

As evident from this brief overview, the social benefits reform implemented in Kazakhstan and Russia produced divergent policy outcomes. In Kazakhstan, the government managed to accomplish both tasks: to retrench the old Soviet welfare state and to restructure the system in such a way that it would target the poor groups, thus contributing to poverty reduction. In Russia, all attempts to retrench the old welfare system collapsed. In addition, the Russian government did not succeed in raising the effectiveness of its social programs, with many benefits still going toward the privileged groups of the population. Thus, the proposed study seeks to explain why an identical social benefits reform implemented in two post-Soviet states produced different policy outcomes.

I am particularly interested in understanding what factors helped the Kazakhstani government to launch the reform, and what prevented the Russian government from achieving comparable policy outcomes. How was Kazakhstan, amidst a deep economic recession and institutional disarray, able to launch a successful restructuring of its social benefits system, whereas the Russian government led by Vladimir Putin failed to do so, even with the luxuries of economic stability and strong political leadership? More intriguing still, is the fact that with the arrival of Vladimir Putin, both countries could be classified as hybrid regimes, in which the vertical structure of power allows the executive branch to control both the judiciary and the legislature, thus ensuring that law is dictated by the two presidents.28 Logistically, such a

28. See Steven Levitsky and Lucan Way, “The Rise of Competitive Authoritarianism,” *Journal of Democracy* 13, no. 2 (April 2002): 51-65; and Steven Levitsky and Lucan Way, *Competitive Authoritarianism: Hybrid Regimes After the Cold War* (Cambridge: Cambridge University Press, 2010). According to Levitsky and Way’s typology, Russia is a competitive authoritarian state, whereas Kazakhstan is a noncompetitive authoritarian regime. Other scholars include Russia in the category of “competitive authoritarianism” and Kazakhstan – “hegemonic electoral authoritarianism.” In short, both countries are usually classified as authoritarian, although with some differences in degree. See Larry Diamond, “Thinking About Hybrid Regimes,” *Journal of Democracy* 13, no. 2 (2002): 10. For an alternative approach to analysing the Russian and Kazakhstani political regimes, review Henry E. Hale,
centralised system should have made the Russian legislature and regional leaders much more cooperative in implementing radical welfare reforms. And indeed, the Russian government originally believed that the results would be more impressive than in Kazakhstan. The question then becomes: given a similar political situation in these two countries during the post-communist decade – their similar welfare institutions and policy objectives – why did the social benefits reform succeed in Kazakhstan, but largely fail in Russia?


I argue that the effectiveness of the Kazakhstani and Russian social benefits reform depended on the ability of the authorities to navigate effectively in the sociocultural, economic, political and institutional environment in which it was attempted, steer public debates in the necessary direction, and obtain the desired results from state and non-state actors even under unstable socioeconomic and political conditions. In my analysis, I will emphasise the importance of political leadership, defined as “the relative ability of constituted authorities to recognise societal problems, fashion cogent responses to them, and effectively deliver corrective action, both in reaction to urgent crises and through planning ahead and steering social change.”

This is not to say that institutions did not matter. Public policy-making is rooted in institutions that structure the public policy process and influence the capacity of state actors to frame the issue effectively and to form such policy coalitions, which would further the desired reform agenda. Considering Kazakhstan’s centralised institutional structure and soft authoritarian


regime, one would expect a rather smooth and easy implementation of the social benefits reform due to its non-democratic institutional arrangements, limited legislative pluralism, and absence of strong opposition. While certainly true, one should not forget that the centralisation of Kazakhstan’s political system was finalised only in late 1990s. As some political scientists pointed out, until then, the Kazakhstani political arena was much more open than is generally assumed, with Nazarbaev’s authority challenged on several occasions. Hence, it would be too simplistic to attribute the success of the Kazakhstani authorities in reforming its social benefits system to its authoritarian structure only.

Furthermore, if following this line of argument, one would expect similar effectiveness in the Russian example, especially under the leadership of Vladimir Putin, who centralised Russia’s institutional structure, eliminated the election of regional governors, and systematically worked to weaken the opposition. Such initiatives made the Russian government arguably more cohesive and capable of implementing sensitive policy decisions than during the Yeltsin period. And yet, the Putin’s administration encountered great difficulty in pursuing the legislation in the parliament, where virtually all parties except United Russia opposed the reform. Moreover, the reform was met with massive protests. Thousands of Russian pensioners, war veterans, and


disabled people spontaneously took to the streets to protest the monetisation reform, forcing
the
government to roll back the reform and to double the planned increases to payments. Finally, it
turned out that Putin’s vertical of power failed to make the regional leaders comply with the
reform directives. As a result, members of United Russia supported the reform, while opposition
parties, many regional leaders, and welfare recipients openly opposed it.33

All this suggests that institutional factors can only partially explain the dynamics and
outcomes of the social benefits reform in Russia and Kazakhstan. Therefore, I propose that in
addition to differences in financial and political constraints, and institutional and organisational
capacities, several other factors, including cultural-historical differences and differences in the
quality of political leadership, which I define as the mastery with which the authorities navigate
the environment and are able to form effective policy coalitions and steer public debates in the
desired direction, allow us to make some general conclusions about the success of the social
benefits reform in Kazakhstan and its failure in Russia.

In Kazakhstan, the successful implementation of the social benefits reform was the result
of skilful actions on the part of state authorities, who used the existing situation to frame the

http://www.ntv.ru/novosti/58576/; “V Peterburge prodolzhaiutsia protesty protiv monetizatsii” [Anti-
Monetisation Protests Are Continuing in Saint-Petersburg], Grani.ru, Feb. 8, 2005,
http://www.grani.ru/Society/m.84248.html; S. P. Obukhov, “KPRF vo glave na
rodnykh vystuplenii: piat’ nedel’ aktssii protesta” [CPRF Is at the Front of Public Protests: Five Weeks of Public Protests], Tsentr
issledovaniit politicheskoi kul’tury Rossii [Research Institute on Russia’s Political Culture], Feb. 14, 2005,
www.cipkr.ru.

33. In addition to previous sources mentioned in footnote 32, see also Alina Kalinina, “Pensionery
prodolzhaiat ’sitsevuiu revoliutsiiu’” [Pensioners Are Continuing Their ‘Cotton Revolution’], Utro.ru,
revoliutsiia: ni l’got, ni vinovatykh” [‘The Cotton Revolution’: No Benefits and No One’s Fault], Utro.ru,
zameniat pensionerov v bor’be za l’goty” [The Military Is to Replace the Pensioners in the Fight Against
Alexander Trifonov, “Gosudarstvo gubit invalidov” [The State Against the Disabled], Utro.ru, Mar. 3,
2005, http://www.utro.ru/articles/2005/03/03/413484.shtml; and many more at Utro.ru,
problem and advance the reform’s original objectives, despite the unfavourable socioeconomic conditions. To start with, the absence of strong and popular political opposition to the regime in the mid-1990s facilitated the reform. Even though some political instability existed, it did not fundamentally threaten Nazarbaev’s position of authority. And with further gradual centralisation of Kazakhstan’s political and institutional structures, passing the desired legislation would be the matter of presidential decision. At the same time, the presence of deep economic crisis, a rapidly growing budget deficit, and the pressure of the international financial organisations, which promised financial aid should the Kazakhstani authorities follow their advice and launch radical economic and welfare reforms, limited the choices available to the Kazakhstani authorities in the 1990s.

In this situation, the government decided to launch radical economic reforms and embark on the process of welfare retrenchment. The only possible challenge could stem from welfare recipients. However, the government illustrated its greatest mastery when it seized the momentum and effectively mobilised public debate, framing the issue in ways that resonated with the public and generated widespread support for reform initiatives, a process Robert Henry Cox defined as the “social construction of the need to reform.” By accentuating certain aspects of the reality and specific cultural frames, the Kazakhstani government was able to advance their policy goals without jeopardising the relative social stability in the country. The government emphasised Kazakhstan’s difficult economic situation and called on the Kazakh nomad identities, suggesting that people should fall back on family networks for support, rather than relying on the state. This call resonated well among the rural and traditional Kazakh society with its strong nomadic traditions and family networks.

The timing was also perfect. As Paul Pierson argued in his book *The New Politics of the Welfare State*, retrenchment is more politically feasible when there are real fiscal deficits.\(^{35}\) This was the case in Kazakhstan, where the reform was carried out during a period of deep recession, making the state’s claims for the need of fiscal relief presumably ringing true. In accordance with this logic, difficult economic conditions in Kazakhstan did in fact help the Kazakhstani government to justify the governmental call for radical welfare reform and to ensure that the population and elites accepted the reforms.

By contrast, in Russia, the failure to restructure its social welfare system effectively in the early 1990s had to do with the much weaker political and institutional capacities of the Russian state under Yeltsin and the lack of commitment to reform on part of key political actors. In addition, afraid of the possibility of the Communist Party coming to power during the 1996 presidential election, the West was willing to “buy” Yeltsin another term in office, even if it meant keeping Russia’s old and expensive welfare state unreformed.

When the Putin government finally launched the reform, several other factors, including poor formulation, ineffective framing, and the weak organisational capacity of the Russian state, contributed to poor implementation of the reform, massive public protests, and subsequent reform stagnation. Fundamentally, the political opposition to the reform illustrated the inability of the Russian government to create an inclusive and open policy dialogue, in which the regional authorities would have a chance to participate and raise their concerns. As it turned out, regional opposition to the reform was linked to the nature of Russia’s fiscal arrangements, according to which monetary responsibilities for some benefit categories were passed to the regions as

unfunded mandates.\textsuperscript{36} Knowing that regional budgets would not be able to absorb such fiscal burden, regional authorities opposed the reform. This influenced the dynamics of public debate, as well as the nature of policy coalitions related to the social benefits reform. By contrast, regional resistance was virtually non-existent in Kazakhstan, due to its highly centralised power structure, but also because the government made an effort to redistribute the available funds effectively, passing large sums of money to regions where the percentage of the needy population was especially high.

Furthermore, evidence of massive public protests illustrated the failure of the Russian government to frame the problem effectively so that it would resonate with the public. In the end, this inability to present the issue effectively and thus shape a new reform path resulted in a path-dependent stalemate. Indeed, the message formulated by the Russian policy and expert communities, which tried to sell the benefits reform as creating a more just social system, showing that the old benefit system favoured the non-poor, did not resonate with the people, who expected that they would either lose their benefits or have them replaced with money of uncertain value. In the end, governmental claims of dire financial necessity rang hollow, making both the population and regional elites even more critical of the reform.

In addition, the process of the Russian social benefits reform was undermined due to a number of organisational problems and shortcomings, such as a hasty implementation of the reform, obscure cost estimates contested by various departments, and the exclusion of the middle-level bureaucracy from the process of policy formulation. This created an environment, in which virtually all major actors outside the Kremlin rejected the reform.

In short, I propose that even though various socioeconomic, political, and institutional factors, to a certain degree, did influence the course of the social benefits reform in Kazakhstan and Russia, the capacity of key state policy actors to act cohesively and develop such strategy and policy frame that would resonate with the public and further the reform agenda regardless the various obstacles to the reform ultimately determined its final outcome. In other words, the future of the social benefits reform in Russia and Kazakhstan depended to a larger degree on the mastery of political leadership and on the ability of the leadership to use the momentum to develop an effective policy frame and policy program. Framing offered the policy-makers an opportunity to construct a point of view that encouraged the facts of a given situation to be interpreted by others in a particular manner. It allowed Nazarbaev to set the agenda and control the issue, as well as the discussion and perception of it. With this, he was able to define the problem and its causes in a particular way, thus persuading the public in the need of urgent action and suggesting possible remedies.37

On a broader scale, my argument stresses the importance of political leadership and emphasises the complexity and certain degree of uncertainty inherent in any public policy process, due to the multiplicity of actors involved at various stages of policy formulation and implementation, the varying nature of interactions between them, and the unique socioeconomic, political, and cultural environment and its impact on actors and coalitions. At first sight, such complexity makes any predictions about policy outcomes impossible, suggesting a degree of randomness in how and what kind of policies will be enacted. However, upon closer inspection,

37. The importance of framing in Kazakhstan and the mastery with which it is used by President Nazarbaev is discussed in an article by Edward Schatz and Elena Maltseva, “Kazakhstan’s Authoritarian ‘Persuasion’,” Post-Soviet Affairs 28, no. 1 (2012): 45-65.
one is able to detect a certain degree of regularity and predictability. With this I mean that the future of various policy initiatives depends not only on the constellation of various structural and voluntary factors, but most importantly on the ability of the political leadership to recognise the emerging window of opportunity, create a strong policy coalition, gain the support of the public, and carry out the reform in a timely manner.

In some way, my argument aims to explain the variation in policy outcomes in Russia and Kazakhstan by incorporating the logic of three institutionalist approaches: historical, sociological, and, what Vivien Schmidt calls, “discursive institutionalism.” As a reminder, at the core of historical institutionalism is the interest in the origins and development of the state and its constituent parts, analysed through the logic of path-dependence. Historical institutionalism rests on the belief that the state is not a “neutral broker among competing interests”, but is composed of institutions capable of structuring the character and outcomes of group conflict. Seen from this perspective, policy outcomes are dependent on state capacity and policy legacies. Sociological institutionalism sees the state and the historical conditions in which the state operates as outcomes of much older social and cultural frames, in which political agents act according to the logic of culturally-specific rules and norms. Finally, discursive institutionalism considers the state in terms of the ideas and discourse that actors use to explain,


deliberate, and/or legitimise political action in an institutional context according to the logic of communication.\textsuperscript{41}

In line with historical institutionalists, I argue that common Soviet legacies had a significant influence on the capacity of states to carry out successful welfare reforms, as well as on policy options available to the governments of these newly established post-Soviet countries. For some time, the Soviet legacies determined the continuity of welfare policies in Russia and Kazakhstan, whereas the policy change was facilitated by the formation of the so-called “critical juncture” in the socioeconomic and political development of these two countries.\textsuperscript{42} However, to explain why these critical junctures occurred at a particular time, one needs to look not only at the Soviet legacy, but also at the broader social, political, and cultural context in which policy actors operated. In this sense, sociological institutionalism is helpful, as it argues that cultural institutions set the limits of the imagination, establishing the basic preferences and identity of policy actors, and creating the context within which a particular policy action is deemed acceptable according to a logic of appropriateness.\textsuperscript{43} Finally, discursive institutionalism helps explain the dynamics of institutional change, in our case the dynamics of welfare reform in the two countries. By offering a framework within which to theorise about how and when ideas in discursive interactions enable actors to overcome historical, social, and cultural constraints, discursive institutionalism provides a useful tool for explaining policy change.

\textsuperscript{41} Schmidt, “Reconciling Ideas and Institutions through Discursive Institutionalism.”

\textsuperscript{42} Schmidt, “Institutionalism and the State,” 7.

\textsuperscript{43} Ibid., 12.
1.3. Significance of the Topic

It is hoped that this study will add important details to the central puzzle in the literature on public policy and policy implementation, that is, what factors facilitate the successful policy change, as well as greatly contribute to our understanding of welfare regime transformation in the post-Soviet states.

It is no exaggeration to say that the main debate among scholars of public policy is over the necessary and sufficient conditions for successful policy change. Given the complexity of the topic, scholars tend to emphasise the complexity of the process and multiplicity of the factors that influence public policy-making, with the political, institutional and organisational factors being the key ones in determining final policy outcomes. In addition, scholars, whose main focus is the post-Soviet states, point to the importance of the Soviet legacies in determining final policy outcomes.

I propose that there is more to the story and that the effectiveness of policy reforms also depends on the ability of policy actors to effectively frame the problem, establish an effective communication and build such a policy network that would advance the reform’s objectives despite the complex institutional structure of governments and possible conflict of interest among various actors/groups (which are inevitable, because effective policy-making involves different things to different actors). The importance of agency – in our case, administrative and political actors – is emphasised by the fact that no single institution is usually solely in charge of the public policy process, especially in the case of domestic social welfare programs. Instead, responsibility for implementation is dispersed across various institutions, and it is individual actors who are supposed to create an effective policy frame, communicate with the masses and link together all institutions involved in the public policy process. Thus, I highlight the
importance of agency and suggest that governments that are united in their reform efforts and can meaningfully interpret the given institutional, political, socioeconomic and cultural environments are the most likely to succeed in even unfavorable institutional, political and economic contexts.

In addition, this thesis stresses the impact of ideas and frames on the process of policy-making, where frames are understood as relatively coherent sets of social and cultural symbols and political representations mobilised during social and political debates to frame the issues, shape the public’s perceptions of a particular problem and facilitate the necessary policy change. Because policy makers must justify their political and technical choices, there is a need for “symbols and concepts with which to frame solutions to policy problems in normatively acceptable terms.” Building on the framing literature, this thesis suggests that the effectiveness of public policy-making depends a lot on the strategies political actors develop and the policy frames they utilise to convince interest groups and the population at large to support their policy alternatives. In short, the importance of this dissertation is that it aims to complement the existing body of literature on the post-Soviet reforms and public policy process with a study that emphasises the importance of ideational changes and policy frames in explaining different policy outcomes.

In conclusion, the message of this dissertation is straightforward and simple: ideas, frames, and policy paradigms are important factors, whose significance should be overlooked neither by


policy makers nor policy analysts, for it is these factors that open the window of opportunity for the successful policy change in the first place.

1.4. **Chapter Outlines**

This dissertation is organised into nine chapters. It starts with an introductory chapter, in which I present the research puzzle and introduce the reader to the main argument. It is then followed by Chapter 2, in which I situate the proposed research study within the existing academic literature on comparative welfare state and public policy. The focus of this theoretical chapter will be on the complexity of the public policy process and the role of policy actors, and the importance of policy framing for successful policy change. From this, an analytical framework for the analysis of the social benefits reform in Kazakhstan and Russia will be developed.

The purpose of Chapter 3 is to illustrate how different socio-cultural traditions were carried over into the Soviet and post-Soviet period and shaped the course of the social benefits reform in these two countries. Here I outline the origins of the Soviet welfare state and discuss how the imperatives of industrial growth under the Soviet leadership contributed to the development of a highly hierarchical welfare state, in which the distribution of the social benefits was based on the record of achievements and not social needs. I contend that both the pre-Soviet and Soviet periods left profound legacies, which influenced the course of the social benefits reform in the post-Soviet period.

Chapters 4, 5, and 6 discuss the case of Kazakhstan. In Chapter 4, I will provide an overview of Kazakhstan political and institutional changes following its independence from the Soviet Union. This will be followed by the discussion of the challenges of transition in the economic and state-building realm, and the approach taken by the Kazakhstani government in
dealing with these challenges. Chapter 5 concludes with an overview of the social costs of the transition, focusing on unemployment and poverty trends. In Chapter 6, I will analyse the politics of welfare reforms in Kazakhstan, paying particular attention to the social benefits reform. I will illustrate how the combination of several factors helped the Kazakhstani government to steer the reform in the desired direction.

Chapters 7 and 8 offer the reader an overview of the Russian experience with reforming its welfare system. Chapter 7 will concentrate on the Yeltsin period and explain why the social benefits reform was never properly realised during the 1990s. In Chapter 8, I will discuss the political, institutional, and economic changes in Russia in the aftermath of Putin’s accession to power and then focus on the social benefits reform, its evolution and the causes of its subsequent stagnation.

Chapter 9 synthesises the argument and suggests that authoritarianism, and especially competitive authoritarianism, is not automatically equivalent to effective policy-making. As the two cases illustrate, although several formal and informal institutions, to a certain degree, did influence the course of social benefits reform in these two countries, their success or failure was ultimately determined by the capacity of key state actors to frame the problem and form an effective policy coalition that could further the reform agenda, despite various political obstacles and socioeconomic challenges. In other words, what mattered was the ability of policy actors to establish an effective flow of information between the state and society, and based on this information, to develop a sound policy frame and organise the implementation process. The chapter concludes with reiteration of the main argument and major findings of this study and suggests some possible directions for future research.
CHAPTER 2

PUBLIC POLICY AND WELFARE REFORMS IN THEORY

2.1. Introduction

The goal of this chapter is to offer the reader a brief overview of public policy literature discussing policy change in Western democracies and the post-Soviet countries, as well as to situate the proposed research question within the broader scholarly debate. I will begin this chapter with a brief literature review, which I plan to conclude with a summary of research on social policy in the post-Soviet states. In the next section, I will offer the reader an overview of my analytical framework, including the main research puzzle, the key research questions, the argument, and the policy model that will be used to analyse the social benefits reform in the two countries. Some clarifications of the main concepts and variables used in this research will also be provided.

2.2. Policy Change and Welfare Reforms: Literature Review

Some clarification of the terms and concepts used in this dissertation is necessary. Public policy can be conceptualised as an attempt by the government to address some of the fundamental public issues, such as crime, education, foreign policy, health care, and social welfare. In my analysis of the social benefits reform, I rely on the stages model of policy-making, one of the most widely used models of policy-making, while also one of the most criticised. Over the last 50 years or so, there have been numerous attempts to amend and improve on this initial model of
policy-making with different authors proposing alternative approaches or identifying different
numbers of stages and using different labels to describe each stage. Despite the widespread
criticism of the model and its obvious limitations, scholars often rely on it because of its utility
and straightforwardness. I will not be an exception and will use this model, albeit with some
modifications, in my analysis of the social benefits reform.¹

According to Howlett and Ramesh, public policy process can be divided into five stages:
agenda setting, policy formulation, decision-making, policy implementation, and policy
evaluation.² Public policy starts with problem identification: problems do not a priori exist;
political actors have to be able to identify and articulate them.³ Problems gain the attention of
policy-makers most effectively when available solutions are attached to the identified problems.
Once articulated, problems then move from irrelevance onto the larger political agenda and then
onto more narrowly defined government decision-making agendas.⁴ During this stage, several

¹ On that, I agree with Patrick Fafard, “Evidence and Healthy Public Policy: Insights from Health
and Political Sciences,” National Collaborating Centre for Healthy Public Policy, May 2008,

² The classic stages model of policy-making has been developed by various authors, who
distinguish between four and seven stages in the process. See Michael Howlett and M. Ramesh, Studying
Also, E. Bardach, A Practical Guide for Policy Analysis (Chatham, NJ: Chatham House, 2000); Y. Dror,
Policy-Making Re-examined (San Francisco: Chandler, 1968); H. D. Lasswell, A Preview of Policy
Recent Developments in Scope and Method (Stanford: Stanford University Press, 1951); Harold D.
Lasswell, The Policy Orientation of Political Science (Agra Lakshmi Narain Agarwal, 1971); Roy E.
Jones, Analysing Foreign Policy: An Introduction to Some Conceptual Problems (London: Routlege & K.
Paul, 1970); James E. Anderson, Public Policy-Making (London: Thomas Nelson and Sons Limited,
1975); and Garry D. Brewer and Peter deLeon, The Foundations of Policy Analysis (Homewood, IL:
Dorsey Press, 1983).

³ Joe Wong, Healthy Democracies: Welfare Politics in Taiwan and South Korea (Ithaca: Cornell
University Press, 2004), 20.

⁴ The process of agenda setting was discussed by Roger Cobb, Jennie-Keith Ross and Marc
Howard Ross, “Agenda Building as a Comparative Political Process,” The American Political Science
factors may influence the process, including the country’s social and economic situation, political context, pressure from foreign governments or international organisations, as well as the personal priorities of those in charge of the agenda setting process.\textsuperscript{5} Depending on the constellation of these factors, as well as how the issue is framed, certain policy responses will become more feasible than others. During this stage the complexity of public policy-making is revealed and the limitations of governmental responses to the problem identified. During the next stage, when the policy options available to the policy-makers are outlined, it largely depends on those with the power to make binding decisions on what is to be done, given the range of options available to them, as well as the context within which the proposed program will be implemented. Moving on, the decision-making process can be difficult or simple, depending on the country’s institutional structure and political regime. This refers to both aspects of the decision-making process, when deciding on the general direction of policy response, as well as the choice of policy instruments. During the stage of policy implementation, policies are translated into programs that accomplish their desired effects. Implementation implies execution and realisation of the policy program once the necessary legislative requirements have been met.\textsuperscript{6} During the final stage of the process, implemented policies and their outcomes are systematically evaluated.

The proposed model has its limitations and weaknesses.\textsuperscript{7} Some scholars argued that the proposed sequence of stages is descriptively inaccurate, pointing out that evaluation of already


\textsuperscript{6} Fafard, “Evidence and Healthy Public Policy: Insights from Health and Political Sciences.”


\textsuperscript{7} This classic model of public policy process has been subject to serious criticism. See, for example, Robert T. Nakamura, “The Textbook Policy Process and Implementation Research,” \textit{Review of}
existing programs often affect agenda setting, whereas policy formulation and legitimisation occur at the same time as bureaucrats attempt to implement vague legislation. Others have added that the proposed rational model rested on very idealistic assumptions, and thus had little to do with reality. In practice, public policy process is much more complicated due to multiple actors being involved at different stages of the process, as well as the changing socioeconomic and political context. This is why, in the words of Richard Rose, when formulating and implementing public policy, attention should be paid to both “the sea as well as the ship,” where “the sea is a metaphor for the policy environment, that is, all the forces outside the government that affect what can and cannot be achieved,” and the ship is the policy coalition formed by various state and non-state actors.

Others pointed out that it is often difficult for policy-makers to separate one stage from another, especially during the stages of agenda setting and policy formulation. Furthermore, rarely are policies implemented the way they were originally planned. Finally, the policy-making process is rarely a linear process where policy stages evolve in a particular order. As Patrick Fafard correctly points out, under certain conditions, stages can be skipped or reversed, as was the case with response to SARS in Canada where federal, provincial, and local decision-makers were forced to move quickly to make policy and program decisions with the inevitable


10. Review, for example, Pressman and Wildavsky, Implementation.

mixed results.\textsuperscript{12} Despite its weaknesses, however, the rational public policy model remains a useful analytical tool for helping to understand and manage the public policy process.

Some scholars used the model as a starting point to develop their own models, or focused on specific stages in the model to achieve greater explanatory power. For example, in his book \textit{Agendas, Alternatives, and Public Policies}, John Kingdon developed his policy streams approach based on the classic stages model of policy-making, but limited himself to discussing only the process of agenda-setting, being primarily interested in what factors make implementation of an idea most likely.\textsuperscript{13} Kingdon’s model tries to take into account the complexity of actual reality and thus, does not presuppose any linear evolution of public policies.

Building upon the “garbage can model” of organisational choice,\textsuperscript{14} Kingdon essentially argues that the policy-making process is made up of three streams – the problem stream, the policy stream, and the political stream.\textsuperscript{15} These streams are autonomous, but occasionally converge. When the streams converge, a policy window opens offering advocates of various ideas, known as policy entrepreneurs, a rare and short opportunity to promote these ideas and sometimes even push them onto a decision agenda.\textsuperscript{16} In other words, Kingdon argued that even in this seemingly chaotic process of policy formulation, there is a certain degree of structure. As he stated, “recognition of a residual randomness does not imply that the entire process is nothing

\begin{itemize}
  \item \textsuperscript{12} Ibid.
  \item \textsuperscript{13} Kingdon, \textit{Agendas, Alternatives and Public Policies}, 3 and 225.
  \item \textsuperscript{15} Kingdon, \textit{Agendas, Alternatives and Public Policies}, 87.
  \item \textsuperscript{16} Ibid., 4 and 168-9.
\end{itemize}
but rolls of the dice.”\textsuperscript{17} As Kingdon points out, various constraints, such as budgets or public acceptance, as well as the rationality embedded in the actions of policy entrepreneurs, help to structure the system in predictable ways.\textsuperscript{18} In addition, various political changes, such as a change of administration, re-distribution of seats in parliament, or a shift in national mood indicate potential openings of policy windows in the future.\textsuperscript{19} “Windows sometimes open with great predictability. Regular cycles of various kinds open and close windows on a schedule. That schedule varies in its precision and hence its predictability, but the cyclical nature of many windows is nonetheless evident.”\textsuperscript{20}

Speaking of the three streams, Kingdon points out problems are usually recognised as a reaction to a specific event or factor. Upon recognition, the future of this problem depends on the decision of policy makers who, guided by their values and ideological stance, interpret various factors and events, trying to understand whether a problem in fact exists and deserves their attention.\textsuperscript{21} In such a way, some problems make it onto a policy agenda opening for policy entrepreneurs to promote their solutions.

In the second stream, the “policy stream,” ideas, alternatives, and policy proposals are formulated and promoted to the general public.\textsuperscript{22} Ideas need time and promotion to become a

\textsuperscript{17} Ibid., 189.

\textsuperscript{18} Ibid.

\textsuperscript{19} Ibid., 168.

\textsuperscript{20} Ibid., 186.

\textsuperscript{21} Ibid., 109-11.

\textsuperscript{22} Ibid., 117.
policy. As Kingdon points out, the promotion process often takes years until the public becomes receptive to an idea and is willing to consider it as a viable solution to a particular problem.\textsuperscript{23}

The last stream in Kingdon’s model is the “political stream” composed of such factors as “public mood, pressure groups campaigns, election results, partisan or ideological distributions in Congress, and changes of administration.”\textsuperscript{24} Of these factors, public mood is the key variable affecting the prospects of an idea’s successful implementation. The public mood is the term used to describe “the notion that a rather large number of people out in the country are thinking along certain common lines, that this national mood changes from one time to another in discernible ways, and that these changes in mood or climate have important impacts on policy agendas and outcomes.”\textsuperscript{25} Thus, the public mood, or simply the perception of it on part of the officials, can serve as a vehicle for, as well as a constraint on enactment of some ideas.

Furthermore, the state of organised political forces plays an important role in the process of policy formulation. If there is consensus between various political actors, or at least a balance of support and opposition, regarding the direction on a specific problem, then the entire environment provides an impetus for a specific idea to develop.\textsuperscript{26} By contrast, “if there is intense opposition to a proposal, an advocate will often back off just like a politician facing intense opposition to a contemplated vote.”\textsuperscript{27}

\begin{enumerate}
\item \textsuperscript{23} Ibid., 143.
\item \textsuperscript{24} Ibid., 145.
\item \textsuperscript{25} Ibid., 146.
\item \textsuperscript{26} Ibid., 150.
\item \textsuperscript{27} Ibid., 151.
\end{enumerate}
The policy window opens when the three streams come together at a given point in time. This occurs when a problem is recognised and is coupled with an available solution in a favourable political environment. It is important to note that policy windows do not just open; their opening is facilitated partially by policy entrepreneurs who invest their time and energy in promoting their ideas. These policy entrepreneurs constantly monitor the situation in each of the streams and couple the streams when they sense that the moment arrived. In sum, policy entrepreneurs play a pivotal role in focusing the governmental and public attention on a specific issue and an available solution to it.

To conclude, Kingdon’s model identifies the factors that influence the process of policy formulation and structures them into various streams. This, in turn, helps in estimating the prospects of an idea for a successful implementation, albeit with some degree of uncertainty. An important element of Kingdon’s model is the role of agency. Although he acknowledges that “individuals do not control events or structures,” he nevertheless asserts that individuals are able to “bend [structures] to their purposes to some degree.” Thus, Kingdon views agency as knowledgeable, calculating individuals waiting for a policy window to open and once it opens, to use the momentum to push his/her ideas on a decision agenda.

Of note, such policy entrepreneurs do not necessarily need to be domestic policy actors, but can be part of larger ‘epistemic communities.’ The European Union (EU), the IMF, and the WB could be viewed as constituting such epistemic communities composed of experts that share certain beliefs. As Haas argues, epistemic communities can become “strong actors at the national

28. Ibid., 225.

and transnational level as decision makers solicit their information and delegate responsibility to them. In this way, these policy experts may influence the dynamics of policy debates at the national level and hence also the policy formation on a national level.

It is also important to note that policy entrepreneurs operate in a specific policy context, and hence can potentially face a competing group of actors promoting an opposite idea. That was the point of the advocacy coalition approach developed by Sabatier and Jenkins-Smith in 1993, which will be discussed later on in this chapter. What should be emphasised in this section is that the advocacy coalition framework suggests that there may be several policy coalitions operating in the same policy subsystem promoting different ideas and beliefs. These advocacy coalitions compete for a dominant position in a given subsystem, whereas policy change is then the result of ‘changes in the real world’, ‘turnover in personnel’, and ‘policy learning’. In short, the majority of public policy analysts emphasise the role of actors and their skills and ability to promote specific ideas and beliefs in complex institutional and policy settings. In the next section, I will shift the focus from agency to the role of ideas and policy framing in the process of policy-making.

2.3. Ideas, Policy Discourse, and Political Framing

The role of agency and the importance of ideas, symbolism, and policy framing in facilitating successful policy change, has long been an important subject of research in public policy. This


is because ideas and discourse represent “the background and foreground of political action, which then turns into specific programmes and policies.” According to Vivien A. Schmidt, creating an effective policy discourse is an essential component of any policy-making process. Discourse can take two forms: coordinative and communicative. As she explains, the coordinative discourse takes place among policy actors, whereby they seek to coordinate agreements with others, trying to gain the support of the opposition groups and the bureaucracy. By contrast, the communicative discourse usually unfolds between political actors and the public, whereby state leaders and key policy actors try to frame the problem and sell the proposed policy decision and its rationale to the public.

According to Fiona Ross, the strategic deployment of political discourse and policy framing can save even the least executable of policies. As she states: “Ideas and their political

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34. Ibid.

advocacy do not simply serve as constraints in the welfare restructuring process, buttressing the status quo and locking-in popular welfare institutions. They also drive the reform process.”

Even though the concepts of political discourse and policy framing are closely interrelated, they differ in one fundamental aspect. Juergen Habermas refers to policy discourse as a “reflective form” of communicative action, which rests on the whole body of knowledge in a particular field and uses argumentation as an instrument for maintaining communication and advancing the dialogue. Policy framing, by contrast, is a tool with which policy makers promote specific arguments and points of view. For example, S. Iyengar defines policy framing as “subtle alterations in the statement or presentation of judgment and choice problems.” Deborah Stone conceptualises a frame as “a boundary that cuts off parts of something from our vision.” The notion of framing in political science was built on the assumption borrowed from the field of cognitive psychology that time, energy, and interest constraints make individuals resort to shortcuts when approaching the political world. As Ross suggests, being aware of this natural psychological inclination, politicians can use it to reinforce or change the audience’s choices and to control public discourse and the flow of argumentation. This can be done by specifying a new


policy’s benefits, “linking it with popular symbols, and effectively communicating with the audience.”  

In other words, political re-framing, essentially, is a strategic re-packaging of a problem with the aim of winning the support of the people in order to promote a particular policy solution. Re-framing requires not only excellent political, administrative, and managerial skills, but also an effective use of language and the media. As Deborah Stone notes “definitions of policy problems usually have narrative structure.”  

Maarten Hajer also emphasises the importance of narration, and argues “[w]hether or not a situation is perceived as a political problem depends on the narrative in which it is discussed.”  

According to Stone, policy problems are usually structured as “stories with a beginning, a middle, and an end, involving some change or transformation.” She identifies several types of policy stories, including the story of decline, the change-is-only-an-illusion story, and the story of helplessness and control. A story of decline, in Stone’s words, is meant to send the message that if in the beginning, things were good, now they have become worse, and hence, something must be done about it. In the case of the change-is-only-an-illusion story, the message is that what you see or believe is only an illusion, with evidence illustrating that things are in fact

41. Ibid., 171.


45. Ibid., 138-45.

46. Ibid., 138.
moving in the opposite direction. Another type of story, the story of helplessness and control, sends the message that the situation has always been bad, but since we could not do anything about it, we had to accept it. But now things changed, we know that we can control things. To legitimise the proposed story, policy-makers usually support their message with hard data, as well as illustrate the mechanisms linking cause and effect.

The effect of such policy stories is usually reinforced with the aid of the media. As Henri C. Kenski correctly noted, much political learning today is through mediated political realities, with television being the major source of political education. In his words: “Those problems that receive prominent attention on the national news become the problems the viewing public regards as the nation’s most important, because seeing is believing.” Speaking of how framing is used on television, Iyengar identified two types of framing: episodic and thematic. Episodic news is usually based on a case study or an event, “depicting issues in terms of concrete instances,” whereas thematic frames “place public issues in some more general or abstract context and take the form of a ‘backgrounder’ report directed at general outcomes or conditions.” Thematic framing relies on statistics, hard data, and expert opinions, whereas episodic framing uses stories to illustrate the problem. Both models serve their purpose. Episodic framing allows the viewers to find some personal meaning in the story, but “prevents the viewer

47. Ibid., 142.

48. Ibid.


50. Ibid., 70.

51. Iyengar, Is Anyone Responsible?, 14 and 141.

52. Ibid., 141.

53. Ibid., 14.
from seeing the big picture.\textsuperscript{54} Thematic framing, by contrast, tends to promote political learning and thus, is capable of influencing public opinion more effectively. In the majority of the cases, framers rely on both models to convey their message effectively. In sum, policy stories popularised with the help of the media are important elements of political framing, and help to create a context favourable to the promotion of particular ideas and policy solutions.

Understanding how framing works is essential for policy-makers. Indeed, to comprehend the success or failure of new frames, one must examine not only the tools used to reinforce a particular framing, but also evaluate the cultural, political, and institutional context within which the framing was attempted, because not all frames will resonate with the public. The widespread assumption that citizens will follow whichever frames they hear most frequently and most recently is not accurate, especially when applied to welfare restructuring.

According to Ross, the framing process is more likely to be successful when underlying ideas and policy structures are not wildly incongruous with new initiatives. She suggests that a constellation of four necessary elements determines the success or failure of social policy framing: extant frames, actors, institutions, and the policy arena.\textsuperscript{55} As she points out, in the majority of the cases, framing essentially means re-framing, because receivers of information usually possess an elaborate system of cognitive shortcuts that serve as barriers to new information; a defensive mechanism against numerous framing messages bombarding the public on a regular basis.\textsuperscript{56} Cultural predispositions also play a role, as they produce identifiable patterns of welfare discourse. Nested within these meta-cultural frames are policy-specific

\textsuperscript{54} Kenski, “From Agenda Setting to Priming and Framing,” 74.

\textsuperscript{55} Ross, “Framing Welfare Reform in Affluent Societies,” 169-93.

\textsuperscript{56} Ibid., 173.
frames that “decision-makers use when appraising, selecting, and packaging policy alternatives.” Therefore, to garner the support of the public, new frames must respond to already existing meta-cultural ones.

Another element in Ross’s model is institutions, which provide varied incentives and possibilities for framing. As she notes, in consociational democracies characterised by multiparty systems and broad-based parliamentary coalitions, re-framing initiatives are usually modest, with lesser impact on the older frame. Conversely, in the two-party systems of the English-speaking countries, re-framing initiatives are usually more significant. In addition, the framer’s credibility is important: depending on the problem, some groups or people will be better positioned to re-frame it. Finally, because the existing social policies create several interest groups attached to them, effective social policy re-framing involves recasting the political advantages and disadvantages associated with the old and new policy arena.

In conclusion, even though it is difficult to estimate the precise impact of political framing, politics is essentially about ideas. As Ross states: “Ideas matter to the extent they are successfully diffused and capture the imagination of important sections of the voting public.” To do so they must be presented to the public in a compelling manner. The success of framing depends not only upon leaders’ talents in courting the media and persuading the public, but also on whether extant cultural and policy frames, institutions, policy context, and actors’ own interests are conducive to change. Where cultural, institutional, and policy legacies are

57. Ibid. See also, Donald A. Schon and Martin Rein, Frame Reflection: Toward the Resolution of Intractable Policy Controversies (New York: Basic Books, 1994).


59. Ibid., 174.

60. Ibid., 175-6.

61. Ibid., 188.
conducive to re-framing welfare, political leaders can hope for the success of their framing initiative.\textsuperscript{62}

As evident from this brief overview of the difficulties faced by policy-makers during the process of policy formulation, several factors determine how a particular problem will be presented, as well as what policies will be promoted and later implemented by policy-makers. However, even if the policy-makers succeed during this initial stage of the policy process, it does not mean that the reform will be implemented successfully. Several other factors, important during the implementation stage of a particular policy, may slow down or hinder the reform process. In the next section, I provide an overview of the challenges faced by policy-makers during the implementation stage of the reform.

\textbf{2.4. From Policy Formulation to Policy Implementation: Understanding the Challenges of “Getting Things Done”}

Policy implementation has long been a subject of close scrutiny by many policy analysts and researchers, who were particularly interested in analysing the link between different modes of policy implementation and a final policy outcome. As a result, numerous empirical studies of policy implementation appeared. Most of these studies pointed to the extreme complexity of policy implementation in already established socioeconomic and institutional settings, and expressed a rather pessimistic view about the prospects of new policies being successfully implemented.

Among the first studies that focused specifically on policy implementation was the work by Jeffrey L. Pressman and Aaron Wildavsky titled \textit{Implementation} published in 1973, in which the two authors analysed the failed implementation of an economic development program in the

\textsuperscript{62} Ibid., 188-9.
city of Oakland, California. The example was an interesting one because there had been no opposition to the policy, and many people had tried to make the program work. However, as the authors illustrated, even well-meaning and popular federal programs were often undermined at the state or local level primarily because of the competing interests involved in the process of implementation, which in the end, overwhelmed all the actors, even though many of the conditions to ensure success were present.

Based on this study, Pressman and Wildavsky concluded that “our normal expectation should be that new programs will fail to get off the ground and that, at best, they will take considerable time to get started. The cards in this world are stacked against things happening, as so much effort is required to make them move. The remarkable thing is that new programs work at all.” In their view, the success or failure of policy implementation depended on the efficiency of the bureaucratic procedures meant to ensure that policies be executed as accurately as possible. In turn, the efficiency of these bureaucratic procedures was dependent on an institutional structure within which a particular policy was implemented: in federal states, with their multiple institutional “clearance points” that a program had to pass through and the involvement of multiple actors with differing perspectives on the goals of the reform, as well as the means for achieving them, implementation was difficult and policy change nearly impossible. In addition, the duration of a reform played a role because over time, a policy tended to readjust itself to a particular socioeconomic and institutional environment, thus drifting

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63. Pressman and Wildavsky, *Implementation*.

64. Ibid., 109.

65. Ibid., 98.
away from the reform’s original goals. In sum, Pressman and Wildavsky viewed the time factor, the complexity of institutional structure, and the plurality of actors’ interests as the key variables complicating the process of policy implementation.

Following the work by Pressman and Wildavsky, scholars engaged in a debate over the best approach to understanding and improving the process of policy implementation. In line with the classical rational model of policy-making, scholars, such as Van Meter and Van Horn (1975), Sabatier and Mazmanian (1979, 1983), and George Edwards (1980) viewed policy implementation as a “top-down” process and argued that most of the implementation difficulties could be easily overcome if adequate program design and clever structuring of the implementation process were ensured. As Paul A. Sabatier and Daniel Mazmanian proposed, effective implementation was ensured when 1) policy objectives were clear and consistent; 2) the program was based on a valid causal theory; 3) the implementation process was structured adequately; 4) implementing officials were committed to the program’s goals; 5) interest groups and (executive and legislative) sovereigns were supportive; and 6) there were no detrimental changes in the socioeconomic framework conditions.

In the same vein, Edwards stated that implementation performance was a function of interaction among a number of important variables. These variables included the nature and tractability of the problem being addressed, the institutional, the political and social context in

66. Ibid., 116.


which the policy was to be implemented at both the central and local levels, and the nature of the implementation process itself, including the patterns of internal communication among the responsible agencies; the flow of power relationships among the affected actors; the type of bureaucratic structure; the availability of human, material, and financial resources; and the dispositions and attitudes of implementers toward the reform. The actual effectiveness of implementation depended on the interaction among these variables. In short, the primary message of the top-down approach was that the key to successful policy implementation lay in the structuring of the implementation process.

Needless to say, the top-down approach has been criticised for its focus on central decision-makers and its neglect of other actors in the implementation process. Scholars, such as Michael Lipsky (1980), Hjern and Hull (1982), Hanf (1982), Barrett and Fudge (1981), and Elmore (1979) argued that the top-down approach neglects the role of street-level bureaucrats and various non-state actors in the implementation process. In their view, the success or failure of policy programs depends heavily on whether local bureaucrats supported a particular policy. Lipsky, for example, emphasised the importance of political factors and the role of local bureaucrats in determining final policy outcomes. Lipsky did not separate policy formulation from policy implementation, being more interested in the overall process of how policies were defined, shaped, and implemented. In his view, it was impossible to control the implementation of policy.

69. Edwards, Implementing Public Policy, 7-14.


71. See, for instance, Lipsky, Street-Level Bureaucracy: Dilemmas of the Individual in Public Services.
process from top to bottom. He also questioned the idea that policies were defined at the central level, arguing that local bureaucrats played a very important role at the stage of policy implementation because they were the ones who exercised power over the process of policy implementation. In sum, contrary to the first group of scholars, Lipsky emphasised the pivotal role of the local bureaucracy in determining final policy outcome.

While obviously much more sensitive to the dynamics of policy implementation on the ground, the bottom-up approach had its limitations. Specifically, just as the top-downers were in danger of overemphasising the importance of the centre vis-à-vis the periphery, the bottom-uppers were more likely to exaggerate the ability of the periphery to influence the centre. More specifically, the focus on actors’ goals and strategies – the vast majority of whom are at the periphery – may underestimate the centre’s indirect influence over those goals and strategies through its ability to affect the institutional structure in which individuals operate.

The shortcomings of the two approaches necessitated the emergence of a new conceptual framework for the implementation process, which would synthesise the best elements of the top-down and bottom-up approaches. There were several attempts at building a complex model of

72. Ibid., 13-26.


Arguably, Paul Sabatier and Hank Jenkins-Smith made the most successful one in 1993, when they developed a complex approach to policy implementation, which they titled an advocacy coalition approach (figure 2.1.). They defined advocacy coalitions as a set of “actors from a variety of public and private institutions at all levels of government who share a set of basic beliefs (policy goals plus causal and other perceptions) and who seek to manipulate the rules, budgets, and personnel of governmental institutions in order to achieve these goals over time.” Similar to the bottom-up approach, the advocacy coalition approach rejected the hierarchical nature of policy-making and aimed to explain policy change as a whole. In particular, this model postulated that policy change was the consequence of competition among various advocacy coalitions within a policy subsystem, with the outcome of the competition dependent on a constellation of many internal and external factors. Primary changes were usually the result of perturbations in external events, such as macroeconomic conditions, or the rise of a new systemic governing coalition, which influenced the internal dynamics of the policy subsystem, allowing some advocacy coalitions to use this external environment to their advantage and eliminate obstacles posed by other competing coalitions. However, a productive analytical debate between members of different advocacy coalitions could also produce policy

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76. Sabatier and Jenkins-Smith, *Policy Change and Learning*, 5.

77. Ibid., 5, 48.
The authors defined this factor as policy-oriented learning, that is, when elites from different advocacy coalitions gradually alter their belief systems as a result of formal policy analyses and trial-and-error learning.  

78. Ibid., 48.

79. Ibid., 16, 48.
Furthermore, just like the bottom-uppers, advocates of the policy coalition approach emphasised the importance of local bureaucracy. In the classic rational model of public policy, the role of public servant in the public policy process was considered secondary, limited to offering advice in formulating policies and assisting in carrying out those policies. However, as the proponents of the policy coalition approach suggested, in democracies, public policy process is equally dependent on elected office holders who lend legitimate authority for pursuing specific policies and civil servants who possess “the technical knowledge of government programs necessary for effective policy-making.” Thus, the key factors determining the capacity of the state to launch and implement new policies are the will of politicians, and the support and knowledge of local bureaucracy: “Politics is not only what elected officials want, but also about what can be done to achieve these goals, the expertise of higher civil servants.”

To summarise, the advocacy coalition approach does not view the public policy process as inherently divided into various stages. As evident from figure 2.1., it tries to capture the complexity of the policy process and synthesise the top-down and bottom-up approaches to policy implementation by including a variety of public and private actors involved with a policy problem. It then embeds these policy coalitions within specific social, economic, political, and legal context, which structures the behaviour of policy actors, as well as the process of policy-making. In line with the logic of the rational top-down approach, the policy coalition framework suggests that there is a certain degree of predictability in the policy-making process due to the presence of relatively stable social, cultural, and institutional structures. These structures ensure that there are certain formal norms, objectives, and procedures that guide the implementation


81. Ibid., 411-2.
process in democratic states. At the same time, in contrast to a classic rational top-down approach, the policy coalition approach is more sensitive to the political aspects of policy implementation, especially the role of the street-level bureaucrats, as well as the degree of competition among various advocacy groups. To this date, the policy coalition approach is the most comprehensive approach to policy implementation, capable of introducing some degree of predictability into the complex public policy process.

In conclusion, the previous three sections reviewed public policy literature, paying particular attention to the research on the process of policy formulation and implementation. I started this discussion by examining the classic stage model of policy-making, its strengths, and weaknesses, as well as the importance of this model as a heuristic device used in exploring various public policies. From then on, the focus shifted to the first two stages in the public policy process and focused on the research that tackles the question of what makes policy change possible and centres specifically on the role of ideas, the process of agenda-setting, and the nature and content of the policy program. In the next section, I focused specifically on the actual process of policy implementation and discussed the various characteristics of policy networks, the bureaucracy, and broader political and policy community. This was followed by the presentation of the advocacy coalition approach that treated public policy process in its entirety, taking into account not only the complexity of the institutional and organisational context, but also the dynamics within policy subsystems.

As this review illustrated, public policy process is complex and contingent on various factors that could undermine the prospects for policy change during the initial stages of problem identification and policy formulation, as well as during the actual process of policy implementation. To illustrate this, I will review the literature on social reforms in the post-Soviet states.
2.5. Reform Experience in the post-Soviet States: Literature Review

Several authors, including Kathryn Stoner-Weiss, Linda J. Cook, Timothy Colton, Steven Holmes, Mitchell Orenstein, Andrea Chandler, and others have extensively covered the public policy process in the post-Communist states as seen through the prism of various social and economic reforms. The majority of these authors looked at the reform process through the framework of state (in)capacity to carry out the necessary reforms, where state capacity was defined as “the relative ability of constituted authorities to recognise societal problems, fashion cogent responses to them, and effectively deliver corrective action, both in reaction to urgent crises and through planning ahead and steering social change.”

In his book *The State After Communism: Governance in the New Russia*, Timothy Colton distinguished between infrastructural capacity defined as “the institutional capacity of a central state to penetrate its territories and logistically implement decisions,” and distributive capacity defined as “the capability to supply public goods in the form of government services, promotion of socioeconomic development, regulation of socially costly private acts, and transfers of income and wealth,” arguing that in many instances, the Russian state lacked both.

Institutions were also at the centre of Stoner-Weiss’ research on Russia. She argued that the causes of Russia’s apparent failure to implement its social welfare policies throughout the 1990s lay in its fundamental inability to convey its authority and ensure the implementation of its policies in the Russian provinces, which constituted a weak infrastructural capacity.

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83. Ibid., 8-9.

to Stoner-Weiss, the central state failed to have regional governments comply with central state laws and the constitution, as well as “to actually penetrate society, and to implement logistically political decisions throughout the realm.”\(^85\) This happened because of Russia’s highly decentralised federal structure under Yeltsin, which in combination with the consequences of macroeconomic reforms of the early 1990s, led to the merger of economic elites with regional governments, who then openly resisted the central government’s attempts to tax them and to encourage greater competition in the regions.\(^86\) In the end, this inability of the federal government to penetrate Russian provincial politics and economics throughout the 1990s effectively (infrastructural capacity) impeded the emergence of a truly market-based economy and an effective welfare state (distributional capacity).\(^87\)

Colton, Cook, and Easter agree with Stoner-Weiss that the post-Communist Russian state displayed a serious incapacity to handle a mounting socioeconomic crisis. For instance, Easter points out that during Yeltsin’s period, both the infrastructural and distributive capacities of the Russian state were severely undermined: not only was the central state unable to force compliance from regional elites and increase its tax collections, it also lacked any capacity to introduce and implement a necessary tax reform and to manage its welfare state effectively.\(^88\) Cook, who analyses the causes of Russia’s prolonged pension crises and pension reform stagnation offers similar conclusions: “In the end, it seems that the inability of the Pension Fund

\(^{85}\) Ibid., 9.

\(^{86}\) Ibid., 14.

\(^{87}\) Ibid., 3-5.

and other federal agencies to collect, administer, and allocate funds was the major cause of arrears and low payments.  

To draw some parallels, this point echoes an argument made by Joel Migdal in his famous study of post-colonial states in the post-World War II period. Migdal was concerned with the question of what explained the incapacity of the post-colonial states to have their policies implemented, even though these states could mobilise extensive resources. By weak state capacity, Migdal understood the incapacity of states to penetrate society effectively, regulating social relationships, extracting resources, and appropriating or using resources in determined ways. He defined strong states as those with high capabilities to complete these tasks, while weak states were on the low end of a spectrum of capabilities. Migdal suggested that the capacity of states to implement their policies depended on several factors. According to him, states with fragmented social control, that is, those which were home to social organisations that were alternatives to the state, had weak state capacity. By social organisations, he understood local non-state actors who made the rules at the local level and exercised their power through informal organisations at the grassroots level. The question then was what made the state unable simply to overwhelm these local actors, centralise power in the centre, and thus raise the state capabilities? According to Migdal, the answer to this question lay in the state itself, not

91. Ibid., 4-5. Of note, Migdal places his study in line with the work by Gabriel A. Almond and G. Bingham Powell, Jr., Comparative Politics: A Developmental Approach (Boston: Little, Brown, 1966).
93. Ibid., 25-7.
society, as struggles at the top of the government hierarchy weakened the state. This, in turn, undermined the authority of the state in the eyes of the street-level bureaucracy, who then tended to side with local non-state actors and were generally not interested in advancing state interests at the grassroots level.

Thus, the argument about weak state capacity of the Russian government under Yeltsin made by Colton, Cook, Easter, and Stoner-Weiss echoes the argument made by Migdal about post-colonial states. The decentralisation of the Russian state resulted in a de-facto autonomy of regional elites from the federal centre, who, in the absence of clear central authority, preferred to cooperate with local businessmen and representatives of the criminal world. At the same time, the political confrontation at the top has further undermined the integrity of the Russian state, resulting in weak state capacity and the neglect of federal legislation at the regional level.

According to Cook, the degree of state capacity has also been an important factor in the case of Kazakhstan’s welfare reform, pointing out that “in the authoritarian cases, the strength of state-based stakeholders and their place in the executive’s power base were key to welfare state maintenance or dismantling.”94 As Cook explains, the speed and effectiveness of welfare reforms in Kazakhstan were partially the result of Kazakhstan’s authoritarian system and centralised policy style, which allowed the government to avoid any disputes between different ministries and government agencies and ignore criticism from pensioners’ organisations, trade unions, and so on.95 Operating in a highly centralised authoritarian system, the Kazakhstan policy actors


were insulated from public protests and thus could implement radical welfare reforms without any worries about possible political backlash.\(^{96}\)

In the case of Russia, the situation seemed to have changed under Putin, when the state received a chance to claim back some of its infrastructural and distributional capacities.\(^{97}\) It became possible largely because of a stabilisation of Russia’s macroeconomic and political environments in the late 1990s. Compared to the transitional character of Yeltsin’s Russia, economic stability and a pro-government majority in parliament during Putin’s presidency created favourable conditions for changing the existing institutional rules and reasserting the authority of the central state in the regions. The central state simplified the existing tax structure and reshuffled tax collection responsibilities among different federal agencies. This, in turn, increased the efficiency of tax collection and cleared the way for more comprehensive tax and welfare reforms.\(^{98}\) These changes made the Russian state much stronger and more effective than under Yeltsin. However, as Easter points out, because the process of strengthening state capacities was not accompanied by the process of constructing an effective system of

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96. Linda Cook’s book stands alone in its attempt to analyse Kazakhstan’s welfare reforms. Save for this book and a number of World Bank reports discussing the state of human development in Kazakhstan, no other studies of Kazakhstan’s welfare policies were conducted, leaving the topic largely ignored in academic circles. Scholarly research on Kazakhstan public policy-making has largely been limited to the analysis of Kazakhstan’s economic reforms (i.e., fiscal policies, banking reform, etc.), while the social component was usually left out or mentioned only in passing. For an overview of Kazakhstan’s economic policies, refer to Gregory Gleason, *Markets and Politics in Central Asia: Structural Reform and Political Change* (London and New York: Routledge, 2003); Michael Kaser, *The Economies of Kazakhstan and Uzbekistan* (London: The Royal Institute of International Affairs, 1997); Pamela Blackmon, *In the Shadow of Russia: Reform in Kazakhstan and Uzbekistan* (East Lansing, MI: Michigan State University Press, 2011); Richard M. Auty, “The IMF-Model and Resource-Abundant Transition Economies: Kazakhstan and Uzbekistan,” The United Nations University, WIDER Working Papers no. 169, http://www.wider.unu.edu/publications/working-papers/previous/en_GB/wp-169/files/82530858894434805/default/wp169.pdf.


institutional checks on the growing executive powers of the central state, several other problems were imminent as the government tried to move with its social and economic reforms. In short, Easter stresses the importance of a balanced and well-functioning institutional structure, which would treat all sides engaged in policy process or affected by a particular policy fairly.

Vito Tanzi also emphasises the importance of institutions. Tanzi analyses the Russian tax reform, trying to identify the causes of its remarkable inefficiency and stagnation. The author concluded that the fundamental obstacles that have prevented Russia’s tax system from becoming an effective institution are the unclear definition of its institutional structure, the dispersal of responsibilities for some aspects of the tax administration among many government agencies, the lack of a qualified bureaucratic apparatus, and a lack of resources.

Other scholars, such as David Lane and Linda Cook, agreed with Tanzi on the importance of institutions, but also emphasised the role of historical legacies and social and cultural norms, which are much more difficult to alter than institutional structures. As Cook points out:

The old welfare state has left a legacy of entrenched interests, legal entitlements, institutional practices and attitudes that have proven resistant to [...] reform efforts. Embedded institutions, socially based norms, and inherited expectations have substantially shaped the process of Russian social policy reform, and have limited attempts to transfer or transplant Western institutions and policies even when the old system is clearly dysfunctional.


101. Ibid.


According to Cook, the greatest challenge to the successful implementation of Russia’s welfare reform was the legacy of old social norms, such as the expectation of the population that the state should also further provide for basic needs: employment, housing, and health care. This expectation continued even when the people were given the opportunity and incentives to act independently. Additionally, resistance to the welfare reform was embedded in the complex system of laws and legislation that remained almost unchanged since Soviet times. Given such an unreformed institutional structure and the legacy of Soviet social values, the chances of reforming the Soviet welfare system were highly questionable. ¹⁰⁴

Andrea Chandler made a similar argument in her book *Shocking Mother Russia*, in which she analysed Russia’s pension reform between 1990 and 2001. Chandler argues that Russia’s pension reform has been impeded by a set of historic, political, institutional, and attitudinal factors. As she summarises her argument:

The pension crisis in Russia was not simply the result of economic crisis or a case of politicians’ neglect for social welfare. Rather, it was the result of a combination of many different factors. First, the political polarization between the Russian executive and the parliament contributed to paralysis in pension reform. Second, the pension crisis was the product of a complex set of institutional failures – of difficulties in creating effective institutions, in harmonizing the goals and functions of various governmental branches, and in resolving the contradictions of the federal system of governance that were inherited from the Soviet Union. Third, although there had been a strong government push for pension reform since 1994, there was a shortage of commitment to pursuing and implementing reform – a shortage that began at the very top of the Russian government hierarchy. ¹⁰⁵

In short, Chandler emphasises the role of the Soviet legacy, institutional deficiencies, and political struggles that hindered the process of implementation of social welfare reform in Russia in the early and mid post-Soviet period. At the same time, she believes that Russia’s pension

¹⁰⁴. Ibid.

reform had a real chance to succeed in 2001, due to a much greater commitment to reform on part of the major political actors involved in the process of its implementation.106

The emphasis on the state as the key actor in the public policy process, whose transactions with other actors are embedded in a particular cultural, social, and political environment has been echoed in studies of social and economic policies in other post-Soviet states. As John Eatwell et al. noted in *Hard Budgets, Soft States: Social Policy Choices in Central and Eastern Europe*, “low state capability in many countries of the Commonwealth of Independent States is a serious and mounting obstacle to further progress in most areas of economic and social policy.”107

As I have illustrated in this review, the majority of scholars who analysed social and economic reforms in the post-Communist states explained policy outcomes by looking at the state, institutional contexts, the Communist legacies, and the politics of welfare reform. Yet some studies endeavoured to steer scholarly attention toward the role of street level bureaucracy in particular, thus echoing the bottom-up approach in public policy studies. Scholars like Jean-Claude Garcia-Zamor and Kalmar Kulcsar discussed public policy process in Eastern European countries and argued that in unstable institutional settings overburdened by Communist legacies, the fate of reforms was primarily dependent on the level of commitment to reforms on the part of the bureaucracy. As they pointed out, the commitment of the bureaucracy was important, because in post-Communist states, bureaucrats filled several functions – political, administrative, and legislative. This meant that along with such classic administrative responsibilities as regulation and implementation, post-Communist bureaucracies also created rules, determined

106. Ibid., 157.
policy goals, distributed resources, and controlled the implementation process. Some Western scholars pointed out that such practices in a sense resembled the experience of Western democratic governments, wherein public officials were often delegated with the task of creating operational rules to carry out the proposed legislation. There were, however, fundamental differences in the application of these rules: in post-Communist states, regulations were designed and applied more arbitrarily, whereas in Western democracies, there were more likely to be included in legislation. Given such a monopoly over the implementation process, post-Soviet bureaucrats could easily stop any policy initiative by way of complementing general regulations with more detailed unofficial rules regarding the organisational aspects of the policy process. Thus, in the post-Communist states, support of reforms by the bureaucracy was much more important than in stable democracies.

Kulcsar explains that to some extent, such arbitrary practices were a legacy of the Soviet economy. In light of the frequent shortages of goods, increased regulation by bureaucrats was required to manage their distribution. This overregulation increased the importance of bureaucrats and personal contacts (blat), and bred corruption and clientelism. The post-Soviet


110. Ibid., 25-6.


112. Ibid., 596.
bureaucracy preserved their Soviet characteristics and displayed an excessive tendency to over-regulate the process of policy implementation, thus fully controlling the path of reform. Quite often, the success of a policy program depended solely on the willingness of local bureaucrats to carry it out.

Several conclusions can be made from this review. Perhaps one of the greatest problems with analysing reforms in the post-Soviet states is the overpowering legacy of the Soviet past and lack of consolidated institutional structures and established policy networks and policy communities. Referring to such unstable environments, scholars have emphasised the importance of states as key actors in carrying out reforms and determining final policy outcomes. State capacities have depended on the existence of viable and efficient institutions, for “without well-functioning institutional nuts and bolts, there is no way of ensuring that a beautiful policy will work as intended, and that it will work fairly for all.”113 At the same time, the realisation was there that even with the adoption of new institutions, a danger remained that some old practices would survive and act as constraints in the period of policy implementation. As a result, the majority of authors who have analysed policy-making in post-Communist states agreed on the importance of building stable institutions as the key variable in ensuring policy success, but also emphasised the legacy of Communism as a possible explanation for the inefficiency of many policy programs across the region. They shared a common emphasis on such variables as state capacity, institutional structure, historical legacies, social and cultural norms, the dynamics of discourse, and power politics, albeit attributing varying degree of importance to each single variable. Alfrio Cerami succinctly summarised this point stating that:

Ideas, interests and institutions are as interlinked as their relations with the actors involved in the process of institutional change. Institutions delimit the arena where the

battles for change take place, interests crystallize the individuals’ and institutional dominant concerns, while ideas provide the substantive reasons for immediate action (or inaction). Ideas, interests and institutions are, thus mutually permeated. Policy action aimed at institutional change can only occur if situated in a clear institutional context (it would be impossible in an institutional limbo of procedures), if meeting specific vested interests and if corresponding to previously agreed set of ideas. The process of institutional change becomes, in this context, a highly relational and organisational process, since it involves a continuous recombination of existing relationships between the actors and the environment in which they are embedded.\textsuperscript{114}

Given the complexity of the problem, the next section will focus on developing an analytical framework, which will be used in this research. I will also define the key variables and concepts.

2.6. What Drives Policy Change? – Developing a Framework for Analysing the Social Benefits Reform in Kazakhstan and Russia

As I discussed earlier in this dissertation, following the collapse of the Soviet Union, Kazakhstan and Russia inherited an identical welfare system, which offered its population nearly universal welfare coverage, as well as numerous social privileges for selected groups of people as a reward for loyalty, hard work, and/or military service. However, the principles upon which the Soviet welfare system rested, as well as the costs of maintaining it during the time of economic crisis and liberal economic reforms made it rather unsustainable both economically and ideologically. The complexity of the situation was compounded by the fact that the reforms were accompanied by radical changes in the political system of the two countries. As a result, the governments in many post-Soviet countries found themselves trapped between the necessity to downsize and restructure their expensive and ineffective welfare states, and the expectations of their citizens that the new governments would continue to oversee their welfare responsibilities. Forced to

\textsuperscript{114} Alfrio Cerami, “Mechanisms of Institutional Change in Central and Eastern European Welfare State Restructuring,” 37.
govern under conditions of deep economic crisis, the leaders of the post-Soviet countries had to find ways to navigate this complex environment in order to minimise the risk of social instability or electoral defeat.115

In 1994, the Kazakhstani government went on to retrench the existing system of welfare privileges radically. Later on, the retrenchment initiative was accompanied by fundamental restructuring of the welfare system and the development of the targeted social assistance program. By contrast, in Russia, the failure to restructure its social benefits system during the 1990s was rooted largely in the political instability of the Yeltsin era, and a lack of commitment to the reforms on part of key political actors. And when the reform was finally launched, significant regional opposition, widespread public protests, and organisational weaknesses led to subsequent reform stagnation.

This said: this dissertation is an attempt to understand the causes for the divergent policy outcomes in Russia and Kazakhstan. The dissertation addresses two questions: What factors explain the success of the social benefits reform in Kazakhstan and its apparent failure in Russia? How are we to explain the effectiveness with which the Kazakhstani government made the ideational change possible and the social benefits reform acceptable to the public, as opposed to Russia, where the majority of societal actors rejected the reform? The second question is related to the process of policy implementation and deals specifically with the Russian case, where the reform failed to lead to the desired results. What weaknesses in the implementation process contributed to the slow and protracted implementation of the reform?

The proposed research is a comparative case study using the most-similar-systems design. The Soviet period left a relatively similar imprint on the two countries and determined the challenges faced by these two countries in the post-Soviet period. Having similar antecedent conditions and identical social benefits reform makes analysis more rigorous and analytically sound. Arguably, the only problem which could complicate this comparison is related to the different institutional structures in these two countries. To be more specific, although Russia and Kazakhstan share many similarities, such as a common Soviet past, a comparable nature of super-presidential politics, similar welfare systems prior to the introduction of the reforms, and most importantly, the almost identical character of the social benefits reform, the two governments operate within different institutional structures: Kazakhstan is a unitary state, whereas Russia is a federal republic.

Theoretical literature postulates that unitary states are more likely to arrive at coherent and efficient policy outcomes due to the smaller number of veto points that a policy has to pass until it is actually implemented. In federal states, authority is divided between at least two levels of government, federal and regional, thus creating an additional layer of institutional actors and multiplying the number of veto players who can block the adoption or implementation of a given policy. Indeed, the Russian federal system did influence the public policy process. Under President Yeltsin, regional governments possessed significant political autonomy from the centre, which allowed the regional elites to resist any attempts to restructure the existing fiscal and welfare systems. With the arrival of Putin, however, Russia’s federal system has become

increasingly centralised. The institutional reforms launched by President Putin in 2001 aimed at building “executive vertical,” and were described as a process of streamlining the existing model of governance from the president to local executives, with the goal of making it efficient and manageable. Indeed, Putin’s recentralising initiatives, such as the creation of Federal Districts and appointment of Presidential Representatives, as well as the ability of the president to remove regional chief executives and to disband regional legislative bodies should they violate the Constitution and federal laws, have been partially effective in restoring the nationwide application of federal authority and bringing Russia closer to being a normal federal state. As some observers have argued, these initial recentralisation initiatives helped to speed up the reform process in such sectors as the economy and welfare system.117

However, combined with later initiatives, such as the September 2004 decision that henceforth the leaders of Russia’s regions would be appointed not elected, these recentralisation measures have de-facto abolished federalism and turned Russia into a unitary state. In addition, starting in 2001, the government has pushed for fiscal centralisation in an effort to consolidate its power further over federal subjects. Following the implementation of the 2001 Tax Code, the entire revenue from the value-added tax (VAT) belonged to the federal treasury, while regions were denied the right of retaining 15 percent of the VAT revenue enjoyed before.118 These changes in the VAT collection policy gave the central government more leeway in reducing differences among regions in terms of fiscal resources. However, they have significantly


curtailed the fiscal autonomy of the regions, making some of them heavily dependent on federal transfers. These changes suggest that while being a federal state, Russia operates as a de-facto unitary system. It means that the problem of comparing two countries with different institutional structures can in fact be easily accommodated within the proposed research framework and should not be considered a significant obstacle.

The proposed research is built on the classic stage model of policy-making. At the same time, I emphasise the difficulty of differentiating between the stages of policy formulation and implementation in these two countries, particularly in Kazakhstan. This difficulty is related to the highly unstable institutional context, within which the reform unfolded, which resulted in the iterative and non-linear interactions among legislative and executive authorities and local bureaucracies in these two countries. Given the complexity of the reform, as well as the sensitivity of the proposed solution, implementation of the reform required not only the technical expertise and proper execution of orders passed from the top, but also a great deal of political mastery from the authorities. Therefore, it appears problematic to draw a clear borderline between the stages of policy formulation and implementation. Figures 2.2. and 2.3. illustrate the model of policy-making used in this research, and identify the key variables and factors that help to explain the reform outcome.
### Figure 2.2. Model of Policy-Making

<table>
<thead>
<tr>
<th>Problem Formulation</th>
<th>Policy Formulation / Implementation</th>
<th>Policy evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflict between welfare obligations inherited by the new states after the USSR disintegration and fiscal constraints incurred as a result of deep economic crisis</td>
<td>- Policy debates among various interest groups (policy coalitions) - Identification of policy objectives - Design of implementation strat. - Selection of one dominant strat. among a number of competing proposals</td>
<td>Policy implementation: 1. Policy outputs of implementing agencies 2. Response to policy outputs by target groups 3. Actual policy outputs following their contact with target groups agencies 4. Perceived policy outcomes on the part of the implementing agencies</td>
</tr>
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As a reminder, I define policy formulation as a process during which various policy actors discuss the problem at hand, identify policy goals, and choose a strategy/program from among various alternatives with which to achieve the goals. Policy implementation is thus a process by which policies are translated into programs that accomplish their desired effects. Implementation implies execution and realisation once the basic conditions required by the legislation have been met.\(^{119}\) I do not claim, however, that successful policy implementation equals perfect execution of original policy goals. In fact, to be successful, policies require some adaptation to the realities and “unanticipated consequences” which policy framers can never see completely.\(^{120}\)

I define ‘policy outcome’ as the policy that replaced the old one after all relevant policy actors have exercised whatever powers they have over implementing the new policy. However, as I stated earlier, it is rare for newly implemented policies to correspond fully with the reform’s original objectives, and even successful and effective implementation does not guarantee that the reform will achieve the desired ends. This considered, in this research the concept of a policy

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\(^{120}\) Ibid., 3.
outcome will be seen from the perspective of whether there was any positive change in the initial conditions after reform has been implemented. The problem with this conceptualisation, of course, is what to count as a policy change. Any particular policy change in the eye of one beholder can be trivial, while in the eye of another, it can be huge. This makes the question of policy change versus continued policy stability almost unanswerable. To overcome this problem of operationalisation, in this research, any policy change will be judged relative to the overall pattern of policy stability and change within a particular policy arena.

It is even more difficult to decide whether a particular reform was successful or not, given a normative component to defining success. In other words, did a reform help to improve the original conditions, have a negligible impact, or worsen the original conditions? This question raises several others, such as whether we should evaluate policy success in the short-term or long-term. As well, should success be measured relative to similar reforms in other countries, or is such a comparison useless due to context-dependent criteria of success? Finally, the evaluation of reform success in Kazakhstan and Russia depends on individual experience. If we speak to ordinary recipients of welfare services, then we would likely hear strong criticism of the implementation process and the outcomes of welfare reforms, thereby giving the impression that Kazakhstani and Russian welfare reforms were a colossal failure. By contrast, there is no consensus among scholars on the question of whether the Kazakhstani and especially the Russian welfare reforms were a success or a failure.

Given such difficulty with operationalising the dependent variable, this research will rely on a straightforward understanding of public policy process and outcomes. Specifically, policy
Figure 2.3. Policy Implementation in Russia and Kazakhstan

Context

Stable context
- Culture
- Social structure
- Soviet welfare state

Unstable context
- Economic situation
  - Economic crisis
  - Economic reforms
- Institutional framework
  - Institutional reforms
- Political context
  - Stability of the ruling elite
  - The strength of the political opposition

Time factor
- How appropriate is the reform under given circumstances?

Ideas
- What ideas are popular and propagated by the IMF and WB?

Policy Arena

Policy formulation / Policy Implementation

Actors
- Leading policy coalition
- Bureaucracy
  - Opposition groups in parliament
  - Recipients of welfare benefits/services

Policy options
- Retrenchment
- Restructuring
- Status quo

Problem formulation and policy debate followed by the formulation of policy options

Policy program
- Design of implementation programs and selection of one preferred strategy
- Plan of action: Assessment of actors and resources needed for the implementation of the selected policy

Policy tools
- Political framing
- Political persuasion and brokerage strategies

Implementation structure
- Institutional context
  - Leadership
  - Authority patterns within the executive branch
  - Control of the bureaucracy
- Financing of the reform

Implementation tools
- Incentive structure
- Enforcement mechanisms
- System of monitoring

Policy outcome

Were the proposed policy objectives met?
outcome will be viewed as the end product of policy implementation. It will be assumed that a final policy outcome will emerge through formulation and implementation of a series of decisions of varying degrees of importance, that is, incrementally. The degree of policy change will be determined based on the comparison of expected and actual policy outcomes. In both case studies, the expected policy outcome was a fundamental policy change, which presupposed a complete restructuring of the entire welfare system. However, given the complexity of the implementation process and the difficulty of reaching the desired outcomes, it would be unwise to deem a welfare reform as unsuccessful if it failed to restructure the existing system radically. This is because in the long run, the reform may lead to fundamental changes, which one could not have foreseen when assessing it. Thus, when deciding whether a particular reform could be qualified as successful, I will rely on my knowledge of public policy processes in comparative and more specifically, post-Soviet contexts. Based on this knowledge, a policy change will be considered successful if, within a reasonable period of time, it was able to re-structure the existing welfare system so that it would fit the new economic environment and minimise the fiscal burden faced by the state, while leaving some of the state’s fundamental social responsibilities in force.

Having discussed the dependent variable and the model of policy-making, let me briefly touch upon the definitions of the main contextual and explanatory variables used in this research and outlined in figure 2.3. By stable context I refer to slowly changing variables, such as culture, social norms, and social environment. The socio-cultural norms can be described as informal institutions, defined by Douglass North as unwritten codes of conduct.121 In the same vein,

Helmke and Levitsky described informal institutions as socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels. As with formal institutions, social norms and cultural traditions prescribe how people should behave in society by creating a particular socio-cultural environment. In this sense, it is interesting to analyse the Kazakhstani government’s efforts to promote Kazakh traditional culture and East Asian values characterised by strong family ties. This strategy was required to recreate a specific socio-cultural environment in which relying on the state for social protection would be considered socially unacceptable. The strategy served two goals: to facilitate further socioeconomic restructuring and to protect the government from possible social instability following implementation of the reform. In short, I will analyse how successful the Kazakhstani and Russian governments were in framing the existing social benefits reform in line with traditional socio-cultural norms, and whether this strategy helped the authorities in weakening the Soviet welfare legacy and implementing the reform.

Figuratively speaking, socio-cultural norms and traditions can be viewed as a so-called “thick” structure, which is slow to change. The context within which the reform unfolded, however, was also defined by a “thin” structure, which is easier to change and is sometimes very unstable. Here I refer to the economic, institutional and political context, in which the social benefits reform unfolded. In particular, the economic crisis accompanied by liberal reforms created a very unstable environment, in which the relationship between the owners and employees was poorly regulated, the level of unemployment dramatically increased, and the system of social protection experienced serious systemic disturbances. The political context was

equally unstable, especially under the leadership of Boris Yeltsin. As Andrea Chandler emphasised in her book, the lack of political initiative hindered the process of implementation of social welfare reform in Russia in the early and mid post-Soviet period. The reform received a second breath with the arrival of Vladimir Putin who has shown a greater commitment to change. In other words, the political context within which the reform was implemented requires close attention and will be assessed through the analysis of the predispositions of major political actors toward the reform, the stability of the political situation, and the degree of political polarisation in a society.

The politics of the social benefits reform, as well as the process of its implementation were also determined by the dynamics of the relationship among various policy actors, including policy networks supporting and opposing the reform, and the bureaucracy involved in the process of policy implementation. Most scholars define a bureaucracy as a set of people who happen to be public employees, either in the upper or lower echelons of power. In trying to conceptualise the position of bureaucracies in a society, two different approaches can be identified. The first approach stems from the Weberian rational conceptualisation of bureaucracy, which defines it primarily as an administrative tool, a mechanism created for the successful and efficient implementation of a particular goal. Harold Laski proposed the second approach that postulates that bureaucracy is an agency that is primarily interested in expanding


its powers beyond the areas of its primary occupation, to the extent that democratic institutions can no longer control it.\textsuperscript{126}

The existence of such contradictory concepts of bureaucracy points to the various possibilities inherent in the nature of a bureaucratic organisation. The direction in which a particular bureaucratic unit will develop depends on the environment within which it has been formed, including political and social context.\textsuperscript{127} In turn, the degree of bureaucracy’s involvement in the process of program formulation and its further implementation, as well as the degree of bureaucratic professionalism are important aspects determining the success or failure of welfare reforms.

Finally, I will also analyse the different institutional structures of the Russian and Kazakhstani states and explain how these differences might have influenced the policy choices and implementation strategies available to the policy actors. Defining institutions may be problematic as they have been conceptualised in a variety of ways. Williamson defined institutions in terms of governance structure, whereas North conceptualised institutions as man-made constraints that shape human interaction. Ostrom, meanwhile, thought of institutions in terms of rules that prescribe which actions are required, prohibited, or permitted.\textsuperscript{128} Despite these definitional differences, most authors agree that institutions shape interactions among individuals, as well as determine policy outcomes, prescribe actions, construct motives, and

\begin{itemize}
  \item \textsuperscript{126} Ibid., 303.
  \item \textsuperscript{127} Ibid., 304, 307.
\end{itemize}
assert legitimacy.\textsuperscript{129} Thus, the following aspects of the institutional structure will be analysed: (1) the nature of constitutional arrangements, that is, is the country parliamentary, presidential or semi-presidential, federal or unitary; (2) the degree of its institutional centralisation; and (3) the degree of formalisation of legal accountability procedures, defined as the degree of reliance on the rules when executing the directives.

Speaking of the research timeframe, I began working on this project in 2006 when I went on my first research trip to Russia. The primary purpose of this trip was getting better acquainted with the content of reforms, as well as the context within which they were initiated. The main objectives of this pilot fieldwork were getting access to the Russian and Kazakhstani periodicals covering the issues of social welfare reform, making some preliminary contacts with Russian and Kazakh scholars working on similar issues, and collecting any other periodical or academic information, which is relevant to my research, but hard to obtain in Canada. My second fieldwork occurred in the spring of 2008, when I spent considerable time in Moscow, St. Petersburg, and Astana working in the libraries and interviewing a number of policy-makers, journalists and welfare recipients.

The following sources have been collected during the two research trips: official legislative documents; reports published by the Russian Ministry of Health and Social Development; the Kazakh Ministry of Labour and Social Protection; and the State Statistics Committees of the two states. The Russian National Library, the Library of the Academy of Sciences in St. Petersburg, and the National Library of Kazakhstan proved to be very useful for collecting information from printed media, including results of various public opinion polls, interviews with governmental

officials in the executive and legislative branches, official press releases published by the Russian and Kazakh press, and so on.

As part of my research, I have conducted 22 interviews with federal and regional policy-makers, public employees and welfare recipients. Most of these interviews were conducted in Russia. Locating potential Kazakhstani interviewees was more difficult than I expected. Since the time when the reform was launched, the Ministry underwent a series of reshufflings, which complicated the process of interview collection. I compensated for the shortage of interviews with the Kazakhstani politicians and public servants by collecting interviews from a number of Kazakhstani civil society activists, scholars, and leaders of oppositional forces. Combined with my extensive collection of printed information, I had sufficient material upon which to build and develop my argument.
CHAPTER 3

THE ORIGINS AND EVOLUTION OF THE PRE-SOVIET AND SOVIET WELFARE ARRANGEMENTS

3.1. Introduction

The purpose of this chapter is to illustrate the differences in the Russian and Kazakh socio-cultural background, and to describe the evolution of the Soviet welfare state. I will begin by discussing the historical origins of the Russian and Kazakh social traditions, the role of the state in the provision of social care in pre-Soviet Russia, and the importance of clan structure for the provision of some kind of social protection to the Kazakhs. I will illustrate how these traditions were carried over into the Soviet and post-Soviet period. Finally, this chapter will analyse how the imperatives of industrial growth under the Soviet leadership contributed to the development of a highly hierarchical welfare state, in which most social benefits were distributed based on merit and not social needs. I will argue that all these periods left profound legacies that influenced the course of the socioeconomic and political reforms in the post-Soviet period.

3.2. Overview of the Social Care System in Imperial Russia

The origins of the Russian welfare system date back to the 10th century, when some basic forms of social care were developed, with nobility and clergy, inspired by Christian principles, actively
participating in charity work. According to the available historical accounts, the Russian state first became involved in social welfare during the reign of the Grand Duke Vladimir I, who ruled from 978 to 1015. Following his conversion to Christianity in 988, Vladimir became a devoted philanthropist. In 996, he issued the poor code and made the Church responsible for the provision of social care to the poor, aged, sick, and disabled. The Church administered private charitable contributions that it received from the tsar and other wealthy people and distributed social assistance among the poor. Such Church-based charity work, however, did not alleviate the plight of the Russian poor. As Madison points out, “charity became much like a commercial transaction: the giver bought salvation for his soul from the receiver, without concerning himself with the fact that those too proud to beg were passed over.”


3. Ibid.

4. Ibid. See also A. Stog, “Ustav kniazia Vladimira (Sviatogo) o popechenii i nadzore za tserkovnymi lud’mi” [Order of Prince Vladimir (the Saint) on Social Care and Supervision of the Church People], in Istoriia sotsial’noi raboty v Rossii, 16-7.

5. See, for example, the following sources: “Pravila o tserkovnykh liudiakh (XIII v.)” [Regulations on the Church People (XIIIth Century)], in Istoriia sotsial’noi raboty v Rossii, 17; “Russkaia pravda prostrannoi redaktsii” [The Lengthy Version of the Russian Truth], in Istoriia sotsial’noi raboty v Rossii, 17; “O monastyrskom prizrenii nishchikh” [On the Cloistral Protection of the Poor], in Istoriia sotsial’noi raboty v Rossii, 19. See also, E. Elbakian, “Traditsii miloserdiia v istorii russkogo pravoslaviia” [Charity Traditions in the History of the Russian Christianity], in Istoriia sotsial’noi raboty v Rossii, 180-3; “Osnovnye modeli sotsial’noi pomoshchi v Rossii” [The Basic Schemes of Social Assistance in Russia], in Istoriia sotsial’noi raboty v Rossii, 105-111; Madison, Social Welfare in the Soviet Union, 3-4.

In short, even though the Russian system of social assistance emerged as early as the 10th century, the absence of formal welfare institutions resulted in the fact that all charitable activity was spontaneous and based on residual principles. As a result, it failed to provide an effective solution to the problem of poverty.

With the arrival of the Russian Emperor Peter the Great on the throne (1682–1725), the state acknowledged its obligation to care for the poor. During his reign, several state welfare institutions were created, whereas the Church seized the opportunity to play a controlling role in welfare affairs. Peter’s welfare activities had four basic aims: relief for the “honest poor,” combined with the rooting out of professional begging; providing for veterans; care of illegitimate children; and the securing of increased revenues for charitable purposes. In 1720, Peter demanded all cities to register their poor, sick, aged, and orphaned, with the goal of understanding the extent of the nation’s poverty and finding ways to alleviate it. The outcome of this initiative, however, remained unclear due to the inconsistency and scarcity of the available information.

7. “Osnovnye modeli sotsial’noi pomoshchi v Rossii” [The Basic Schemes of Social Assistance in Russia], in Istoriia sotsial’noi raboty v Rossii, 106.


9. Ibid., 5.

10. Ibid.

11. M. Sokolovsky, “Petr Velikii kak blagotvoritel’” [Peter the Great as Charity Provider], in Istoriia sotsial’noi raboty v Rossii, 233-4.

12. Ibid., 235.
At the same time, all Peter’s measures aimed at poverty alleviation were accompanied by ruthless repression and punishment for unauthorised begging.\textsuperscript{13} It was more than telling that the police controlled and administered the system of poor relief, leading many to equate poverty with criminality.\textsuperscript{14} Starting in 1718, unauthorised begging was prohibited, whereas all beggars were required to have an official letter allowing them to beg alms, and those caught begging without such a letter were beaten with lashes and sent to labour camps.\textsuperscript{15} Moreover, all direct almsgiving was penalised with stiff fines; all donations had to be given to monasteries and churches.\textsuperscript{16}

In short, Peter’s welfare activities rested on three basic principles: (1) the “honest” poor must be assisted; (2) aid must be differentiated and based on the needs of the recipient; and (3) the central government must regulate the welfare sector and specify punishments for noncompliance.\textsuperscript{17} In practice, however, all Peter’s attempts to develop a basic system of social protection produced few changes to the situation of Russia’s poor, and in some cases, as with the beggars, even worsened it.

Later rulers of Russia modified Peter’s welfare programs and softened the repression mechanisms. For example, Catherine the Great re-assigned the control over welfare programs

\textsuperscript{13} E. Maksimov, “Istoriko-statisticheskii ocherk blagotvoritel’nosti i obshchestvennogo prizrenia v Rossii” [The Historical-Statistical Overview of Charity Work and Social Assistance in Russia], in \textit{Istoriia sotsial’noi raboty v Rossii}, 139-48.

\textsuperscript{14} Madison, \textit{Social Welfare in the Soviet Union}, 5.

\textsuperscript{15} Sokolovsky, “Petr Velikii kak blagotvoritel’” [Peter the Great as Charity Provider], 233-4.

\textsuperscript{16} Madison, \textit{Social Welfare in the Soviet Union}, 5-6; Sokolovsky, “Petr Velikii kak blagotvoritel’” [Peter the Great as Charity Provider], in \textit{Istoriia sotsial’noi raboty v Rossii}, 234.

\textsuperscript{17} Madison, \textit{Social Welfare in the Soviet Union}, 6.
from the police to local authorities.\textsuperscript{18} Later on, Alexander I (1801–1825) allowed the establishment of voluntary charitable associations, which resulted in a significant increase in the number of charitable organisations from 24 in 1856 to more than 14,000 by the end of the 19th century.\textsuperscript{19} Finally, Alexander II (1818–1881) replaced ineffective prikazy (local administrative offices) with 
\textit{zemstvos} (rural self-governing bodies) on district and provincial levels.\textsuperscript{20} He made 
\textit{zemstvos} responsible for all issues related to welfare, viewing them as an effective mechanism for addressing the needs of the most disadvantaged. Together with the significant increase in the number of charitable organisations, the creation of 
\textit{zemstvos} gave new impetus to community efforts to assist the poor.\textsuperscript{21} These efforts, however, were not enough to solve the problem of poverty, which reached enormous proportions with millions of persons living in abject poverty at the end of the 19th century.\textsuperscript{22} The gap between need and care affected about 6.5 million persons at the end of the Tsarist era; assistance was so negligible in comparison to the need that it could

\textsuperscript{18} Ibid., 8-9.


\textsuperscript{22} Madison, \textit{Social Welfare in the Soviet Union}, 17.
not possibly prevent the ruin of a working class or peasant family faced with sickness, unemployment, or natural calamity.

To note, the situation of the working class was not much better. The development of social insurance had been slow and inadequate, and covered only the industrial working class, whereas peasants received distressingly little public assistance, either institutional or direct.23 Bunge, the Finance Minister, made the earliest proposal for social insurance in 1833, but although the industrial working class numbered approximately 1 million by 1881, a law on the subject did not become operative until 1893.24 This first law provided some protection against work-connected illnesses, injuries, and death for workers in mining, the railroads, and the Navy Department. It created “brotherhoods” (tovarishchestva) whose revenue was derived from an equal tax on employers and workers. The administrative organs were composed of representatives from employers, labour, and the state. Both pensions and temporary benefits were exceedingly low, and administration was complicated by many difficulties. By 1910, these brotherhoods had only 22,000 members.25

Widespread strikes in 1902 prompted the passage of an accident and death compensation law in 1903 that covered more workers and, subsequently, all government employees.26 Its main contribution was that it placed responsibility on the employer for accidents occurring during

23. Ibid., 23.
24. Ibid., 19.
25. Ibid.
working hours. It did not, however, introduce compulsory insurance, and it was weak from many other points of view: employers frequently could not or would not pay claims, benefits were denied on the grounds of negligence by the workers, and administration was entirely in the hands of employers and officials.

The social protection of the industrial working class slightly improved with the passage of the “Health and Accident Act” in June 1912. From then on, benefits and pensions were available for work-connected accidents, illnesses, maternity, and death of the main breadwinner. Employers financed coverage for accidents, while contributions from both employers and workers covered the remaining contingencies. However, severe exclusions limited application of the new law so that only 23 percent of the 13 million in the workforce was actually covered by the Act. Moreover, the coverage, amount, and duration of sickness benefits were inadequate, thus causing the workers to be extremely dissatisfied with the law. Finally,

27. Ibid.
29. Ibid., 20; and Mel’nikov and Kholostova, “Blagotvoritel’nye uchrezhdeniia Rossii (XIX v.)” [Charity Organisations in Russia (XIX Century)], in Istoriia sotsial’noi raboty v Rossii, 283.
32. Ibid.
33. Ibid.
medical care, regulated by the 1866 law that required manufacturers to set up factory hospitals, was scarce and of extremely low quality.\textsuperscript{34}

In conclusion, despite several state initiatives to provide some degree of social protection to its population, social welfare in Russia was never more than a palliative, and was rendered even more ineffective by the ravages of WWI. Until the late 17th century, the system of social care was Church-based and depended on private charitable contributions. Even though some attempts were made to formalise the provision of welfare aid, that is, under Ivan the Terrible, they failed due to the lack of adequate and systematic state policies.\textsuperscript{35} The situation seemed to have changed under Peter the Great who viewed social welfare as an important state issue. Peter’s reforms, however, were accompanied by the ruthless repression of vagrants and beggars, whom he viewed as social parasites, refusing to recognise that poverty and despair were social phenomena affecting all of society. Surprisingly or not, Peter’s belief that begging was bred by parasitism and laziness was carried over into the Soviet period. Further reforms tried to soften Peter’s harsh welfare policies, yet ultimately failed to create an effective and socially responsible welfare system capable of alleviating the plight of millions of Russia’s poor. Even the development of a diversified network of voluntary charitable organisations did not help, as Russia’s voluntary sector was poorly organised, lacked adequate resources, was slow to modernise, and was complacent about poor services and prejudices. Finally, not only the poor, sick, aged, and orphaned suffered. Russia’s industrial working class was also poorly protected

\textsuperscript{34} Ibid.; Mel’nikov and Kholostova, “Blagotvoritel’nue uchrezhdeniia Rossii (XIX v.)” [Charity Organisations in Russia (XIX Century)], in \textit{Istoriia sotsial’noi raboty v Rossii}, 282.

\textsuperscript{35} Maksimov, “Istoriko-statisticheskii ocherk blagotvoritel’nosti i obshchestvennogo prizreniia v Rossii” [The Historical-Statistical Overview of Charity Work and Social Assistance in Russia], in \textit{Istoriia sotsial’noi raboty v Rossii}, 131-9.
and thus extremely dissatisfied with the government. As for the peasants, who represented more than 87 percent of the population, they lacked any state social protection or medical care.

Given the rather slow and inadequate development of state-led social welfare policies, the question arises as to whether the Russian people developed any alternative forms of social protection. Indeed, according to various historical accounts, in rural areas some basic social protection was provided by the Russian peasant communes—mirs—which performed several administrative and some social functions in Russian society. Fundamentally, these communes were viewed as village governments, whose main purpose was land distribution and tax collection. In particular, the mirs held all land in communal ownership and distributed it to the members in sections based on soil quality and distance from the village. Each household had the right to claim one or more strips from each section, depending on the number of adults in the household. The purpose of this allocation was not so much social as it was practical, ensuring that everyone paid the taxes. Strips were periodically re-allocated on the basis of a census, to ensure equitable sharing of the land. This was enforced by the state, which had an interest in the ability of households to pay their taxes.36

At the same time, the mir offered its members some basic form of social protection. With the Russian climate being so harsh and unpredictable, it was not uncommon for peasants to

36 The communal responsibility for the payment of taxes was abolished in October 1906. Russian peasant communes were discussed in the work of various Russian philosophers and political thinkers and were usually divided into two main schools: zapadniki (the westerners) and the slavophiles. The western view of the Russian peasant commune was represented in the work of B. N. Chicherin, K. D. Kavelin, V. I. Semevskiy, A. A. Kornilov, A. S. Lappo-Danilevsky, etc., whereas the slavophils included K. R. Kacharovsky, I. D. Beliaev, V. Vorontsov, and I. I. Kablits and several other political thinkers. For an overview of peasant life in imperial Russia, see Geoffrey Hosking, Russia: People and Empire, 1552-1917 (London: Fontana Press, 1997), 198-224. See also “Zapadniki i slavianofily” [Westerners and Slavophiles], http://state.rin.ru/cgi-bin/main.pl?id=63&r=26; and Grigory Ioffe and Tatyana Nefedova, “Persistent Features of the Russian Countryside: Communal Attachment and Reform,” GeoJournal 41, no. 3 (March 1997): 193-204.
suddenly lose all of their crops or livestock. In times of famine, one farmer might lose everything and his adjacent neighbour could lose nothing at all; because of this, the villagers set up a system in which they would support one another in times of need. Members of the village who were prospering the most at a particular point in time would usually be the ones looked upon to help others in their times of need.\footnote{37}

Following the 1905 Revolution, the Russian village communes began to be viewed as obstacles to further economic development of the Russian Empire. Pyotr Stolypin, the prime minister of Russia between 1906 and 1911, criticised the \textit{mirs} for their authoritarian ruling style and introduced reforms that he hoped would lead to their breakup and the institutionalisation of individual land ownership. The goal of the 1906 Stolypin reforms was to transform the traditional peasant communes into a society of individual farmers, in which all peasants would possess their own private land holdings. This, Stolypin hoped, would produce profit-minded and politically conservative farmers like those found in parts of Western Europe. At the same time, the reform enabled peasants to seek industrial employment in the cities if they wished to leave the land.\footnote{38}

The Stolypin reforms were only a moderate success. By the end of 1916, no more than 20 percent of the peasant households had title to their land, although fewer (some 10 percent) had

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received consolidated plots. The reform did not transform the peasantry into the bulwark of support that the autocracy needed. In 1917, peasants everywhere participated in the revolution, seizing properties belonging to the Stolypin farmers.\(^{39}\)

Essentially, the origins and evolution of the Russian peasant communes have been subject to heated debate and interpretation. A group of Russian thinkers, which came to be known as the *Slavophiles*, viewed the Russian peasant communes as a purely Russian institution and a symbol of Russian collectivism. According to this view, these peasant communes were at the core of the Russian sense of communitarianism and were an indispensable element in the social fabric of pre-revolutionary Russian society. The “Western” philosophic faction challenged their position and argued that the Russian peasant commune was neither ancient nor particularly Russian. They argued that it was a utilitarian institution, whose sole purpose was controlling the peasants and collecting taxes from them. They did not completely deny some sort of social contract as the basis of the peasant commune, but emphasised its rather artificial origins, with landlords and the state playing a vital role in its development.\(^{40}\) Over time the Russian peasant commune came to be viewed as evidence that Russian peasants had a history of socialisation of property and lacked bourgeois impulses toward ownership.

The debate over the origins and purpose of the Russian peasant commune highlighted two important observations. First, regardless whether the historians viewed the Russian commune an ancient or an artificially created institution, many of them agreed that the peasant commune and


the Orthodox Church contributed to the development of such feelings as submissiveness and obedience among the Russian peasantry. Moreover, it was also argued that these two institutions – the Church and the peasant commune – hindered the development of individualism in Russian peasants.41

This argument, however, contradicts other historical accounts, such as the one by A. N. Engel’gardt, who, having observed the life of Russian peasants in one Smolensk peasant village in the 19th century, argued that the Russian peasants were highly individualistic and rational individuals.42 In his letters, which provided the basis for his book, “From the village. 12 Letters”, Engel’gardt emphasises that the Russian peasant commune was not a uniquely Russian institution symbolising the collectivism of the Russian peasants, but a highly pragmatic and rational mechanism of survival. As he points out: “the peasant commune, the peasant brigade (artel) is not an alveary, in which every bee, regardless of others, assiduously works to the best of his/her ability for the common good”.43 He continues by emphasising the very strong sense of individualism in Russian peasants:

In my letters I repeatedly pointed to the very strong sense of individualism in the peasants; to their detachment in work, to their inaptitude, or better said, reluctance to ally themselves for the common cause. This was also documented by other researchers of peasant life. Some even believe that work collectively is repugnant to the genius of the peasants. <…> Indeed, to work collectively, <…>, to work the way that everyone’s portion of work would be impossible to count, is repugnant to peasants.44

He then explained how the work was done within mirs:

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43. Ibid., 183.

44. Ibid., 266.
The work, although it is contracted together, by the whole peasant brigade, is divided among all peasants. When digging a ditch, they divide it into lots of equal size (each lot usually 10 sagene), toss up distributing the lots, <…>. In other words, all work is compartmentalised, whenever possible, and everyone receives according to his/her output.\(^{45}\)

As Engel’gardt notes, economic rationality has been the driving force behind everything that peasants did, including their membership in peasant communes, their work calendar, and even the amount of food intake for every type of work that peasants usually performed.\(^{46}\) Sometimes, economic rationality and individualism contradicted each other, for example, when dividing large households into several smaller ones. Everyone knew that their actions contradicted economic rationality, and that everyone would be worse off as a result of this division, yet they all wanted the division, because they all wanted to live independently of each other.\(^{47}\) In that, Engel’gardt saw a deeply entrenched sense of individualism. As he notes, peasants were the most vigilant owners he knew, protecting every single piece of hay and every kopeck.\(^{48}\)

Based on this discussion, several conclusions can be made. Peasant communes provided some degree of social protection and most peasants viewed their membership in peasant communes as an inevitable evil, given the hard social and economic conditions of living in imperial Russia. At the same time, whenever possible, peasants tried to manage their households and land independently, thus demonstrating the highest degree of individualism under high unfavourable and repressive conditions of imperial Russia. Family relations were highly

\(^{45}\) Ibid., 263.

\(^{46}\) Ibid., 243-4.

\(^{47}\) Ibid., 270.

\(^{48}\) Ibid., 180-1.
rationalised and determined by socioeconomic realities. The demise of the *mirs* as a result of Stolypin reforms in the beginning of the 20th century resulted in the further individualisation and atomisation of Russian society. Indeed, with the demise of the *mirs*, the glue, which to a certain degree held the Russian peasant society together, even if forcibly, disappeared.

Based on this analysis, it can be concluded that in contrast to Central Asian societies, which will be discussed in our next section, the social and blood connections between people in Russia were weaker and much less pronounced. The role of the state in the provision of social protection to Russia’s poor was limited to several attempts to formalise the provision of welfare aid by various voluntary and religious organisations. Repression accompanied all these state attempts and they ultimately proved to be extremely ineffective in addressing the needs of the impoverished population. Peasant communes were the only social institution, which offered the peasants some social protection from abject misery and repression in tsarist Russia; however, the origins and the nature of social and inter-personal relations in such communes were subject of heated debates, with many emphasising economic rationality, rather than social connections behind the creation of such peasant communes.

3.3. **Kazakhstan’s Social Fabric in the pre-Soviet and Soviet Period**

In contrast to Russia, Central Asia had no history of state-led attempts to provide social care. Social protection was community-based and provided within clans and extended families. To understand the structure of Kazakhstan’s social fabric and the importance of extended families within Kazakh culture, a brief excursus into the history of the Kazakh people in the pre-
Soviet period is required. The Kazakhs were nomadic pastorals inhabiting Central Asia, along with other ethnic groups, including the Tajiks, Uzbeks, Turkmens, and Kyrgyz.\textsuperscript{49}

The first Kazakh state was formed at the end of the 15th and beginning of the 16th centuries under the rule of Khan Zhanibek.\textsuperscript{50} During this period, the distinct Kazakh identity was formed, with the word \textit{qazaq} (Kazakh), which some scholars translated as a “wanderer” or an “independent man,”\textsuperscript{51} taking on political characteristics and defining an independent khanate and the name of the Kazakh people. From this period on, the Kazakhs maintained their identity, whose central facet slowly became nomadism, as a distinct feature implying an ethnic belonging to the Kazakh people.\textsuperscript{52} However, as Schatz points out, this ethnic identification remained relatively weak before the 20th century, unlike umbrella-clan attachment.\textsuperscript{53}

In the middle of the 16th century, the Kazakh Khanate disintegrated into three subunits led by three separate khans, partially the result of the existence of the three climatic zones that gradually forged stable migration routes for identifiable clusters of mobile encampment.\textsuperscript{54} These umbrella clans (\textit{zhus}) provided a relative political and social stability, whereas each clan had its

\begin{itemize}
  \item \textsuperscript{49} Peter L. Roudik, \textit{The History of the Central Asian Republics} (Westport, CN: Greenwood Press, 2007), 4.
  \item \textsuperscript{50} Ibid., 48-9.
  \item \textsuperscript{51} See, for example, Edward Schatz, \textit{Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond} (Seattle, WA: University of Washington Press, 2004), 31. There are many theories on the origin of the word Kazakh. However, all of these theories agree on the broader meaning of the word Kazakh, with some interpreting it as “independent”, “freeman”, or “wandering steppemen”. See Martha Brill Olcott, \textit{The Kazakhs}, 2nd ed. (Stanford: Hoover Institution Press, 1987), 4. Also R. Khanam, \textit{Encyclopedic Ethnography of Middle-East and Central Asia}, Volume 1 - AI (New Delhi: Global Vision Publishing House, 2005), 409-10.
  \item \textsuperscript{52} Schatz, \textit{Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond}, 32.
  \item \textsuperscript{53} Ibid., 31.
  \item \textsuperscript{54} Ibid., 30.
\end{itemize}
history, territorial allegiance, cultural patterns, and authority structures.\textsuperscript{55} As a Kazakh proverb says, “give the \textit{Ulu Zhus} (Great Horde) cattle, give the \textit{Orta Zhus} (Middle Horde) a pen, and give the \textit{Kichi Zhus} (Small Horde) a sword.”\textsuperscript{56} The Hordes are subdivided into clans, composed of individuals who believe themselves to be descended from a common ancestor.\textsuperscript{57} Clans are in turn comprised of \textit{oymak} and then of \textit{aris}, and so on through several different layers of subdivision, each with a specific name that certifies the degree of relationship.\textsuperscript{58} This said the primary group identity in the pre-Russian period was linked to the local clan, defined as a number of related families inhabiting a single mobile encampment (\textit{aul}).\textsuperscript{59}

Historically, the Great Horde occupied the lands in the south-eastern part of the country, the Middle Horde the central regions between the Tobol and Irtysh rivers, and the Small Horde the area around the northern end of the Caspian Sea.\textsuperscript{60} Complex and multi-layered, the Kazakh identity was not religion-based, but rooted in strong clan connections.

Despite this diversity, all Kazakhs believed in the existence of the so-called Kazakhhood. According to Orazbaeva, what united all Kazakhs was their unique model of social interaction, built along horizontal, rather than vertical lines.\textsuperscript{61} As she points out, “the foundation of Kazakh society, which ensures an organic unity of all its parts, was its stable and socially isolated system

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\textsuperscript{55} Ibid., 31.
\textsuperscript{56} Adam Dixon, \textit{Kazakhstan: Political Reform and Economic Development} (London: The Royal Institute of International Affairs, 1994), 73.
\textsuperscript{57} Ibid.
\textsuperscript{58} Dixon, \textit{Kazakhstan: Political Reform and Economic Development}, 73.
\textsuperscript{59} Schatz, \textit{Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond}, 29.
\textsuperscript{60} Dixon, \textit{Kazakhstan: Political Reform and Economic Development}, 73.
\textsuperscript{61} A.I. Orazbaeva, \textit{The Civilization of Eurasian Nomads} (Almaty: Daik-Press, 2005), 207.
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of genealogic kinship, which penetrated all levels of Kazakh social structure.”

Being nomads and living under the harsh conditions of the Great Steppe, the Kazakhs shared in the belief that they all depended on each other by virtue of being Kazakhs. This realisation facilitated the formation of some ethical principles, which resulted in the development of a horizontal social structure and relations.

Authority was vested locally. Primary among authorities were elders and judges. This is not to say that some kind of hierarchy did not exist within the Kazakh clans. The tradition of choosing aksakals, khans, and so on was based on the principle of meritocracy, in accordance with which only the most respected individuals were chosen by the people. Although highly respected, these individuals were rather restricted in the exercise of their power by the presence of so-called People’s Assemblies (kurultai, mazhlisy), where everyone over 15 years of age capable of holding a weapon had a voice. In other words, their nomadic lifestyle contributed to the formation of a horizontally-based socio-cultural environment, in which the elderly were granted the most respect, but never had omnipresent power.

62. Ibid., 207-8.
63. Ibid., 208.
64. Ibid., 208-9.
65. Schatz, Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond, 29.
67. Ibid.
68. Ibid., 213-4.
69. Ibid., 213-5.
Furthermore, because of Kazakhs’ strong nomadic traditions, the position of women in the social hierarchy was distinct from that in other Muslim regions in Central Asia or elsewhere. In the sedentary cultures of Central Asia, patriarchy was the norm, and even though women had some legal rights, those rights were granted to them in a local context heavily dominated by men.\(^7\) In contrast, the degree of visible patriarchy was less pronounced among the nomadic Kazakhs.\(^7\) In the Kazakh nomadic tradition, age hierarchy was more important than that of gender, with the elder members of society having the greatest respect. Nomadic women were conscious about their own lineage, often played an important role in political and economic matters, and took part in public decisions to a much greater extent than sedentary women.\(^7\) They seem to have lived more or less a life where gender differentiation was not emphasised. In short, strong clan relations and extended families in which social hierarchy was based on age rather than gender characterised the social fabric of Kazakh people in the pre-Soviet period.

Given the Kazakhs’ age-based social structure and the absence of strong state institutions, it was the responsibility of the clan and the family to provide its members with some kind of social protection. Indeed, a kind of social safety net existed, which protected every member in exchange for compliance with communal and family norms and an understanding that the community would take precedence over individual interests.\(^7\) In such a system, the elderly were

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72. Ibid., 21-6.

the most privileged group, who enjoyed the greatest respect and were provided for by their children. If any member of a community experienced a disaster or an accident, whether caused by nature or by people, the whole community would come together to organise community work; restore or repair damaged properties, orchards, or farms; help cultivate land; bring up orphaned children at a communal expense; or find partners for widowed women.\textsuperscript{74} According to various testimonies collected by Edward Schatz during his research in Kazakhstan, the Kazakhs themselves also emphasised this sense of mutual assistance. As some of his interviewees noted, “mutual assistance among kin was what distinguished Kazakhs from other ethnic groups, especially Russians. Kazakhs ‘do not abandon their kin’.”\textsuperscript{75} Moreover, the perception among the Kazakhs was that not helping one’s kin was identified as behaving like a Russian.\textsuperscript{76}

The arrival of Russia in the 19th century changed the political composition of the Central Asian states. Deprived of cotton due to the American Civil War and in search of new markets and sources of raw materials, Russia started its invasion of the region in the 1860s.\textsuperscript{77} The colonisation of the Kazakh territories by the Russian Empire was largely complete by the second half of the 19th century, having transformed the local Kazakh population into the subjects of the Russian government’s authorities.\textsuperscript{78}

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\textsuperscript{74} Abazov, \textit{Culture and Customs of the Central Asian Republics}, 216-7.

\textsuperscript{75} Schatz, \textit{Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond}, 63.

\textsuperscript{76} Ibid., 64.

\textsuperscript{77} Roudik, \textit{The History of the Central Asian Republics}, 7.

\textsuperscript{78} Ibid., 50.
The arrival of the Russians was marked with the introduction of the colonial administrative apparatus, with the centre of authority moving to the local level by eliminating the khans.\textsuperscript{79} The Russians established sultans as the primary legitimate local authorities. The administrative structure began with a kin-based unit (rodovaia uprava) that consisted of about fifteen extended families and was represented by a local elder. About ten to twelve such units comprised a region (volost’) governed by sultan. Eighty-seven regions comprised four districts (okrug), each of which was ruled by a committee of a sultan, to other Kazakh representatives, and two Russian emissaries.\textsuperscript{80}

Additional administrative reforms and the arrival of poor Russian peasants lured to Central Asia by the availability of free land localised the Kazakh authority even further and motivated some of the Kazaks to adopt agricultural practices.\textsuperscript{81} Fundamentally, sedentarisation was the product of colonial encroachment, making some historians argue that full sedentarisation was inevitable by the end of the 19th century, “when a tsarist decree forcibly confiscated lands used for extensive pastoralism, thus exacerbating the land shortage further.”\textsuperscript{82}

Following the collapse of the Russian Empire in 1917, the region experienced a short period of semi-independence, which was followed by the creation of the Central Asian republics. The Kazakh Autonomous Soviet Socialist Republic was established in 1920, and was later renamed the Kazakh Soviet Socialist Republic in 1936.\textsuperscript{83} Under Soviet rule, Kazakhstan survived

\textsuperscript{79} Schatz, Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond, 34.

\textsuperscript{80} Ibid., 35.

\textsuperscript{81} Ibid.

\textsuperscript{82} Ibid.

\textsuperscript{83} Abazov, Culture and Customs of the Central Asian Republics, 11.
a massive disruption of traditional lifestyles through agricultural collectivisation, industrialisation campaigns, episodes of widespread famine, and ideological attacks on religion and traditions.\(^{84}\)

The integration of nomadic Kazakhs into the Soviet Empire was enforced through the policy of sedentarisation, which accompanied the collectivisation process and was meant to transform Kazakh nomads into Soviet *kolkhozniki*.\(^{85}\) By 1922, 95 percent of the Kazakh population was both sedentarised and had become a part of collective farms; by contrast, in 1919, the number had stood at 7.4 percent.\(^{86}\) Thus, as a result of the sedentarisation policy and mass collectivisation of agriculture in the 1930s, the Kazakhs became sedentary in the bounds of their own republic, but it came at a loss of 42 percent of their population, hundreds of thousands of whom migrated while millions died from violence and starvation.\(^{87}\) The intensified mass immigration of European and non-European populations (deported peoples, workers, peasants, etc.) further disrupted the Kazakh traditional way of life.\(^{88}\) As a result of such massive immigration, by 1979 Kazakhs made up only 33 percent of the republic’s population.\(^{89}\)

During the Soviet rule, coercion, modernisation accompanied by urbanisation, and anticlan campaigns removed clan identity from the public domain. However, as Schatz correctly

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88. Ibid.

89. Ibid.
notes, it did not mean that clan identity lost its importance. As he states: “After all, the central organizing principle of nomadic pastoralism remained largely intact, notwithstanding pressures to sedentarize. Even with the gradual Sovietization of the steppe, we see that local clan identities remained the primary site of identity politics.” Especially, at the local level in heavily Kazakh oblasts, Kazakh social structure with its strong clan and family relations and cultural traditions remained unchanged, and had a pronounced influence on political and economic life.

Gradually, the Soviet system created a very peculiar blend of the Soviet family life, especially pronounced in major metropolitan areas and local traditions and customs. Yet even under the Soviet rule, and in great contrast to the highly atomised Russian society in which no such tradition of extended family networks survived into the Soviet period, Kazakhs preserved their strong personal relations not only with their parents and grandparents but also with all their close and distant relatives, as they relied on them for help and support. Most young members of such extended families remained within their birth communities and rarely moved away to different cities or towns. In Central Asia, it is socially and culturally expected from the younger son and his wife to continue living in his parents’ house. As a result, it was quite natural and common for several generations of close relatives to live together in the same house and sometimes in the same housing complex. A traditional Kazakh household consisted of an adult married couple, their parents, and their children. During the Soviet Union, such families were

90. Schatz, Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond, 46, 48.

91. Ibid., 37.


93. Abazov, Culture and Customs of the Central Asian Republics, 226.

94. Ibid.
an extremely effective survival unit, where people received personal, financial, and moral support in times of social and economic turmoil.

In conclusion, Kazakhs’ social care system was the by-product of its socio-cultural and geopolitical environment, characterised by weakly developed and, at some point, virtually non-existent state institutions, the Kazakh nomadic lifestyle and traditions, and strong clan and family relations. Even Communism was unable to eradicate these old traditions, which resulted in the formation of a peculiar Soviet clan-based Kazakh identity.

3.4. The Birth and Evolution of the Soviet Welfare State

The collapse of the Russian Empire and the birth of the Soviet Union opened a new chapter in the development of the social welfare system in Russia, and from 1920, in Kazakhstan. Following the February Revolution of 1917, the Provisional Government created a new institution responsible for the provision of social welfare, the Ministry of State Care (Ministerstvo Gosudarstvennogo Prizreniia). This institution was later renamed the People’s Commissariat of State Care (Narkomat Gosudarstvennogo Prizreniia), and, in 1918, the Peoples’ Commissariat of Social Welfare (Narodny Komissariat Sotsial’nogo Obespecheniia) on the grounds that its previous title did not reflect the new Soviet reality. The Ministry, and later the Commissariat, quickly became the only institution responsible for all forms of social welfare,

95. To be exact, present day Kazakhstan was formed by the Bolsheviks in 1920, as Kazakh Autonomous Soviet Socialist Republic under the Russian Soviet Federative Socialist Republic sovereignty, and in 1936 was given the status of a full-fledged republic. “Kazakhstan Country Profile,” Central Asia Executive Summary Series, Program for Culture and Conflict Studies (CCS), Department of National Security Affairs, no. 4 (July 2009), 2.

whereas all private charitable organisations and social initiatives were banned. These changes in the institution title and ban on all charitable associations reflected the transformation of the economic and ideological thinking of the Soviet leadership and its view on the evolution of the Soviet welfare system.

Rejecting the residual approach that was dominant before the Revolution, the Soviet leadership tried to institutionalise the provision of social welfare. Social welfare was proclaimed to be a right, a social institution whose major function was to prevent social breakdown, and not to react to it as was usually the case in capitalist systems. This position entailed discarding the deeply embedded notion that economic insecurity was essential for material advance and economic efficiency. Rather, the Soviet government believed that high economic security and a clear concern on the part of the state for the welfare of its citizens were essential for its maximum production. Inspired by Communist ideals, the Soviet leadership argued that any type of antisocial behaviour would naturally disappear as the “new communist man” would be born and would place the interests of society above his own.

Essentially, the first official document regulating the provision of social welfare in the Soviet Union reflected these quite noble principles. Passed on 31 October 1918, “The Statute Concerning the Social Provision of the Working Class” (Polozhenie o sotsial’nom obespechenii

97. Ibid., 331.
99. Ibid.
100. Ibid., 50.
101. Ibid.
102. Ibid.
Trudiashchikhsia) extended welfare coverage to all citizens of the Russian Soviet Federative Socialist Republic (RSFSR) supporting themselves by their own labour, including artisans, handicraftsmen, and landless peasants. The law offered Soviet citizens the following types of social protection: medical care, monetary benefits and pensions, and non-monetary social assistance. During the period of War Communism, this law helped to alleviate the most acute suffering in cities and rural areas; by distributing food and clothes, the Soviet government helped more than 10 million persons.

However, as the social and economic situation stabilised after 1921, the Soviet welfare system underwent significant changes. With the introduction of the New Economic Policy, the Soviet government classified artisans, handicraftsmen, and peasants as self-employed workers, and excluded them from state insurance coverage, ordering instead the establishment of a separate system based on mutual aid whose funds would be derived from various sources, including contributions from the members themselves. At the same time, the government extended the social insurance of wage earners: if by 1922, the social insurance system covered only 80 percent of all wage earners; by 1925, virtually all wage earners were insured. In 1927, the Soviet government introduced the system of all-age pensions. In short, the New Economic

103. Sukhorukov, “Modeli sotsial’noi deiatel’nosti v Rossii v perekhodnyi period” [Models of Social Work in Russia during the Transitional Period], in Istoriia sotsial’noi raboty, 332.

104. Ibid.


108. Ibid.
Period resulted in the formation of a three-pillar welfare system. The state-financed system of social insurance offered social protection to workers; peasants and other self-employed persons were covered through mutual aid funds, and public assistance was provided to war invalids, dependents of those killed or wounded at the front, and “others”, referring to all those who had fallen on hard times because of natural or social calamities not related to the war. However, reminiscent of tsarist Russia, the war invalids and the dependents of military personnel received preferential treatment and were viewed as regular social welfare clients, whereas all others got what was left, so to speak, thus illustrating once again that poverty alleviation and homelessness, especially in rural areas, was based on residual principle.

This trend of prioritising wage-earners and military personnel over peasants and other groups also continued into the First Five Year Plan, which replaced the New Economic Policy (NEP) in 1928 and involved a relentless drive towards heavy industrialisation and the collectivisation of agriculture. During this period, the social security system became secondary to the industrialisation drive. N. Shvernik, the Commissar of Labour, explained the new relationship between insurance benefits and labour in his address to the Trade Union Congress in 1932:

Bureaucracy and totalitarianism must be eradicated from social insurance. We must reconstruct the whole social insurance practice in order to give the most privileged treatment to shock workers and to those with long service. The fight against labour turnover must be put into the forefront. We shall handle social insurance as a weapon in the struggle to attach workers to their enterprises and strike hard at loafers, malingerers and disorganisers of work.

109. Ibid., 335; Madison, Social Welfare in the Soviet Union, 56.
110. Ibid.
To increase the supply of labour and to facilitate industrial growth, collectivisation was launched, accompanied by massive migration from the countryside to the towns. Unemployment benefits were abolished. Absence from work was acceptable only if the worker was ill and could provide a medical certificate. Pensioners were encouraged to stay on at work, allowing them to keep part of their pension, and, from 1938, the entire pension in addition to their earnings from work.\textsuperscript{113}

Labour discipline was enforced with the help of harsh measures: laziness or absenteeism could now be punished by prison and labour camp sentences. Work books were introduced in 1938, which were used to record the number and type of jobs held, as well as the reasons for changing jobs, so that management could easily identify unreliable workers. Furthermore, to prevent the migration of workers, the social security law was amended to introduce a category of “uninterrupted employment at a single enterprise,” which significantly complicated the process of voluntary resignation, and made entitlements to certain benefits dependent on the length of employment.\textsuperscript{114}

The logic of industrialisation and the necessity of increasing economic output also facilitated changes in the state’s wage policies. Under War Communism, wage differentials were narrowed, primarily because the prevailing ideology at that time favoured wage levelling. During the NEP, wage differentials widened substantially, and with the introduction of the First Five Year Plan, the policy of wage levelling was attacked as a bourgeois idea.\textsuperscript{115} In Stalin’s words,  

\textsuperscript{113} Ibid.


“only people who are unacquainted with Marxism can have the primitive notion that the Russian Bolsheviks want to pool all wealth and then to share it equally.”

Clearly, one of the reasons for the widening wage differentials was the demand for a large number of skilled workers and technicians, and the prospects of significant wage increases motivated the acquisition of skills. At the same time, the growing dictatorship needed a faithful managerial, administrative, and repressive apparatus and an army of propagandists to protect the regime. In short, preferential wage treatment was one of the main tools used to raise industrial productivity and obtain the loyalty and obedience of the people.

Following Stalin’s death, Khrushchev and later Brezhnev tried to narrow wage differentials; however, the social stratification deeply embedded in Soviet society by that time was very difficult to eradicate.

Furthermore, to bolster economic productivity, the Soviet government further expanded its old-age coverage and began the practice of offering numerous monetary and non-monetary social benefits to certain groups of the population who were regarded as pillars of the communist system. Beginning in 1928, workers in various industrial and manufacturing sectors were granted the right to guaranteed old-age pensions, provided that they reached the minimal retirement age and could prove their employment record. By 1932, the right to an old-age pension was extended to include other categories, such as teachers, doctors, veterinary workers, writers, workers of fine arts, and public servants. In 1937, all employed persons became

116. Ibid.

117. Ibid.


119. Lushnikova and Lushnikov, *Kurs prava sotsial’nogo obespecheniia* [Social Provision Law Course], 204.

120. Ibid., 205.
eligible for old-age pensions. However, the amount of the old-age pension for these blue- and white-collar workers varied according to employment record and profession, sometimes leading to huge differences between the pensions received by privileged groups and those received by ordinary pensioners.\textsuperscript{121} In addition to pension provision, the Soviet state offered its blue- and white-collar workers various social insurance programs, including sick benefits, holiday allowances, free child care centres, sanatoriums, vacation resorts for adults, and summer camps for children.\textsuperscript{122}

In an effort to raise the birth rate, the Soviet government also introduced family allowances. According to the law passed on 27 June 1936, families with three and more children received various monthly payments, whereas families with one or two children received small cash allowances only if they were low-income families.\textsuperscript{123}

During this period, the only group left outside the social insurance scheme was collective farmers, who still had to rely on the inadequate structure of mutual aid societies. The size and frequency of farmers’ old-age payments were determined by the members of a kolkhoz and were dependent on the availability of financial resources in the kolkhoz mutual assistance fund.\textsuperscript{124} This was doubly problematic: the rich kolkhozes could give better provisions than other kolkhozes, but even then, they provided benefits only to those who had no relatives to support them.\textsuperscript{125}

\begin{itemize}
  \item \textsuperscript{121} George and Manning, \textit{Socialism, Social Welfare and the Soviet Union}, 40.
  \item \textsuperscript{122} Lushnikova and Lushnikov, \textit{Kurs prava sotsial’nogo obespecheniia} [Social Provision Law Course], 205.
  \item \textsuperscript{123} Madison, \textit{Social Welfare in the Soviet Union}, 62.
  \item \textsuperscript{124} K. N. Gusov, \textit{Pravo sotsial’nogo obespecheniia Rossii} [Social Assistance Law of Russia] (Moskva: Prospekt, 2006), 150.
  \item \textsuperscript{125} George and Manning, \textit{Socialism, Social Welfare and the Soviet Union}, 43.
\end{itemize}
The last group of people suffered the most unfortunate fate. The revolutionary upheavals followed by collectivisation policies and the introduction of Soviet passports in 1933 created thousands of displaced people forced out of their villages and towns, and often left without any means of subsistence or residence. The authorities branded these people as “declassed elements” and societal parasites, and treated them accordingly. Reminiscent of the times of Peter the Great, all displaced persons, beggars, homeless, and women without proper social status were subject to state and societal ostracism and often forced to undergo re-education in labour camps or special treatment centres. Various orders prescribed that the authorities “sweep away criminal-déclassés and itinerant (brodiachic) elements,” including “professional beggars,” speculators, and Gypsies. As a result of these policies, hundreds of thousands of people were sent to labour camps (GULAGs) or executed.

In summary, by the 1950s the Soviet welfare system took upon its most distinct features. The Soviet state offered all Soviet citizens a “blanket” of social protection, whose thickness, however, depended on one’s professional status and industrial productivity. The state took direct responsibility for military personnel, members of various privileged groups and their families, the disabled, and all others. The social insurance scheme covered workers and public employees, and was administered by professional trade unions. Social insurance funds were generated from mandatory insurance contributions paid by enterprises and transfers from the state budget.


129. Ibid.
Finally, the state delegated the task of social protection of the rural population to the administration of *kolkhozes* and *sovkhozes*, who controlled the mutual aid funds, and were expected to monitor its population’s needs and offer some basic social assistance to the neediest peasants.\(^{130}\) The peculiarity of this system was that even though the Soviet ideological principles of universal welfare protection and equal access to welfare services were not forgotten, they were obviously secondary to the drive of Soviet industrialisation. Guided by the logic of industrialisation, the government offered special privileges to certain groups of the population, including labour heroes, WWII veterans, Communist Party nomenklatura, military personnel, and so on as a reward for merit or service. This resulted in increasing social stratification of Soviet society, inadequate social protection of less important segments of the population, and economic discrimination against the most helpless.

With the death of Stalin, the Soviet welfare system became less politicised. Under Khrushchev, the State Pension Law of 1956 was passed which extended its pension coverage, minimised the level of pension differentiation between blue- and white-collar workers, and increased the minimal pension size.\(^{131}\) Finally, in 1964, the Soviet government passed the law “On Pensions and Benefits for Collective Farmers,” which extended social security coverage to collective farmers. In later years, several other measures were designed to improve the position of collective farm workers: in 1967, the government dropped the retirement age of farmers by five years, bringing it in line with that of the workers; in 1970, the rules for the payment of sick leave to collective farmers were made nearly identical to those of workers; and, in 1971, similar

\(^{130}\) Sukhorukov, “Modeli sotsial’noi deiatel’nosti v Rossii v perekhodnyi period” [Models of Social Work in Russia during the Transitional Period], 333.

\(^{131}\) George and Manning, *Socialism, Social Welfare and the Soviet Union*, 42.
changes were introduced to the rules relating to the payment of pensions. These reforms indicated that the Soviet welfare system was no longer guided by purely economic considerations, but also tried to address the issues of poverty and social justice.

Indeed, between the 1960s and 1980s, the Soviet leadership made specific and substantial commitments to increases in the level of social protection. Close attention was given to improving the system of education and health care and extending the number of child care institutions. Spending on social services and direct transfer payments (including pensions, stipends, sickness and disability benefits, and others) increased. So, for example, the social consumption expenditures increased from R27.3 billion in 1960 to R116.5 billion in 1980, and to R139 billion in 1985. Reported per capita expenditures increased from R128 in 1960 to R438 in 1980. Most of this money was used to increase pensions, extend maternity leaves, add a program of income supplements for low-income families and cash allowances for children, and improve the system of social protection for the disabled. For example, the state offered its citizens with various disabilities special social pensions and several social benefits, including free-of-charge provision with prescription drugs, prosthetic and orthopaedic products, wheelchairs, priority access to various sanatoria and rehabilitation centres, free transportation, and so on. The Soviet government also provided the disabled with more comfortable apartments and special motor vehicles, as well as offered full reimbursement of all expenditures related to the exploitation and maintenance of these vehicles.

132. Ibid., 43.


134. Ibid., 49.

135. Ibid.
The social orientation of the Soviet state was also reflected in the 1977 Constitution, which replaced the Stalin Constitution of 1936 and confirmed not only the civic and political rights of Soviet citizens, but also the social and economic rights not provided by constitutions in capitalist democracies. Among these rights were the rights to work, rest and leisure, health protection, care in old age and sickness, housing, education, and cultural benefits. In essence, the Soviet Constitution offered Soviet citizens a very generous social welfare package that promised to ensure full employment, social justice, solidarity with the weak and disadvantaged, and equal opportunity for all. The credibility of the Soviet welfare system was enhanced with the help of Communist ideology, which continuously emphasised its humanitarian and egalitarian principles.

However, the presence of various welfare groups receiving special privileges and personal pensions somewhat compromised these humanitarian principles. Among the most privileged groups were disabled war veterans, war veterans, and labour veterans and heroes. In addition to personal pensions, the majority of welfare recipients belonging to these categories were offered free-of-charge apartments, cottage homes, construction materials, automotive vehicles, and home telephone lines. The beneficiary groups also received priority access to various housing and homebuilding cooperatives, horticultural, garden and cottages associations, medical facilities at the place of their former employment, and significant reductions on rent and various communal services. Furthermore, these groups were also offered free-of-charge prescription drugs, prosthetics, sanatoria and vacation passes, unlimited free transportation on the territory of the republic where s/he resided, and regular, free-of-charge transportation in the entire territory of

the Soviet Union. Finally, these privileged groups enjoyed priority access to all public services, cultural and sporting events, etc. Table 3.1. provides an overview of the Soviet welfare system.

Table 3.1. Social Benefits Types

<table>
<thead>
<tr>
<th>Benefit Type</th>
<th>Coverage</th>
<th>Conditions for Receipt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Family Allowances</td>
<td>All residents</td>
<td>Event of contingency (Need of health services, children)</td>
</tr>
<tr>
<td>- Health Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Pensions</td>
<td>People with direct or indirect affiliation to the labour market</td>
<td>Event of contingency (old age, invalidity, sickness, maternity, death of breadwinner, unemployment)</td>
</tr>
<tr>
<td>- Unemployment Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sickness and Maternity Cash Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Work Injury Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Assistance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- In-kind Social Benefits</td>
<td>All residents</td>
<td>Event of contingency plus means-test (inability of self-support)</td>
</tr>
<tr>
<td>- Income Support (Cash Benefits)</td>
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</table>


In conclusion, the Soviet welfare system was a by-product of the Soviet centrally-planned economy, characterised by the “replacement of market instruments of social regulations by ideological mechanism of reproducing social inequality.” It meant that even though the state proclaimed adherence to universal principles of welfare provision and tried to provide its population some basic level of equal welfare protection, these declarations did not mean that in reality, egalitarian principles were dominant. Rather, the Soviet welfare state was based “on the principles of work-performance, achievement and meritocratic selection.” Essentially, it meant that other practices competed with universal welfare policies, such as the practice of offering


privileges to certain groups of the population that were regarded as pillars of the communist system. Military personnel, war and work veterans, workers with a work record in harsh climatic (the so-called “northern work record”) or working conditions were often granted personal pensions, free travel across the country, privileged access to treatment in various health resorts, and so on. Moreover, even though social protection was also provided to disabled people, families with many children and single-parent families, the official rhetoric accompanying the system of social privileges rarely associated them with deprivation or classed them as needing assistance. Rather, it described them as deserving rewards or fair entitlement.

This Soviet welfare model has been labelled in a variety of ways, ranging from “a bureaucratic state collectivist system of welfare” to a “paternalistic state” and an “anti-liberal, hierarchical, conservative and corporative welfare state.” According to Esping-Andersen’s typology, the Soviet welfare system was a combination of two classic welfare models: a social democratic welfare model and corporatist-statist. In essence, however, all these titles meant that the level and forms of welfare protection depended on the ideological estimation of citizens’ merits.

As a result, the greatest drawback of the Soviet welfare system was the gap in the social protection of the most privileged and the least protected groups of the population, whose social benefit levels remained low, at best raising poor families and the disabled above the state’s


minimal poverty line. In that sense, the Soviet welfare system resembled the social care system of the tsarist era, in which access to welfare goods and services, as well as the quality of social protection depended on one’s social status, once again illustrating the rather weak humanitarian aspect of the existing welfare system. As the post-Soviet experience showed, reforming this Soviet welfare system and dismantling the embedded system of social privileges would prove to be an extremely sensitive and highly complicated issue.

3.5. Concluding Remarks

Chapter 3 offered the reader two major observations. First, I examined the social and cultural differences between the Russians and the Kazakhs and concluded that the level of social and blood connections was much more pronounced in the case of the Kazakh population, whereas the Russians illustrated much weaker social identities or connections. I argued that in the case of the Kazakh people, this was largely the consequence of the Kazakh nomadic lifestyle and virtually absent state institutions, which facilitated the development of specific socio-cultural traditions and strong clan and family connections, whereas in Russia, the presence of the repressive and omnipresent state apparatus significantly undermined the development of non-state social structures and institutions.

Second, I discussed the development of the Soviet welfare state and suggested that with its development, not much had changed in the principles, according to which social assistance was offered in Russia. Similar to the tsarist era, the Soviet welfare system prioritised the privileged and those who were considered ‘worthy’ by the Soviet state, whereas the poor and the disabled were largely neglected and often stigmatised. Over time, the dominant role of the Soviet welfare state and the absence of non-state social structures worked to further atomise and disintegrate the
Russian society, leaving it completely dependent on the state for social assistance. By contrast, in Kazakhstan, the Soviet system of welfare assistance co-existed, and often competed, with traditional practices of family- and clan-based social protection.

An important observation by itself, this difference also serves as an important point of departure in the analysis of public policy options, which were available to the three presidents in the post-Soviet period. In Kazakhstan, precisely the presence of well-preserved social structures and traditions opened for President Nazarbaev a window of opportunity, offering him an already existing pre-Soviet cultural framework to rely on and further promote with the help of the media. As for Russia, absence of strong social structures and family connections served to further exacerbate the weakness of the Russian state during the transition period, limiting the policy options available to the Russian Presidents.\textsuperscript{141}

However, it does not mean that the Russian social benefits reform was an \textit{a priori} lost case. It was not; rather, the Russian policy-makers should have exercised greater care and creativity when developing their policy frame and attaching it to an existing value structure. In the end, as Ross argues, policy change depends a lot on successful policy re-framing and the ability of policy leaders to effectively re-cast the political advantages and disadvantages associated with the old and new policies options, court the media and persuade the public.\textsuperscript{142} And in the words of Robert Henry Cox, policy-makers should realise that “welfare reform is more a struggle over the identity of a society than over the size of the public budget. Reform proposals

\begin{footnotesize}
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\item Ross, “Framing Welfare Reform in Affluent Societies,” 169-93.
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that do not invoke an accepted idea of legitimacy stand little chance of success, while a sense of legitimacy can facilitate truly dramatic change.”

This said, the next three chapters will focus on the case of Kazakhstan and illustrate the important role of institutions, political leadership and policy framing in facilitating a successful policy change.

CHAPTER 4

POLITICAL TRANSFORMATION IN POST-SOVIET KAZAKHSTAN

4.1. Introduction

In this chapter, I will focus on the political developments in post-Soviet Kazakhstan and explain the origins and nature of Kazakhstan’s soft authoritarian system, in which presidential power far outweighs that of the parliament and all other institutions. I will illustrate how the pre-existing distribution of power and the social fabric of the Kazakhstani society with its strong clan and family connections influenced the political developments in the country.

The chapter begins with the discussion of the political situation and an overview of Kazakhstan’s institutional structure following the passage of the 1995 Constitution. This will be followed by the analysis of the dynamics in centre-periphery relations in Kazakhstan, illustrating how Nazarbaev’s vertical of power was created and operated.

4.2. Political Developments in Kazakhstan Since Independence

Kazakhstan is a unitary republic, which, following the collapse of the Soviet Union was ruled by its first and thus far the only President Nursultan Abishevich Nazarbaev, whose political career began in the Soviet Union under the protection of the first secretary of the Central Committee of the Communist Party of Kazakhstan, Dinmukhammed Kunaev.¹ In December 1986, Kunaev was

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accused of corruption and tribalism and replaced with an ethnic Russian Gennady Kolbin. Viewed as an outsider, Kolbin was not well received in Kazakhstan. His appointment resulted in violent protests in the Kazakh capital Almaty and other cities, with several protesters killed and hundreds injured. The rioting and growing inter-ethnic frictions led to Moscow’s decision to replace Kolbin with Nursultan Nazarbaev, who became the first secretary of the Kazakh Central Committee in June 1989.

Nazarbaev illustrated his cunning political skills and will to power from the very beginning of his political career. Already during the first presidential election on 1 December 1991, Nazarbaev manipulated the system to ensure his victory, thus indicating the direction of the Kazakhstani politics following his victory. In particular, the election was marked by several campaign irregularities, including the placement of various restrictions on other presidential candidates. As a result of these manipulations, Nazarbaev was the only runner in the campaign, and naturally won the election, with 98.78 percent of the votes supporting his candidacy (table 4.1. in the Appendix). At the same time, however, the election results confirmed Nazarbaev’s


popularity, with the majority of the population viewing him as the “golden middle,” a charismatic leader capable of unifying the nation and raising Kazakhstan out of misery. Two weeks after the election, on 16 December 1991, Kazakhstan officially proclaimed its independence, becoming the last Soviet republic to do so.

4.2.1. The Power Struggle on the Way to the 1995 Constitution

Following its independence, Kazakhstan passed through several phases of political development. During the first phase, which occurred between 1992 and 1994, moderate political liberalisation and the formation of several political movements, some of which were presented in the parliament, characterised Kazakhstani politics. This led to heightened institutional competition between the Supreme Soviet and the President in 1994–1995, which ended with the passage of Kazakhstan’s second constitution in 1995, and formal legalisation of presidential domination of the system. The third phase lasted approximately until 1998 and was characterised by increasing centralisation and concentration of power in the office of the president. With the onset of repression and intra-elite competition in early 2000s, Kazakhstan entered its fourth phase in the post-Soviet transition.

As mentioned, the period between 1992 and 1993 was marked by intense political struggle and radical economic reforms. The power struggle, which unfolded between President


Nazarbaev and the Supreme Soviet led by Serykbolsyn Abdildin, was related to the process of drafting the first post-Soviet Constitution of Kazakhstan and determining what institutional branch would enjoy significant powers. The confrontation resulted in the adoption of the first Constitution of an independent Kazakhstan by the Supreme Soviet on 28 January 1993, which granted substantial powers to the legislature.

The president responded by launching a mass media attack on parliament, which portrayed the Supreme Soviet as a conservative and outdated institution and an obstacle to economic reforms. In the end of 1993, the pro-presidential media started talking about the necessity of dissolving the parliament in order to facilitate smoother economic reforms and to stabilise Kazakhstan’s socioeconomic and political environment further. The president used the pro-presidential members of the parliament to initiate its “voluntary” early dissolution in December 1993. Before its self-dissolution, however, the parliament granted President Nazarbaev the right to make laws by decree.

The March 1994 parliamentary election, which Nazarbaev hoped would resolve Kazakhstan’s political crisis and pave the way for sweeping economic reforms, unfolded in the context of deep energy crisis and ethnic tensions. As Nazarbaev himself succinctly described Kazakhstan’s situation on the eve of the Election Day in a television address, the country lacked


“electricity, heating, and food, and the transport system [was not working] properly.”¹³ Much of these difficulties were the consequence of Kazakhstan’s Soviet legacy, such as its dependency on Russian energy exports, which by that time were becoming increasingly unpredictable. The government, however, hoped that these difficulties would motivate the citizens to participate in the election and support the existing regime.

The election campaign, in which oppositional candidates were banned and routinely harassed, once again illustrated the nature of Kazakhstan’s political system. Of 177 seats contested during this election, the Union of People’s Unity of Kazakhstan, a party sponsored by Nazarbaev, gained 30 seats – more than any other single organisation. Furthermore, 11 seats were won by the official federation of trade unions, and 60 seats were won by self-nominated candidates, most of whom were believed to support Nazarbaev because they held state or government jobs. In addition, the president directly appointed members to 42 seats and the affiliations of remaining 11 successful candidates were unclear. Only 23 seats went to parties known to disagree with Nazarbaev on at least some issues.¹⁴ Tables 4.1. and 4.2. provide an overview of the results of Kazakhstan’s 1994 parliamentary elections (see Appendix).

International observers, including a nine-member delegation from the Council for Security and Cooperation in Europe announced that the elections “did not meet internationally accepted standards for free and fair elections.”¹⁵ Responding to this criticism, Foreign Minister

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Suleimenov denied that any of Kazakhstan’s laws on elections had been violated.\textsuperscript{16} Karatai Turisov, chairman of the Central Election Commission, echoed Suleimenov’s statement adding that all 177 seats in the new legislature had been filled but re-runs might still take place in some districts if violations were found to be “serious.”\textsuperscript{17}

It seemed that the 1994 election results, in which the pro-Nazarbaev majority prevailed, should have satisfied the president, allowing him to fully concentrate on economic reforms. Indeed, following the election, Nazarbaev confirmed the primacy of economic reforms, stating that “First of all the [new parliament] needs to pass laws which deepen the economic reforms in the banking system, taxation and the attraction of foreign investment.”\textsuperscript{18} At the same time, several factors complicated the situation for Nazarbaev, including the upcoming presidential election and the unsatisfactory distribution of power between Kazakhstan’s legislative and executive branches, with significant powers granted to the parliament by the new 1993 Constitution. In view of the president, these factors made his situation less stable and the position of the parliament less compliant with his wishes. And so he decided to act by dissolving it.\textsuperscript{19}

Following the election, several legal suits or cases were brought to the court from the candidates who had lost the election. In one such case, on 6 March 1995, the Constitutional Court announced the election results void in one election district. And since the court voided the election not because the rules had been flouted, but because these rules violated the Constitution,

\begin{itemize}
\item \textsuperscript{16} Ibid.
\item \textsuperscript{17} Ibid.
\item \textsuperscript{19} Roudik, \textit{The History of the Central Asian Republics}, 150.
\end{itemize}
the verdict in effect meant that the new parliament was illegitimate.\textsuperscript{20} Needless to say, the president reacted by saying that he was taken by surprise and did not expect this decision.\textsuperscript{21} He, nevertheless, used the momentum and issued a decree “On the Formation of an Assembly of the Peoples of Kazakhstan,”\textsuperscript{22} an institution with vague functions, whose composition was determined by the president. The Assembly served its purpose, as already on its first meeting, it suggested extending the authority of the president to 1 December 2000.\textsuperscript{23} As if following the decision of the Assembly, Nazarbaev issued a decree on the referendum, which fixed the date of the referendum for 29 April 1995.\textsuperscript{24} According to official data, 91.3 percent of the population participated in the referendum, and 95.4 percent of these said “yes” to extending Nazarbaev’s rule until 2000.\textsuperscript{25}

**4.2.2. The 1995 Constitution and Kazakhstan’s Institutional Structure**

Following the April 1995 referendum, Nazarbaev had only one task left, and that was replacing the inconvenient 1993 constitution with the new constitution, which would concentrate all power


\textsuperscript{22} “Kazakh Assembly Urges Extended Term for President,” Reuters News, Mar. 14, 1995.

\textsuperscript{23} Ibid.


in the office of the president. The goal was achieved on August 30, 1995, when the Parliament of Kazakhstan adopted a new Constitution that was earlier approved by a national referendum. The new Constitution granted the president significant powers, whereas the role of parliament became largely symbolic.

In particular, in accordance with the new Constitution, the president was granted the power to appoint and dismiss the prime minister and its cabinet, as well as all judges and senior court officials. The president also had the power to set the date of parliamentary elections; issue decrees that bear the force of law; declare state of emergency; override the decisions of local authorities; initiate legislation and constitutional changes; and dissolve parliament in case of a vote of no confidence in the government. In contrast, the only grounds on which a president could be removed from office were infirmity and treason, either of which must be seconded by a three-fourths majority of the joint commission of both houses of parliament (Article 47). In addition, on 27 June 2000, the two houses of Kazakhstan’s parliament passed the ‘Law on the First President of Kazakhstan,’ which gave Nazarbaev life-long immunity from court prosecution.


The government was answerable to the president and responsible for developing the main direction of policies (in the fields of social, economic, foreign, and defence policy), presenting a state budget to parliament, introducing draft laws to parliament, ensuring law enforcement, organising the management of state property, and managing the activities of the individual ministries and other executive bodies (Article 66).³⁰

The parliament was composed of two chambers: a lower chamber (the **Majilis**), and an upper chamber (the Senate), and had only limited powers.³¹ According to Articles 53–56 of Kazakhstan’s 1995 Constitution, the parliament was granted the right to approve legislation, discuss and approve the state budget, and approve governmental appointments. At the same time, it could not draft laws, which were instead instigated by the government and submitted to the legislature for discussion. In addition, the president determined the priority of the consideration of draft laws; and if the parliament did not consider a draft law within a month’s time, then the president could issue a decree instead (Article 61).³² Furthermore, even though the **Majilis** ratified the president’s nominees for prime minister and state bank head, the president appointed the rest of the cabinet.³³

Speaking of the upper chamber, the official purpose of the Senate was to represent territorial interests; however, it never played this role in national politics. Rather, the Senators represented the interests of those who brought them to power. Since 40 of its members were


indirectly elected by *maslikhats*, which were dependent on *akimats*, and 7 were presidential appointees, the fate of the Senators depended on *akims* and the president. As one observer succinctly summarised the role of parliament in Kazakhstan’s political life: “The Parliament does not have any real power in Kazakhstan, so passing government dictated bills in both its chambers is not a difficult task.”

Since 1995, the Constitution has been changed several times. The first such change took place on October 7, 1998, when the Parliament enacted a “Law on amendments and complements to the Constitution of the Republic of Kazakhstan.” This revision dealt with matters pertaining to the president’s term of office, age restrictions, succession of authority in case of his death or resignation, and terms of *Majilis* and Senate members. Most importantly, however, the legislature extended the president’s term from 5 to 7 years and enabled Nazarbaev to call an early presidential election for January 1999, which he won against three other candidates with 79.8 percent of the votes (refer to Tables 4.1. and 4.2. in the Appendix for an overview of the election results).

Further changes to the constitution were made in May 2007. These changes, however, were rather symbolic and meant to illustrate Kazakhstan’s commitment to democratic reforms to the


37. Ibid.

broader international community in a bid for OSCE chairmanship.\textsuperscript{39} As part of these changes, the role of parliament was strengthened, whereas the presidential term was rolled back from 7 to 5 years. The number of members of parliament increased in the \textit{Majilis}, from 77 to 107, and in the Senate, from 39 to 47.\textsuperscript{40} The members of the Senate, two per region, were elected by the regional assemblies, and another 15 deputies were appointed directly by the president. The members of the lower chamber (\textit{The Majilis}) would from now on be elected by the proportional representation system according to party lists and with the 7 percent threshold. The National Assembly of the People’s of Kazakhstan were to elect 9 members of the \textit{Majilis}.\textsuperscript{41} In addition, as part of the 2007 constitutional reforms, the parliament was allocated some extra powers, such as granting the Senate the \textit{Majilis’} law-making function should the former be dissolved before the appointed time.\textsuperscript{42} Furthermore, it was decided that the government would now not only be accountable to the president, but would also have to answer to parliament. Also, the \textit{Majilis} now required only a simple majority to express a vote of no-confidence in the government rather than the two-thirds majority that used to be necessary.\textsuperscript{43} Table 4.3. provides an overview of major constitutional changes in Kazakhstan since 1993.


\textsuperscript{40} Ibid.


\textsuperscript{43} Ibid.
Table 4.3. Constitution Changes in Kazakhstan, 1993–2007

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<td>President</td>
<td>Five-year term</td>
<td>Five-year term, abolition of the position of Vice-President</td>
<td>Seven-year term, no maximum age limit, abolition of the 50% minimum voter turnout</td>
<td>Five-year term, no term limits (for Nazarbaev only)</td>
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<td>Senate</td>
<td>Four-year term, seven members are nominated by the President</td>
<td>Four-year term, six members; total of 114 delegates in both houses of parliament</td>
<td>Six-year term, 15 members are nominated by the President</td>
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<tr>
<td>Majilis</td>
<td>Four-year term, 67 members; total of 114 delegates in both houses of parliament</td>
<td>Five-year term, 77 members, abolition of the 50% minimum voter turnout, threshold increased from 5% to 7% of the votes</td>
<td>Five-year term, 107 members, abolition of majoritarian electoral system; the Majilis now only requires a simple majority to express a vote of no confidence in the government rather than the two-thirds majority previously required</td>
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In summary, with the passage of the 1995 Constitution, the president managed to successfully consolidate all power in his hands. The powers of the parliament were largely symbolic and did not in any way challenge the presidential authority. Figure 4.1 provides an overview of Kazakhstan institutional structure and illustrates the flow of power among the three branches and the central and regional governments. It most accurately reflects the distribution of power between 1995 and 2007; that is, prior to the 2007 constitutional changes. In the words of Rustem Kadyrzhanov, the political system established in Kazakhstan by the end of the 1990s could be described as a highly centralised monocentric system, in which the president oversees and controls all three institutional branches, whereas the executive branch prevails over the other branches of the Kazakh government.44

Figure 4.1. The Constitutional Structure of Kazakhstan, 1995–2007

President
- appoints
  - right to dismiss
  - vote of no confidence

Prime Minister
- discuss and approve legislative
- draft laws

Majilis
- The Majilis is composed of 67 members (from 1998, 77) elected for 4-year term (from 1998, 5-year term)

Senate

Oblast-level maslikhats (incl. Almaty and Astana maslikhats)

Oblast-level akims (incl. Almaty and Astana akims)

Raion maslikhats

Raion akims

Village and town akims

President

Constitutional Council
- The Constitutional Council consists of 7 members appointed for 6 years (the president appoints 3 members, and the Senate and Majilis chairmen appoint 2 members each)

The Senate
- The Senate is composed of two members elected from each oblast, Almaty and Astana cities. Seven (from 1998, 15) members are appointed by the President for four, and from 1998, 6-year term. Half of them are re-elected every 4 years.

Elected for a 5, and from 1998, 7-year term

Citizens of Kazakhstan

4.3. The Development of Political Parties and Party System in Kazakhstan

The process of power consolidation was further enhanced through the establishment of a dominant party system. By 1994, the relative freedom to organise political parties and public associations, which was characteristic for Kazakhstan’s early transition period, was restricted and the development of political organisations was placed under strict governmental control. Political parties and movements had to satisfy numerous onerous conditions if they wanted to be registered. Often, however, they were refused registration on the basis of small mistakes in the application documents or on the grounds of Article 5, paragraphs 3 and 4 of the Constitution, which prohibits the incitement of social, racial, national, religious, class, and tribal enmity, and thus allowed the authorities to deny registration to political parties organised along ethnic, religious, or gender lines. Additionally, there was no legal timeframe for the Ministry of Justice to make its decision on a party’s application. As a result, political parties were often barred from running in elections because their applications were still pending at the time of the elections.


These challenges resulted in Kazakhstan’s political parties being weakly organised, centred on a small group of people, and with few participating members. They lacked funding, as well as organisational and communicational infrastructure. Most of all, however, they lacked clearly identifiable party platforms, a coherent ideology, and an easily identifiable electorate.

The development of genuine political parties and movements in Kazakhstan was further inhibited by the formation of broad-based catch-all pro-presidential parties, organised by the president in an effort to curtail any ethnically, territorially or religiously based parties. Starting with the Union of People’s Unity of Kazakhstan, formed in the run-up to the 1994 parliamentary elections and re-organised into a party in February 1995, pro-presidential parties dominated Kazakhstan’s political landscape. During the electoral campaign for the 1999 January presidential election, the Party of People’s Unity and other pro-president parties and movements established a new party Otan, which later absorbed such parties as Asar and Civic Party and renamed itself Nur Otan in 2006. Since then, Kazakhstan’s political party system has been dominated by Nur Otan, which became the largest party in the country with 740,000 members nationwide, and 3,400 deputies serving in oblast legislatures and lower levels of government.

In summary, at first glance, Kazakhstan is a democratic state with a market economy, bicameral parliament and directly-elected president. The Constitution of Kazakhstan grants its

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51. Oka, “Ethnicity and Elections under Authoritarianism: The Case of Kazakhstan.”

52. Ibid., 10-12.

citizens a standard set of human and citizens’ rights and protects the existence of opposition parties, non-governmental organisations, and rapidly developing market institutions. In practice, however, the process of power consolidation under the leadership of President Nazarbaev began as early as 1989 and continued well into the 2000s. The passage of the 1995 Constitution was a critical event, after which the initial liberalisation came to an end and centralisation of power by the president began. Moreover, significant irregularities marred all elections conducted in Kazakhstan since its independence. Parliamentary candidates who supported the president and his program received the financial and political support from the state apparatus, while alternative candidates were routinely harassed.54 As a result, the majority of political opposition actors either at the national or regional levels abandoned their efforts to dismantle Nazarbaev’s regime. And those who refused to accept the situation and challenged the president, such as the former Prime Minister Akezhan Kazhegeldin, were forced into exile on charges of tax evasion.55 By the end of the 1990s, with the powers of the legislative and judicial branches dramatically curtailed and the parliament dominated by pro-presidential parties, Kazakhstan’s political system had become increasingly centralised.

4.4. Understanding Nazarbaev’s Clan Politics

Analysis of Kazakhstan’s political situation would not be complete without discussion of Nazarbaev’s strategy for reinforcing his political authority and managing the country’s complex clan system. Indeed, as many observers of Kazakhstan’s politics pointed out, the only real threat to Nazarbaev’s regime came not from the ideological left or right, but rather from within

54. Schatz, Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond, 85.

55. Ibid.

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Kazakhstan’s clan system, which played an important role in uniting people not along ideological, but rather tribal lines. As Furman pointed out, “Kazakh society, which has preserved tribal and horde connections, is not so “atomised” and defenceless before the authorities (in contrast to Russian society).” Indeed, ever since Communism, there had always been interaction between Kazakhstan’s clans and formal institutions, with clans belonging to the Great Horde controlling the republic since the late 1920s. In the beginning of the 1990s, Nazarbaev’s clan faced serious resistance from other clans, especially the ones belonging to the Middle Horde. The president responded by appointing representatives of other hordes to visible, but strategically unimportant positions. By 1999, as key opposition leaders from other Hordes were co-opted by the current regime and political power became concentrated in the hands of the president, Nazarbaev concentrated on his own clan, trying to eliminate an opposition arising from within his inner circle.

The problem was related to Nazarbaev’s two sons-in-law: Rakhat Aliev and Timur Kulibaev, who were appointed in 1997 as head of the Tax Inspectorate (later as Deputy Head of the National Security Committee) and deputy head of then named Kazakhoil (the state national oil company), respectively. Needless to say, both of them placed certain hopes on becoming Nazarbaev’s official successors, and had the support of various interest groups, with their own


58. Ibid., 231.

59. Schmitz, “Elitenwandel und Politische Dynamik in Kasachstan,” 31; refer also to Schatz, Modern Clan Politics: The Power of “Blood” in Kazakhstan and Beyond.

media outlets and their representatives in the government and presidential administration. Of these two, however, it was Rakhat Aliev who tried to openly challenge Nazarbaev’s position. Aliev, who was the husband of Nazarbaev’s daughter Dariga, accumulated compromising materials on the entire elite of Kazakhstan, including the president. Aliev’s attempts to unseat the president opened Nazarbaev’s eyes to the threat stemming from his son-in-law. To keep him out of politics and to protect himself, Nazarbaev “exiled” Aliev as the ambassador to Austria and made the parliament adopt a law “On the First President of the Republic of Kazakhstan,” which offered him inviolability.61

After a few years, Aliev returned to Kazakhstan. Aliev’s second exile to Vienna occurred in 2007, after he became embroiled in a controversy over the disappearance of two former Kazakh bank executives.62 The incident drew public attention and opened for the president a window of opportunity to weaken Aliev’s position within the national elite. Nazarbaev granted the police permission to investigate this criminal case “without regard for rank.”63 As a result, in May 2007, Aliev was accused of abduction and extortion of the two bank executives. Immediately, the president issued a decree stripping his son-in-law of all official positions and formally asked Austria to arrest and extradite Rakhat Aliev to Kazakhstan.64

61. See, for example, Schatz and Maltseva, “Kazakhstan’s Authoritarian ‘Persuasion’,” 58.


Aliev denied all allegations. In August 2007, he was granted a political asylum in Austria on the grounds that he would not be given a fair trial in Kazakhstan. As a result Aliev and his accomplices were tried in absentia and sentenced to 20 years in prison with confiscation of property. In short, the Aliev saga illustrated Nazarbaev’s remarkable capability to divide the opposition and pre-emptively neutralise political challengers, and was viewed as a signal to the opposition, as well as members of his own clan that the president remained firmly in charge.

In conclusion, the process of political centralisation under the leadership of President Nazarbaev that began in the early 1990s resulted in a highly centralised political system in which the president presided at the top of the hierarchy and was controlling all branches of power, as well as regional authorities and members of all major clans. This became possible not only because of the pre-existing distribution of power, which offered Nazarbaev an opportunity to further consolidate the power in his hands, but also due to Nazarbaev’s leadership style and effective use of various framing and persuasion techniques.

This said, to understand the nature of institutional arrangements better under Nazarbaev’s leadership, a close look at Kazakhstan’s centre-periphery relations is required. In the next section, I will briefly discuss the challenges of state-building in the regions faced by Nazarbaev.

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68. Ibid., 59-62.
in the beginning of the post-Soviet transition and illustrate his strategy for recentralising Kazakhstan’s unitary structure. I will analyse the evolution of centre-periphery relations in Kazakhstan, paying particular attention to its political and fiscal realms.

4.5. Centre-Regional Relations in Post-Soviet Kazakhstan

The process of power consolidation under the leadership of Nursultan Nazarbaev also continued at the regional level, albeit with varied success. In the beginning of transition, when the economic and ethnic crisis was especially severe, Nazarbaev’s authority was challenged in many regions, not only in the northern ones. During this period, the regional akims of several oblasts pursued their own economic policies, without looking at the state.69 In one such example, in 1994, akim of the Semei region, a young businessman named Galymzhan Zhakiyanov, introduced money-substitute coupons in an attempt to prevent the oblast’s economic and social structures from further deteriorating.70 This yielded him the national recognition, with the President noting that “during these years [1994–1997], reforms in the Semipalatinsk [Semei] region were one step ahead of the rest of the country.”71

The problem with this relative freedom enjoyed by many regional akims in the early 1990s was that it threatened Nazarbaev’s position. This was partially related to Kazakhstan’s foreign direct investment trends. With the majority of Kazakhstan’s foreign direct investment flows going towards oil exploration and production projects chiefly situated in the western regions of


70. Paarmann, “Evolving Centre-Periphery Relations in FSU Transition Countries: The Case of Kazakhstan,” 14.

71. Ibid., 15.
Atyrau, Mangystau and West Kazakhstan, Nazarbaev was faced with increasingly strong regional leaders and businessmen who tried to develop close ties with foreign businesses bypassing the central government. Simultaneously, these leaders started criticising Kazakhstan’s fiscal system, which tried to redistribute the resources from the donor regions to the poorer recipient regions.72 Thus, even though Nazarbaev was formally in charge of the appointment of regional akims, he had to take into account which regional authorities already exerted a certain degree of influence in the regions and were liked by foreign investors. Obviously, the president did not particularly like this situation.

During the 1990s, the political and economic decentralisation was further aggravated by the fact that regional loyalties influenced the process of revenue collection at the local level. As Jones Luong points out, echoing Migdal’s argument discussed in chapter 2 of this thesis, the local tax inspectors, dually subordinated to both central and regional tax authorities, tended to rather obey the latter, due to political machinations and regional loyalties. Foreign investors have also repeatedly reported that the regional authorities did not follow national tax laws and regulations and that the process of tax collection was “completely arbitrary.”73 Such arbitrariness and inconsistency in enforcing national laws and regulations at the regional level, or often simply ignorance of national legislation by regional authorities, was an indication of growing economic and administrative decentralisation in Kazakhstan.


Thus, in the early 1990s, Kazakhstan’s future was complicated as a result of growing decentralisation of the Kazakhstani state, which was partially the result of the deep economic crisis that hit the country following independence. The decentralisation trend was further aggravated by the growing interest of foreign investors in the western regions of Kazakhstan, the trend, which posed serious challenges to Nazarbaev’s regime. As several financially successful provinces started blaming the centre for inefficient economic policies and expressed their desire to retain the larger portion of their income, Nazarbaev knew that something had to be done about it.74

Realising the danger of such creeping decentralisation, Nazarbaev made tremendous efforts to reinstate the central control over regional authorities by strengthening the vertical of power at the regional level and consolidating Kazakhstan’s financial flows. In fact, the first attempt of power consolidation at the regional level was launched already in January 1992, when the Supreme Soviet agreed to expand the president’s authority significantly and liquidated the local ispolkomy (soviet executive committees), empowering the president to appoint the heads of local administration.75 Confirmed in the 1995 Constitution, the right of appointing regional akims became the main instrument for the president’s control over society. Three years later, in October 1998, the President’s role in regional politics was further strengthened, when he, and not regional akims, was made responsible for the appointment and dismissal of lower-level akims as well.76 In other words, following the 1998 amendments, the president became not only responsible for the appointments and dismissal of akims in oblasts, Almaty and Astana, but was also able to

74. Cummings, *Kazakhstan: Centre-Periphery Relations*, 5; Paarmann, “Evolving Centre-Periphery Relations in FSU Transition Countries: The Case of Kazakhstan.”


determine and oversee the appointment procedure for the positions of akims of lower administrative territorial units. Thus, by the end of the 1990s, Nazarbaev created a vertical of power, with him presiding at the top of the vertical and being fully in charge of the appointment process both at the republican and regional levels.

Appointed by the president, regional akims are responsible for making a host of appointments at the regional level that mirrored the structure of republic-wide agencies. Beneath these regional governors were the city and district administrators (also called akims), who were in turn appointed by and responsible to their superiors. This makes regional akims similar to the president on the regional level, and permits them, first of all, to take control over the regions. As noted earlier, because of this essentially nested structure, Nazarbaev preferred to frequently rotate the akims, often appointing members of national elite to top position in regional administration. By doing so, he prevented the emergence of an alternative power base in the regions and ensured provincial support for the regime. As Cummings points out, through the direct appointment of national elites as akims of the oblasts, the centre has increasingly “extended itself into the periphery.”

77. Kazakhstan’s regional administration is divided into three tiers of local government: regional, which includes the executive (akimats) and representative bodies (maslikhats) in fourteen oblasts and two cities, Almaty and Astana; raion, which includes the executive and representative bodies in 160 raions and 79 cities of raion status; and rural, which includes executive bodies in towns, villages (auls) and rural counties. Makhmutova, *Local Government in Kazakhstan*, 407-8.


The rotation of elites from regional to national echelons of power and vice versa has helped to blur the distinction between centre and periphery in political terms. This rather unique form of cadre politics has brought into the scene sub-national leaders that are more loyal to national than to sub-national identities. Furthermore, a new generation of Western-educated technocrats had entered politics, different from the old, Soviet-era elites. These technocrats had less regional roots than their predecessors and were more loyal to the regime.\(^8\)

Speaking of the distribution of power at the regional level, it resembled the situation at the national level. According to the 1995 constitution, regional parliaments (\textit{maslikhats}) were granted some degree of authority at the regional and local levels (Section VIII of the Constitution). In practice, however, local administrative authorities (\textit{akimats}) were given priority in all relations at the local level.\(^8\) So, for example, Article 87.2 of the Kazakhstani Constitution lists the jurisdictions of the provincial administration, which include the development of a province’s socioeconomic and budgetary programs, the management of public property, and the appointment or dismissal of heads of lower-ranked executive bodies.\(^8\) By contrast, regional parliaments (\textit{maslikhats}) can take decisions only in relation to the development of the provincial budget. But even here, their powers are significantly limited as the budget is centrally administered and is subject to “agreement of the \textit{akim}” (Article 88.2).\(^8\)


\(^{84}\) Cummings, \textit{Kazakhstan: Power and the Elite}, 55.
The power of the maslikhats is further restricted by the fact that even though the maslikhats are permitted to remove a city or district akim, they are not allowed to remove a provincial akim or the akims of Astana and Almaty who enjoy provincial status (Article 87.5). And even the maslikhat’s ability to remove the local akim is subject to parliament’s approval.

The process of policy-making at the regional level resembles the national trend, with akimats developing various economic and social development programs and regional budgets, and then submitting them to maslikhats for approval. Once approved by the maslikhats, it is the responsibility of the akimats to ensure the implementation of these policies. Maslikhats, in turn, review implementation reports from heads of executive bodies and may submit requests to law enforcement bodies in order to call government officials or organisations to account if they fail to implement maslikhat decisions. Upon closer analysis, however, maslikhats powers are mainly symbolic: with pro-presidential parties controlling both regional akimats and maslikhats, the dominance of the executive branch and Nazarbaev’s authority in particular are not threatened.

As one can see, by the end of the 1990s, Nazarbaev successfully reinstated his central control over regional authorities and concentrated the monopoly over the decision-making process in the executive branch at the national and regional levels. The only problem that could potentially undermine Nazarbaev’s authority in the regions was related to fiscal matters.

85. Ibid.
86. Ibid.
88. Ibid., 419.
89. See Fiscal Transition in Kazakhstan (Manila: Asian Development Bank, 1999); Jones Luong, “Economic Decentralization in Kazakhstan: Causes and Consequences”; and Natalie Leschenko and
4.6. Economic Decentralisation and the Dynamics in Centre-Periphery Relations

In the beginning of transition, fiscal policy emerged as a major issue in the centre-periphery relations. In the beginning of transition, fiscal decentralisation was promoted by the international financial organisations and was de-facto viewed by the central government as an opportunity to push some of the financial burden onto the regions. To be exact, the foundation for fiscal decentralisation was laid with the passage of the laws “On the budget system” in 1991 and “On local representative and executive bodies of Republic of Kazakhstan” in 1993.90 These laws empowered local authorities to decide on sub-national budgets and to control the use of their funds. The 1995 Constitution confirmed the decentralisation, leaving it to sub-national governments to decide independently on the use of funds, regardless of the origin of these funds.91 Articles 86–87 of the 1995 Constitution specifically stated that local government budgets were to be formulated and executed without interference from central government authorities.92

Arguably, the origins, as well as the consequences of such fiscal decentralisation during the time of economic transition proved to be controversial. The UNDP office in Kazakhstan and


several international financial organisations, including the WB,\textsuperscript{93} which even made it a precondition for its next loan to Kazakhstan,\textsuperscript{94} actively supported the decentralisation. Conducted in the context of deep economic and political crisis, which significantly weakened the power of the central government and offered the richer regions an opportunity to demand more and more fiscal freedom, the central government viewed fiscal decentralisation as a convenient option to avoid the blame for rapidly deteriorating health care and social services and growing wage and pension arrears. In this context, the Kazakhstani government used it to their advantage by literally dumping many social responsibilities onto sub-national budgets.\textsuperscript{95} In particular, regional governments were made responsible for maintenance of public order and security, provision of education, health care, social protection and legally established benefits to certain population groups; housing and local economy; water supply and engineering infrastructure; maintenance of the local media and leisure facilities; support of employment; construction, maintenance and repair of local roads; and many other programs. As a result, fiscal decentralisation also meant that regional governments, regardless of their economic situation assumed increasing responsibility over providing social services without often having the financial resources to

\textsuperscript{93} Fiscal decentralisation was promoted by all major international financial institutions operating in the post-Soviet region, including the IMF, the WB, and the Asian Development Bank. These institutions believed that the old Soviet system of centralised fiscal provision should be replaced with a system, in which the regions would have more freedom in raising their own taxes and allocating them in accordance with local needs. Such fiscal system implied that local governments would cover most of the public expenditures and only resort to central funding if needed, whereas the role of the central government would be limited to providing a block grant for all sectors (education, health, welfare, and infrastructure), which would cover the funding gap between locally generated sources and actual expenses. The decision-making authority on how much they would assign to each sector would, however, rest with local governments. On fiscal decentralisation in Kazakhstan see, \textit{Fiscal Transition in Kazakhstan} (Manila: Asian Development Bank, 1999); Jones Luong, “Economic Decentralization in Kazakhstan: Causes and Consequences”; and Leschenko and Troschke, “Fiscal Decentralization in Centralized States: The Case of Central Asia.”

\textsuperscript{94} Jones Luong, “Economic Decentralization in Kazakhstan: Causes and Consequences,” 25.

\textsuperscript{95} Ibid., 16-17.
provide these social services. The result was that regional authorities often had to make difficult choices about whether and how to allocate scarce resources.

In the end, fiscal decentralisation implemented during the time of deep economic crisis significantly undermined the authority of the central government in richer regions and strengthened regional elites and business groups. In addition, the policy of fiscal decentralisation threatened the social stability in poorer regions, which could not finance its local programs without the help of the central government and were dependent on transfer payments from the centre, which, however, often lacked the resources due to poor tax collection. Overall, it illustrated the weaknesses in Nazarbaev’s vertical of power and placed an enormous strain on the centre’s ability to manage its periphery and alleviate regional disparities in living conditions and rates of income.

The president responded to this situation by adjusting the system so that it would satisfy both national and regional authorities. At the same time, he reinforced his control over the regional elites with the help of various institutional and administrative tools. In particular, starting in the late 1990s, the government enacted some measures that streamlined the existing fiscal arrangements between the national and regional levels of government. If prior to 1999, the division of tasks between levels of government was not defined and the structure of expenditures

96. Ibid.
97. Ibid.
at the lower level was subject to frequent changes and bargaining.\textsuperscript{100} the 1999 budgetary law established a revenue-sharing system between the central and regional governments, in which several taxes were clearly reserved for either the central or regional budget exclusively, and several others were shared equally (50/50).\textsuperscript{101} Table 4.4. provides an overview of fiscal arrangements in Kazakhstan following the 1999 budgetary law.

\textbf{Table 4.4. Revenue Sharing According to Kazakhstan’s 1999 Budgetary Law}

<table>
<thead>
<tr>
<th>Central</th>
<th>Regional</th>
<th>Shared (50/50)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT (as of 1997)</td>
<td>1. Personal Income Tax (PIT)</td>
<td>1. Corporate Income Tax (CIT)</td>
</tr>
<tr>
<td>2. Excess profit tax</td>
<td>2. Social tax</td>
<td>2. Excise tax on alcoholic Beverages</td>
</tr>
<tr>
<td>3. Excise taxes (except alcoholic beverages)</td>
<td>3. Property tax</td>
<td></td>
</tr>
<tr>
<td>4. Customs duties</td>
<td>4. Land tax</td>
<td></td>
</tr>
<tr>
<td>5. Royalties and bonuses</td>
<td>5. Vehicle tax</td>
<td></td>
</tr>
<tr>
<td>6. Administrative Fees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


As some scholars pointed out, the decision to formalise the revenue sharing scheme was a necessary step in legitimising what was already occurring de facto in fiscal and budgetary matters. For example, as Jones Luong explains, the corporate income tax (CIT), the revenue from which previously went exclusively to the central government on paper but was shared almost evenly with regional government in practice, was changed to a shared (50/50) tax. Similarly, the personal income tax (PIT), the revenues from which previously went exclusively to the central

\textsuperscript{100} Leschenko and Troschke, “Fiscal Decentralization in Centralized States: The Case of Central Asia,” 15.

government on paper but in practice went almost exclusively to the regional government instead, was changed from a central tax to a regional tax.\textsuperscript{102}

Essentially, the 1999 Budgetary Law allowed the government to streamline the existing budgetary system, preventing the regions from informal bargaining with the central government over the taxes. As a result, by early 2000s, the regions became increasingly unable to keep the same levels of taxes as before in the regions. For example, while in 1999, regional and local administration raised on average 11 percent more taxes than the central government did, the numbers had more than reversed in 2004: As a proportion of republican tax proceeds, sub-national governments only raised 43.5 percent, that is, less than half.\textsuperscript{103} Essentially, it meant a smaller financial base for regional akims in the west and less bargaining power with the centre.

In addition, starting in the late 1990s, the president and the central government tried to consolidate the control over the country’s oil industry at the national level. The establishment of Kazmunaigaz and a better economic situation allowed the government to renegotiate the state relations with regional leaders, as well as to push through a renegotiation of numerous privatisation deals that in effect weakened strong regional elites.\textsuperscript{104} The establishment of Kazmunaigaz and the growing oil earnings helped the centre to use the growing transfer

\begin{footnotesize}
102. Ibid., 22.

103. Ufer and Troschke, “Fiskalische Dezentralisierung und Regionale Disparitäten in Kasachstan,” 27; Paarmann, “Evolving Centre-Periphery Relations in FSU Transition Countries: The Case of Kazakhstan.”

\end{footnotesize}
payments as a political means to force compliance with its policies from the sub-national governments.\textsuperscript{105}

Most of all, however, the president used various administrative tools to weaken the degree of fiscal autonomy at the local level. One should not forget that most parameters of the budget are set centrally, with the Ministry of Finance providing general guidelines and overseeing the process of budget calculations by the regional budget commissions.\textsuperscript{106} In other words, the revenue base of local budgets is formed from the top down, and the decision-making process follows a similar pattern.\textsuperscript{107} Local governments have little influence on budget revenues and expenditures, which in fact the Ministry of Finance determines. The Ministry calculates control figures, based on which it establishes the amount of subventions and deductions for each region. Local budgets are approved only after the approval of the national budget, when the amount of subventions and deductions is made known.\textsuperscript{108} It means that oblast governments, but especially raion and city governments have only a limited ability to plan their expenditures in advance and ultimately to act independently of the central budget. Sub-national governments cannot initiate their budget preparation in earnest until the higher level of government adopts its own budget.\textsuperscript{109} In the end, such fiscal centralisation increased the dependence of regions on the centre, thus making Kazakhstan a rather centralised political entity, and gradually, this allowed the

\begin{flushleft}
\textsuperscript{105} Ufer and Troschke, “Fiskalische Dezentralisierung und Regionale Disparitäten in Kasachstan,” 25. \\
\textsuperscript{106} For a detailed overview of Kazakhstan’s institutional and administrative structure, review Makhmutova, \textit{Local Government in Kazakhstan}, 435-6. \\
\textsuperscript{107} Ibid., 436. \\
\textsuperscript{108} Ibid. \\
\textsuperscript{109} Martinez-Vazquez, “Budgeting Issues.”
\end{flushleft}
government to minimise the gap between the rich and the poor regions by providing the poorer regions with greater transfer payments.\textsuperscript{110}

4.7. Concluding Remarks

The 20-year reign of President Nazarbaev left a controversial imprint on Kazakhstan’s political landscape. Nazarbaev was the chief architect of post-Soviet Kazakhstan, leading it through independence and transition into what arguably became one of the most socially and politically stable Central Asian republics. Officially, Kazakhstan has it all: a market economy, bicameral parliament, directly-elected president, and a democratic Constitution that grants its citizens a standard set of human and citizens’ rights and protects the existence of opposition parties, the non-governmental sector, and rapidly developing market institutions. In practice, however, following a short period of political liberalisation and contestation in the beginning and mid-1990s, the president grew increasingly intolerant of political challengers, which culminated in the passage of the 1995 Constitution, the formation of an obedient parliament, serving as rubber-stamp to the President’s initiatives, and an effective vertical of power controlling the national and regional elites. With the party system dominated by Nazarbaev’s party of power *Nur Otan* and the clan system run by the people loyal to the president’s clan of the Great Horde, the president was fully in control of the transition process and, as the Aliev saga illustrated, ready to face even some of the dangerous challengers to the regime stemming from inside his own clan.

Sally Cummings summarised the main features of the political system of the post-Soviet Kazakhstan as follows:

The strong control of institutions by the executive elite; obstacles to the emergence of oppositional movements through alternative institutional foci or incentives and also inhibiting the possibility of institutions playing an intermediary role; the associated absence of systemic cushions that would make it easier for oppositional members to exist outside the incumbent elite; a high degree of elite reshuffling preventing security of tenure; various attempts at the centralisation of recruitment, including through centre/region crossovers; a general attitudinal elite consensus in favour of top-down central control; and, a strategy of compartmentalisation which acts as a substitute for full-scale reform.¹¹¹

Andrea Schmitz echoed this assessment and described Nazarbaev’s strategy for managing the political process in the country as follows: “the cooptation of the critics and the manipulation of the oppositional debate themes on the one hand and the repression of the opposition on the other hand are the elements of a deliberate power game [designed by Nazarbaev]. The rationale behind such power games is to split the opposition, isolate its radical members, and, at the same time, discredit its moderate wing.”¹¹²

Needless to say, such centralisation of power in one office was possible not only because of the Soviet legacy and pre-existing distribution of power, which offered Nazarbaev an opportunity to further consolidate all power in his hands, but also due to Nazarbaev’s leadership style and his ability to act pre-emptively and persuade the public. Regardless what we call the regime, Nazarbaev’s reign has seen some remarkable achievements. As I will illustrate in the next chapter, not only did Nazarbaev succeed in building an independent state where there at first was no real country, he achieved it without causing any major social disruptions or upheavals.


CHAPTER 5

CHALLENGES OF TRANSITION IN THE POST-SOVIET KAZAKHSTAN

5.1. Introduction

When Kazakhstan officially declared its independence from the Soviet Union on 16 December 1991, the country was faced with several problems of the transitional period. As all other former Soviet republics, Kazakhstan had to build an independent state, create viable state institutions, develop a common national identity and replace the country’s centrally-planned economy with a market economy. To understand the complexity of the situation faced by the president and the ruling elite, a brief discussion of Kazakhstan’s ethnic and economic challenges is necessary. It will not be an exaggeration to argue that in the beginning of transition, the multi-ethnic composition of Kazakhstan presented perhaps the greatest challenge to the survival of independent Kazakhstan. This was the consequence of Kazakhstan’s pre-Soviet and Soviet past, which resulted in the Slavic expansion into the traditional Kazakh lands during the tsarist and Soviet rule. According to the last Soviet census, taken in 1989, Kazakhs constituted only 39.5 percent of the population, while Russians and other Slavic groups made up 44.2 percent of the population.1 Given the fact that most of the non-Kazakhs settled in communities in the republic’s north on the border with Russia, the Kazakhstani government was presented with serious problem related to the country’s territorial integrity and social stability.

Another crucial challenge to the stability of Nazarbaev’s regime was Kazakhstan’s economic situation and the collapse of its industrial complex. As with many other former Soviet states, in the immediate post-Soviet years, Kazakhstan’s economy teetered on the brink of collapse. Nevertheless, thanks to radical economic reforms and high oil prices, the Kazakhstani government was able to improve the country’s economic situation. The economic growth, in turn, facilitated a rising of living standards of ordinary Kazakhstanis, who saw their incomes plummet in the aftermath of the Soviet disintegration.

In the end, the success of Nazarbaev’s nation-building project and economic reforms imbued both Nazarbaev’s leadership and the soft authoritarian institutions surrounding him with a significant degree of legitimacy – binding citizens in a form of social contract. The president’s strategy of emphasising the importance of economic reforms before any major political changes paid off and generated a lot of supporters, who credited Nazarbaev for impressive social and economic achievements and who were ready to agree with his authoritarian style of leadership.²

That is, the phenomenon of Kazakhstan’s post-Soviet transition should be attributed not only to Nazarbaev’s authoritarian leadership style, but also to his ability to manage the country ethnic and territorial issues, as well as effectively address and frame Kazakhstan’s economic and social problems. The mastery with which the president used his nation-building and economic successes to consolidate his personal power further and reinforce his autocratic, but also charismatic, leadership, is noteworthy. In the end, his political capital, as well as the use of effective framing strategy allowed him to justify even the most painful policy decisions, such as the dismantling of the Soviet welfare state. In this chapter, I will offer the reader an overview of

the ethnic and economic context, within which the welfare reforms unfolded, whereas the next chapter will focus specifically on the transformation of the Soviet welfare state.

5.2. Multi-Ethnic Population and Problems of Territorial Integration

In the aftermath of the Soviet Union disintegration, Nazarbaev was faced with a deep state and national identity crisis. The situation was complicated due to a highly multi-ethnic composition of the Kazakhstani population, spread unevenly throughout the territory of the republic. Realising that Kazakhstan’s regional and ethnic diversity posed a serious threat to the country’s integrity, Nazarbaev insisted that Kazakhstan should maintain a unitary political system. The situation was especially alarming in the northern part of the country, where a Russian population was nearly as large as that of the Kazakhs themselves (Tables 5.1. and 5.2.).

Responding to this challenge, Nazarbaev steadily pursued a policy of increasing the Kazakh presence in the northern part of the country and building a unitary state. A fundamental part of this process has been cadre replacement, with the objective of creating small but powerful local elites politically loyal to the centre. Accordingly, the Kazakh government removed several non-Kazakhs from city and oblast administrations and replaced them with Kazakhs loyal to the


centre. The Kazakhstani government also worked to increase the Kazakh population in the north by stimulating migration. This has involved both the channelling of diaspora Kazakhs from Mongolia, Uzbekistan, and other countries to northern Kazakhstan, as well as the creation of financial incentives (albeit modest) for Kazakhs from densely populated Kazakh areas (especially the countryside) to resettle.

Table 5.1. Changes in the Composition of Two Major Ethnic Groups in Kazakhstan, 1959–1999

<table>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Kazakhs</td>
<td>30.0%</td>
<td>32.6%</td>
<td>36.0%</td>
<td>40.1%</td>
<td>53.4%</td>
</tr>
<tr>
<td>Russians</td>
<td>42.7%</td>
<td>42.4%</td>
<td>40.8%</td>
<td>37.4%</td>
<td>29.9%</td>
</tr>
</tbody>
</table>


Table 5.2. Ethnic Composition of Kazakhstan in 1999

<table>
<thead>
<tr>
<th>Major Ethnic Groups</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakh</td>
<td>53.4</td>
</tr>
<tr>
<td>Russian</td>
<td>29.9</td>
</tr>
<tr>
<td>Ukrainian</td>
<td>3.7</td>
</tr>
<tr>
<td>Uzbek</td>
<td>2.5</td>
</tr>
<tr>
<td>German</td>
<td>2.4</td>
</tr>
<tr>
<td>Tatar</td>
<td>1.7</td>
</tr>
<tr>
<td>Uighur</td>
<td>1.4</td>
</tr>
<tr>
<td>Belorusian</td>
<td>0.8</td>
</tr>
<tr>
<td>Korean</td>
<td>0.7</td>
</tr>
</tbody>
</table>


In an attempt to strengthen the role of the state in the north, Nazarbaev moved the capital from Almaty in the south to Astana, located in the north-west of the country. The relocation of


the capital was an example of impressive organisation on part of the state apparatus: the move from Almaty to Astana was organised in just a couple of years – Astana was designated future capital in 1995, and by the end of 1997, the capital had moved.\(^7\) The decision to move the capital amidst deep economic and social crisis surprised many observers.\(^8\) As Schatz noted, many attributed this decision primarily to Nazarbaev’s ambition and authoritarian ruling style.\(^9\) In geopolitical terms, however, the move was justified as it allowed the president to gain control of the country’s northern territory, and to recast the country’s image, presenting it as a symbol of harmonious multi-ethnic co-existence and international peace.\(^10\)

Further integration of Kazakhstan’s territories was facilitated as a result of the 1997 administrative reform, which reorganised Kazakhstan’s political-territorial administration by abolishing five oblasts (Torgai, Taldykorgan, Semipalatinsk, Zhezkazgan, and Kokshetau).\(^11\) As a result of these changes, the average size of each oblast increased, particularly in the northern provinces.\(^12\) The abolition was justified as an effort to advance economic efficiency by uniting natural resource deposits with potential refineries and eliminating the bloated bureaucracies of the country’s least populated provinces.\(^13\) Most importantly, however, these changes helped

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7. See, for example, Vladimir Ardaev, “Prezidentskii shtandart nad Akmoloi” [The President’s Standards Reign over Akmola], Izvestia, Dec. 10, 1997.


9. Ibid. See also Olcott, Kazakhstan: Unfulfilled Promise?, 101.


12. Ibid.

13. Ibid.
Nazarbaev to integrate the country’s northern territories: by increasing the proportion of Kazakhs in Russian-dominated regions and regional governmental institutions, the president was able to assert his control over these territories.

The government also tried to promote the use of Kazakh language throughout Kazakhstan. Nazarbaev viewed the Kazakh language as a key factor in re-inventing and unifying the ethnic Kazakh population and integrating all people living within Kazakhstan’s borders. At the same time, however, he recognised the multi-ethnic composition of Kazakhstan’s population and complemented his policy of ethnic consolidation and promotion of the Kazakh language with attempts at building a supra-ethnic identity, which would include all citizens of Kazakhstan.  

Needless to say, conducted simultaneously, the policies aimed at promoting the Kazakh language and creating a supra-ethnic identity produced resistance among various ethnic groups. The Russian population perceived state actions at promoting the Kazakh language as discriminating against the Russian language and Russian-speakers. In turn, many Kazakh nationalists accused the Russian population of colonial mentality and disrespect for Kazakh language and culture. Over time, however, ethnic tensions and instability subsided and the use of Kazakh language has been steadily growing among the Kazakh, as well as other ethnic groups.

According to Chaimun Lee, the harmonisation of inter-ethnic relations in Kazakhstan was the result of Nazarbaev’s cautious policy approach characterised by the following elements:


development of divergent messages, compromise on language titles, soft policy on language requirements for employment and higher education, mild policy on ethnic-language ties, and unified language policy.\(^\text{17}\) As an example of divergent and ambiguous messages, one can think of the 1989 law on languages passed by the Supreme Soviet. In the Russian version, the law was titled “Law on Languages,” implying that it dealt with the status of both Kazakh and Russian languages. In the Kazakh version, however, the title of the law was “Law on Language(s),” thus leaving the Kazakh population guessing whether it dealt with one language or more.\(^\text{18}\)

Furthermore, the government illustrated its mastery when deciding on the status of the Russian and Kazakh languages. Realising that granting the Kazakh language the status of the only state language in the 1995 Constitution would antagonise the Russian population, the government tried to counterbalance it by granting the Russian language the status of inter-ethnic communication.\(^\text{19}\) In addition, the president devoted a lot of time in his speeches and official statements to emphasising the multi-ethnic composition of the Kazakhstani state and indirectly proposing it as Kazakhstan’s new image.\(^\text{20}\) This included taking a rather softer stance on the

\(^{17}\) Lee, “Languages and Ethnic Politics in Central Asia: The Case of Kazakhstan,” 106.

\(^{18}\) Ibid., 107.


language requirements for employment and education, ensuring that they were flexible enough to prevent any excessive discrimination of the Russian population.\textsuperscript{21}

Another component of Kazakhstan language policy presupposed an active propagation of Kazakh national heritage among ethnic Kazakhs, who spoke little or no Kazakh at all. The position of Kazakh nationalists was summarised in the following statements: “It is desirable for everyone in Kazakhstan to know Kazakh. For managerial jobs it is acceptable if non-Kazakhs do not know the language. But for ethnic Kazakhs, knowledge of the mother tongue should be required. Without knowledge of it, ethnic Kazakhs are not worthy individuals to hold management positions.”\textsuperscript{22} Therefore, to promote the Kazakh language, the government established Kazakh language centres – Kazak Tili, a state-wide and government-funded organisation set up at the oblast level for the purpose of spreading Kazakh culture and language. Kazak Tili has been particularly active in the north. There it has been the primary force behind such initiatives as the opening of Kazakh schools and kindergartens, the expansion of Kazakh language classes in institutes and enterprises, and the organisation of celebrations for Muslim and Kazakh national holidays.\textsuperscript{23}

What is important, however, was the fact that the Kazakhstani government was obviously aware that such policies would be met with considerable unease by the Russian population. Trying to avoid any further ethnic tensions, the government counterbalanced its policies, promoting the Kazakh language by allowing the formation of Russian national movements and


22. Ibid., 109.

organisations. At the same time, the government watched such movements and organisations closely and stepped in whenever they appeared to pose a threat to the integrity of the state.\textsuperscript{24} The government was also selective in what opposition groups were allowed to register, often denying registration to groups based on ethnic principles, including various Cossack and Russian groups.\textsuperscript{25} In addition, the Kazakh government maintained a strong hold over the opposition media, closing down several newspapers and other publications of Russian oppositionist forces.\textsuperscript{26}

In the end, Nazarbaev’s double-edge strategy for unifying the nation and ensuring its territorial integrity paid off. By emphasising the multi-ethnic composition of Kazakhstan, while also promoting the Kazakh language and culture, the government managed to kill two birds with one stone: it avoided escalation of ethnic tensions and ensured the territorial integrity of the republic. This, together with the 1997 administrative reform and relocation of the capital to Astana resulted in recentralisation of Kazakhstan’s territories and a generally stable and peaceful co-existence of Kazakhstan’s multi-ethnic population.\textsuperscript{27}

5.3. Reforming Kazakhstan’s Economy

Another challenge to the stability of the post-Soviet Kazakhstan stemmed from the deep economic crisis and the impact it had on the socioeconomic situation in Kazakhstan. The country inherited the Soviet economic structures, which were characterised by heavy dependence on the

\begin{itemize}
  \item 24. Ibid.
  \item 25. Ibid., 621-2.
  \item 26. Ibid., 622.
  \item 27. The gradual stabilisation of multi-ethnic relations in Kazakhstan was also attributed to the rapidly decreasing population of Kazakhstan in the 1990s. The deep social and economic crisis resulted in increasing migration on part of the Russian population and lower fertility rates among all major ethnic groups. Makhmutova, \textit{Local Government in Kazakhstan}, 407.
\end{itemize}
Soviet Union for export markets, a financial system, and welfare transfers. The disintegration of the USSR resulted in the collapse of the inter-republican trade and the dramatic decline in output.

Drawn into the crisis by the rapidly collapsing Russian economy, the Kazakh government saw no other option but to follow the course of economic reforms launched by its northern neighbour. In the fall of 1991, supported by the IMF and other international organisations, Nazarbaev appointed a small group of people to lead Kazakhstan out of economic misery. Erik Asanbaev became the vice-president, Uzakbai Karamanov, then head of the Council of Ministers, was appointed as chairman of a new Council of Ministers, and Daulet Sembayev, former head of Nazarbaev’s economic advisory council, became vice-premier. Sergei Tereshchenko, a Russian-Ukrainian and a close friend of Nazarbaev, was appointed to the post of prime minister. The majority of these people was trained as economists and viewed themselves as reformers, who immediately sought the IMF advice and supported an IMF-backed stabilisation program.

28. It was estimated that in the late 1980s/early 1990s such budgetary transfers from Moscow reached circa 12 percent of Kazakhstan’s GDP, whereas in other Central Asian republics, transfers reached as much as 40 percent of GDP, as for example in Tajikistan. See Anne E. Peck, *Economic Development in Kazakhstan: The Role of Large Enterprises and Foreign Investment* (London: Routledge Curzon, 2004), 60-2; and Charles M. Becker, Grigory A. Marchenko, Sabit Khakimzhanov, Ai-Gul S. Seitenova, and Vladimir Ivliev, *Social Security Reform in Transition Economies: Lessons from Kazakhstan* (New York: Palgrave Macmillan, 2009), 3.


The stabilisation program rested upon three central principles. First, the Kazakhstani government was expected to stabilise its economy rapidly and bring its inflation under tight control. In order to achieve stabilisation, the government had to set the prices free and lower its fiscal deficits. Naturally, this could not be achieved without timely privatisation and improved financial regulation. Only such swift and comprehensive reforms, it was argued, would yield positive results in the long run and limit the absolute decline in GDP and government revenue in the short run. Gradual reform was not viewed as a practical option for the economies severely distorted by long association with central planning.\textsuperscript{32}

Equipped with this program, the Kazakhstani government launched its market reforms in 1991, starting with privatisation and several institutional measures. In January 1992, the government moved to liberalise most of the prices and went ahead with enacting a number of new laws in key areas, including privatisation and denationalisation, foreign direct investment, and property rights.\textsuperscript{33} A brief overview of the Kazakhstani reform program is presented in table 5.3. It is divided into systemic reforms, stabilisation policy, and trade and exchange rate policy.\textsuperscript{34}

As evident from Table 5.3., the majority of economic reforms in Kazakhstan were launched between 1991 and 1996. The results of the reforms were impressive. Already in 1996,

\begin{footnotesize}
\begin{enumerate}
\item On the challenges of the transitional period during the early 1990s see Jonathan Aitken, \textit{Nazarbayev and the Making of Kazakhstan} (London; New York: Continuum, 2009), 114-5.
\item Auty, “The IMF Model and Resource-Abundant Transition Economies: Kazakhstan and Uzbekistan.”
\end{enumerate}
\end{footnotesize}
the Kazakhstani economy showed the first signs of recovery. It did slowdown in 1998 due to the financial crisis in Russia and decreased oil-prices; however, by 1999, the situation had improved and since 2000, Kazakhstan has experienced an impressive economic growth.

Table 5.3. Summary of the Kazakhstani Reform Programme

<table>
<thead>
<tr>
<th>Policy Area</th>
<th>Introduction</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Systemic Reforms</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Liberalisation of Internal Trade</td>
<td>1992</td>
<td>Internal trade restriction removed</td>
</tr>
<tr>
<td>- Price Liberalisation</td>
<td>1992</td>
<td>Followed Russia’s radical reforms, more than 80% of the prices were decontrolled</td>
</tr>
<tr>
<td>- Foreign Investments</td>
<td>1991</td>
<td>“One-Stop” State Investment Committee was introduced in 1996</td>
</tr>
<tr>
<td>- Labour Market</td>
<td>1992</td>
<td>Introduction of wage flexibility and tax-based wage policy</td>
</tr>
<tr>
<td>- Financial Liberalisation</td>
<td>1991</td>
<td>Restrictions on private and independent banking and financial institutions eliminated</td>
</tr>
<tr>
<td>- Legal Reforms</td>
<td>1991–1992</td>
<td>Property and commercial law</td>
</tr>
<tr>
<td><strong>Stabilisation Policy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Public Expenditure Control</td>
<td>1992–1994</td>
<td>Fiscal deficit diminished significantly</td>
</tr>
<tr>
<td>Monetary Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Money Supply</td>
<td>1994</td>
<td>Control from 1995</td>
</tr>
<tr>
<td>- Credit to the Public Sector</td>
<td>1993–1994</td>
<td>Control, hard budget constraints for SOEs</td>
</tr>
<tr>
<td>- Central Bank Independence</td>
<td>1993–1995</td>
<td>Independence and increased autonomy</td>
</tr>
</tbody>
</table>
Perhaps, the most difficult period for the Kazakhstani economy was between 1992 and 1995. The liberalisation of prices led to a period of hyperinflation, which exceeded 1381 percent in 1992, and GDP decreased by 11.3 percent (table 5.4.). The reforms also resulted in the dramatic increase of unemployment rates. The government responded by implementing tight fiscal austerity measures, establishing numerous employment agencies and retraining schemes, and passing several laws that regulated the relations between employers and employees.

Following the suspension of the ruble zone by the Russian Federation in 1993, the Kazakhstani government faced the need to create Kazakhstan’s new national currency, which was introduced in November 1993.35 This enabled the government to initiate its own independent macroeconomic policy.36 With the passage of the Banking Act in 1993, as well as the Act on Securities Trading and the Decree on Insurance, the government made serious attempts to stabilise the country’s financial situation and improve its macroeconomic performance.37

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36. Makhmutova, Local Government in Kazakhstan, 408.


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Despite these efforts, 1994 was still very difficult for the Kazakhstani economy. In October 1994, Nazarbaev reconstituted the government, replacing Sergei Tereshchenko with Akezhan Kazhegeldin as its head.\(^{38}\) The Kazhegeldin government launched several further anti-crisis initiatives aimed at promoting macroeconomic stability and institutional transformation. Under Kazhegeldin, the government went ahead with further privatisation of state enterprises and replacement of the old Soviet bureaucracy with new management.\(^{39}\) Emphasis was also made on developing a legal and regulatory base for economic reform: some key documents were passed, including a medium-term program for further reform of the banking system and programs for step-by-step transfer of social and economic organisations to local budgets; for developing the securities’ market; for promoting employment growth; for developing small and medium businesses; for supporting entrepreneurial activity; and for privatising and restructuring entities in state ownership.\(^{40}\)

Within next few years, the Kazhegeldin government was able to change the situation slightly for the better: by 1996, inflation dropped to 29 percent, and in 1997, it stood at 11 percent.\(^{41}\) Things, however, were still far from stable: by 1995, Kazakhstan’s real GDP had fallen to 52.6 percent of its 1990 level, and the number of formal sector workers (and especially

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the number of workers making regular social insurance contributions) fell rapidly and steadily. Formal sector employment was 30 percent lower in 1995 than in 1991, and by 1997, the decline was more than 50 percent.\textsuperscript{42} By 1997, the proportion of unprofitable enterprises rose to 60 percent and the enterprises’ overdue debt to the state budget reached 7.3 percent of GDP; wage arrears reached 16 percent of the total wage bill.\textsuperscript{43} Table 5.4. provides an overview of key macroeconomic indicators from 1990 to 1997.

Table 5.4. Selected Macroeconomic Indicators in Kazakhstan between 1991 and 1997

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Real growth in GDP (%)</td>
<td>-9.8</td>
<td>-2.9</td>
<td>-10.4</td>
<td>-17.8</td>
<td>-8.9</td>
<td>1.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Index of real GDP (1990=100)</td>
<td>90.2</td>
<td>87.6</td>
<td>78.4</td>
<td>64.5</td>
<td>58.7</td>
<td>59.3</td>
<td>60.5</td>
</tr>
<tr>
<td>Index of real consumption (1993=100)</td>
<td>100</td>
<td>78.2</td>
<td>76.5</td>
<td>80.3</td>
<td>n.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation (end-of-year change in CPI)</td>
<td>90</td>
<td>1 381</td>
<td>1 662</td>
<td>1 880</td>
<td>60</td>
<td>29</td>
<td>11</td>
</tr>
<tr>
<td>Fiscal deficit (% of GDP)</td>
<td>7.9</td>
<td>7.3</td>
<td>1.3</td>
<td>7.2</td>
<td>2.5</td>
<td>3.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Nominal rate of exchange (Annual average tenge/US$)</td>
<td>2</td>
<td>36</td>
<td>61</td>
<td>68</td>
<td>76</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In short, as table 5.4. illustrates, the country managed to achieve macroeconomic stabilisation in 1996: for the first time in 5 years, GDP grew to 1.1 percent compared with the

\textsuperscript{42} Becker et al., \textit{Social Security Reform in Transition Economies: Lessons from Kazakhstan}, 15.

\textsuperscript{43} Ibid.
previous year. This trend strengthened in 1997 as GDP increased by 1.0 percent and inflation declined to 11 percent. In comparison to 1991, however, the level of GDP had decreased by almost half, and the living standards of the overwhelming majority of the population had deteriorated dramatically.\(^{44}\) Nor was economic growth stable: due to the impact of the financial crises in Russia and Southeast Asia, the level of GDP decreased by 2.5 percent by the end of 1998. The period of negative economic growth finally ended in 1999, when Kazakhstan entered the phase of strong and sustained growth.\(^{45}\) By 2003, Kazakhstan’s GDP reached 94 percent of its 1989 level and surpassed its previous Soviet levels in 2004.\(^{46}\) In 2006, GDP grew in real terms by 10.6 percent, fuelled by high levels of capital investment and oil revenue.\(^{47}\) It has been estimated that as a result of increased oil and gas production and high energy prices, the country’s GDP will triple between 2004 and 2015.\(^{48}\)

To large extent, the success of Kazakhstan’s economy and its impressive recovery following the devastating collapse was attributed to the president and his Prime Minister Akezhan Kazhegeldin, who referred to himself as “an international dealer” and admitted that he wore his prime ministerial costume on top of his business costume.\(^{49}\) As Kazhegeldin himself

\(^{44}\) See also Makhmutova, *Local Government in Kazakhstan*, 409.


\(^{47}\) Ibid.

\(^{48}\) Ibid., 5-6.

\(^{49}\) Vladimir Ardaev, “Kazakhstanskii prem’ier zaiaivil o sviaziakh s KGB i… propal” [The Kazakhstani Prime Minister Announced His Ties to KGB and… Disappeared], *Izvestiia*, Oct. 1, 1997.
summarised, the main causes for the success of Kazakhstan’s economic reforms, the stabilisation of Kazakhstan’s economy was partially achieved with the help of unpopular decisions, including rising prices on bread and other basic food items, transfer of state enterprises to foreign investors, radical pension reform, retrenchment of the welfare system, and so on. Viewed as necessary to stabilise Kazakhstan’s economy and slow the inflation, the government had no other choice but to cut the Soviet spending levels.

This, however, would have been impossible to carry through without an effective political persuasion and the ability of the government to sell these ideas to the public. In the words of one young economic advisor to the president in the early 1990s, Umirzak Shukeyev, “[The President] gave us a free hand to speak out frankly, particularly on matters such as cutting the government’s spending. But at the end of the day we knew we were talking theoretically, while only the President had the experience to know what could be delivered politically,” meaning that in the end, the realisation of the reform depended primarily on the political mastery of the president and his ability to sell these policies to the public.

5.4. Conclusion

The post-Soviet transformation of Kazakhstan is remarkable in two respects. Faced with numerous ethnic and economic problems, it is remarkable indeed how effective the president and the government were in addressing these challenges in a timely and efficient manner. One of the most acute problems faced by the Kazakhstani government in the early years of independence

50. Ibid.

51. Ibid.

was the prospects of escalating ethnic tensions between the two major ethnic groups and the integrity of a state. Observers of Kazakhstani politics worried that “unless prosperity eases tensions between Kazakhs and Russians, the outlook for long-term political stability in Kazakhstan [was] dim.” Despite all odds, however, the president managed to preserve ethnic stability and strengthen territorial integrity of Kazakhstan even amidst deep economic crisis. This was made possible thanks to his multi-ethnic and multi-faith policy, which offered an effective frame for building a common national identity. At the same time, Nazarbaev masterfully promoted the Kazakh language and controlled the Russian movement in the north of the country. In the words of Rico Isaacs, “the careful steering between ensuring stability through a promotion of multi-ethnic diversity and tolerance, while simultaneously promoting the idea and concepts of Kazakh identity and nationhood, has emerged in domestic discourse as one of Nazarbayev’s great successes.”

Re-framing required from Nazarbaev not only excellent political, administrative, and communication skills, but also an effective use of language and the media. Nazarbaev possessed them all: With his masterful appeasement of the two ethnic groups, effective framing of language issues, and the decision to move the capital to Kazakhstan’s northern border, the president succeeded in overcoming the most acute challenges of the transitional period, paved the way for the development of common national identity, and ensured Kazakhstan’s territorial integrity.

He was arguably equally successful in managing Kazakhstan’s ailing economy. The liberalisation of prices, privatisation, and the decision to open the Kazakhstani economy to


foreign investors all required enormous managerial and leadership skills from Nazarbaev. As Nazarbaev recounted the dilemmas of the transitional period: “There was no time to wait for absolutely everyone to be won over, and then introduce the reforms in an environment of total concord. If we had waited, there would simply have been nothing – no state or economy – left for us to reform.”

To convince the public that privatisation and economic liberalisation were the necessary components of economic transformation, Nazarbaev invented a complex strategy to introduce privatisation to the public, using a variety of names for privatisation programs, including Initiative Privatisation, Voucher Privatisation, Small-scale Privatisation, and Agro-privatisation. In the end, Nazarbaev’s economic reforms started to produce results, and the country saw some economic stabilisation in the mid-1990s and a steady economic growth from 1999.

In short, over the course of the last twenty years, Nazarbaev illustrated a steady record of coherent and effective public policy-making. I argued that it was not just a fortuitous coincidence, but the consequence of masterful use of several factors and skills, including a centralised institutional structure, weakly developed political and civil opposition, and Nazarbaev’s talents in re-framing the problems, courting the media and persuading the public. In the next chapter, I will further develop this argument by analysing the case of the social benefits reform.

55. Aitken, Nazarbeyev and the Making of Kazakhstan, 162.

56. Ibid., 162-3.

57. Ibid., 163.

58. Ibid., 163-4.
CHAPTER 6

WELFARE REFORMS IN KAZAKHSTAN, 1991-2010

6.1. Introduction

This chapter discusses Kazakhstan’s social benefits reform, assesses its outcomes, and identifies the key factors that contributed to its successful implementation. Being a logical continuation of previous chapters, in which I discussed Kazakhstan’s socio-cultural traditions and Soviet legacies, as well as the political and economic reforms since independence, this chapter situates the social benefits reform within the broader socioeconomic context and attempts to answer three questions: How has Kazakhstan’s welfare system evolved since independence? Was the government successful in achieving its short-term and long-term objectives? To what degree did the social benefits reform help alleviate poverty? In answering these questions, I use the analytical framework developed in Chapter 2. Various aspects of the social benefits reform will be discussed, including its timing and the political instruments and administrative mechanisms that contributed to its successful implementation. The chapter concludes with the assessment of reform outcomes and an analysis of factors that helped the government of Kazakhstan to carry out the reform.

1.2. Reforming the Welfare State amidst Deep Economic Crisis and Social Collapse

Following the collapse of the Soviet Union, Kazakhstan found itself amidst deep economic and welfare crises, which affected not just the general standards of living, but created new groups of
people vulnerable to poverty who urgently needed social assistance. Overall, among the biggest problems that required urgent governmental response were: (1) the rising unemployment in the context of weak demand for labour, as older firms either collapsed or retrenched and new firms needed time to establish themselves; (2) the collapsing industrial complex contributed to the collapse of Kazakhstan’s social infrastructure, including child care and health care services, transportation, and municipal services; (3) the faltering education and health care systems; and (4) the rising poverty level exacerbated by the decline in social and infrastructure services, deteriorating education and health care services, and collapsing social safety net.¹ The crisis put the Kazakhstani politicians in a dilemma of how to restructure the old Soviet welfare state efficiently so that it would not be a burden on the state’s financial system while also maintaining an adequate level of social protection to the most disadvantaged groups of the population.²

In the beginning of transition, the government still tried not only to maintain this vast and expensive welfare system, but to expand its social assistance programs and offer additional benefits to selected groups of the population, including single mothers, families with many children, children abandoned by parents, soldiers’ children, and families with the newborns.³ From 1990–1992, the government passed several new laws in the field of social protection, including “On the Semipalatinsk nuclear testing ground” (1990); “On social protection of


citizens of Kazakhstan, injured as a result of nuclear testing at the Semipalatinsk nuclear proving ground” (1992); “On the social protection of citizens of Kazakhstan, affected by the environmental disaster in Priaral’ie” (1992), and so on.\(^4\) Most of these changes expanded the number and size of social benefits and monetary compensations offered to selected groups of the population.\(^5\) However, as economic and fiscal crises deepened, the government faced a grim reality of not being able to finance its vast welfare system.

A significant increase in the number of unemployed and pension recipients further complicated the situation. With the onset of economic decline, the level of official unemployment in Kazakhstan steadily grew rising from 185,000 people in 1991 to 264,000 in 1992.\(^6\) This process continued well into 1995, with the formal sector employment falling by

\(^4\) *Zakonodatel'stvo: pensii i posobiia.*


more than 30 percent relative to 1991; by 1997, the decline was more than 50 percent. These numbers, however, did not reflect the real unemployment levels. Since many people were either unaware of the unemployment benefits, did not bother registering with the Employment Agency due to the relatively small size of unemployment benefits, or simply preferred to keep their working places, the real unemployment numbers were much higher.

Inevitably, the desperate unemployment situation had a large, adverse impact on the pension system’s dependency ratio, defined as the ratio of pension and other social benefit recipients to the number of social insurance contributors. If in 1980, there were almost 30 pensioners and beneficiaries per 100 workers paying insurance contributions, this number rose to 73 in 1997 and then to 83 in 1998. The problem was further aggravated by the changes that took place prior to the Soviet Union collapse and shortly after independence. In particular, in 1992, the Kazakhstani government amended the nation’s Soviet-era pension laws (adopted in 1991) with Provision N1521-XII, according to which the eligibility for early retirement (53 for females and 58 for males) was extended to those Kazakhstani citizens with at least 25 years of service for men or 20 years for women, and who were unable to find new employment after being discharged from their prior job due to layoffs or enterprise closure. Given the prevailing hyperinflation and deteriorating economic outlook in Kazakhstan in 1992–1993, this amendment


8. Ibid., 155.

9. Ibid.

10. Ibid.
provoked significant early retirement, increasing the number of old age pensions granted on standard and favourable terms by 19 and 30 percent, respectively.\textsuperscript{11}

Furthermore, the increase in the number of citizens eligible for pensions was also the result of the changes in the eligibility criteria for receiving social pensions. According to the USSR 1990 Law on Pension Provision, social pensions began to be assigned to those citizens who lacked a right to labour service pensions, that is, old-age pensioners without sufficient work history, along with the disabled and survivors. Consequently, Kazakhstan’s pension problems stemmed not only from the sudden rise in the number of unemployed population and drastic expansion of beneficiaries because of massive early retirement in 1992–1993, but also because the Soviet government had just made a generous commitment in 1990 to provide all elderly people, disabled, and survivors with either adequate labour or social pensions. While these promises were well intentioned, they ultimately became a Soviet legacy to be borne by Kazakhstan.\textsuperscript{12} In 1992 alone, the state offered more than 9.5 million people social assistance.\textsuperscript{13} And the total share of all state social expenditures in Kazakhstan in 1991–1992 amounted to 10 percent of GDP – a sum comparable with that in OECD countries and higher than in many developing countries.\textsuperscript{14} Table 6.1. illustrates the size of social expenditures in Kazakhstan in 1992, whereas tables 6.2., 6.3. and 6.4. illustrate the changes in Kazakhstan’s macroeconomic and social indicators between 1991 and 1992, and the number of pension recipients between 1983 and 1997.

\begin{itemize}
\item \textsuperscript{11} Ibid., 156.
\item \textsuperscript{12} Ibid., 160-1.
\item \textsuperscript{14} World Bank, “Kazakhstan: The Transition to a Market Economy,” 92.
\end{itemize}
The problem was further complicated due to significant inflation, which in the beginning of transition considerably eroded the real value of pensions and social assistance, thus causing significant drop in the quality of living standards of most pension and welfare recipients, especially very old single persons with no relatives.\textsuperscript{15} The government’s growing incapacity to mobilise the resources only aggravated the situation: in particular, government revenues fell from 39 percent in 1992 to 24 percent in 1996, and public expenditures on social protection (pensions, unemployment benefits, family allowances, sick pay, maternity benefits and social assistance) fell from 11.2 percent of GDP in 1992 to 6.6 percent in 1996 before rising to 7.9 percent in 1997 as the government tried to clear its pension arrears, which by March 1997 amounted to more than 34 billion tenge (table 6.2.).\textsuperscript{16}

<table>
<thead>
<tr>
<th>Selected countries</th>
<th>Social security</th>
<th>Pension</th>
<th>Unemployment Benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan ('92)</td>
<td>5.0</td>
<td>4.7</td>
<td>0.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Poland ('91)</td>
<td>2.9</td>
<td>7.9</td>
<td>2.0</td>
<td>12.8</td>
</tr>
<tr>
<td>Hungary ('90)</td>
<td>6.2</td>
<td>9.9</td>
<td>0.5</td>
<td>16.6</td>
</tr>
<tr>
<td>Germany ('86)</td>
<td>1.6</td>
<td>11.4</td>
<td>1.4</td>
<td>14.4</td>
</tr>
<tr>
<td>OECD Lower Income ('86)</td>
<td>2.9</td>
<td>7.8</td>
<td>1.8</td>
<td>12.5</td>
</tr>
<tr>
<td>OECD Welfare States ('86)</td>
<td>5.3</td>
<td>10.1</td>
<td>2.5</td>
<td>17.9</td>
</tr>
<tr>
<td>United States ('86)</td>
<td>0.8</td>
<td>7.2</td>
<td>0.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Canada ('86)</td>
<td>1.5</td>
<td>5.5</td>
<td>3.2</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Note: Social security excludes spending on social services such as health and education.

Sources: World Bank, “Kazakhstan: The Transition to a Market Economy.”

\textsuperscript{15} Ibid., 94.

\textsuperscript{16} “Zadolzhennost’ po pensiiam v Kazakhstane uvelichilas’ do 34 milliardov tenge” (Pension Arrears in Kazakhstan Increased to 34 Billion Tenge), Reuters, Mar. 10, 1997; Murthi et al., “Poverty and Economic Transition in Kazakhstan,” 162, 164; Valentina Sivriukova, “Iz pustogo basseina vody ne zacherpnes”’ (One Cannot Get Water from an Empty Swimming Pool), Kazakhstanskaia pravda (Nr. 119-120), May 13, 1997, 3.
Figure 6.1. Macroeconomic and Social Indicators, 1991 = 100%


Figure 6.2. Number of Pensions, by Category, 1983=100%

Figure 6.3. Total Number of All Types of Favourable Pensions, 1983–1997

Source: Seitenova and Becker, “Kazakhstan’s Pension System: Pressures for Change and Dramatic Reforms,” 158.

Table 6.2. Government Revenues and Expenditures Between 1991 and 1997

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government revenues and grants (%GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social protection expenditures (% of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index of real per capita expenditure on healthcare (1992 = 100)</td>
<td>168</td>
<td>100</td>
<td>94</td>
<td>59</td>
<td>72</td>
<td>66</td>
<td>80</td>
</tr>
<tr>
<td>Index of real per capita expenditure on education (1992 = 100)</td>
<td>177</td>
<td>100</td>
<td>100</td>
<td>51</td>
<td>63</td>
<td>49</td>
<td>62</td>
</tr>
</tbody>
</table>


In short, economic collapse and deep fiscal crisis aggravated by the surge in unemployed population and the number of pensions and welfare recipients greatly affected the capacity of the government to manage and finance its welfare system. Poverty became widespread. As the data indicate, in 1989, the poverty level in Kazakhstan, estimated as the percentage of people living
below 75 roubles a month, stood at 15.5 percent. Following the collapse of the Soviet Union, the situation rapidly deteriorated. According to the Kazakhstan Living Standard Survey (KLSS) conducted in 1996, 34.6 percent of the population of Kazakhstan was living in poverty in July 1996. Falkingham suggests that already in 1993–1994, almost 50 percent of Kazakhstan’s population lived in poverty. Other estimates put the poverty level even higher at 64 percent in 1995 and 80 percent in 1996. On average, the situation remained largely unchanged also in the second half of the 1990s, with the proportion of people living in poverty fluctuating between 28 and 40 percent of the population. According to some estimates, in 1999, almost one third of the population still lived below the subsistence minimum (34.5 percent of the population). The economic decline also affected the distribution of income in the country, as evident from table 6.3. In 1989, the poorest 20 percent of the population received just 10 percent of the income in Kazakhstan, whereas the richest 20 percent received almost one-third of the income. By 1994, the situation had drastically changed, with the percent of the income going toward the poor


18. Ibid., 18.

19. Peck, Economic Development in Kazakhstan: The Role of Large Enterprises and Foreign Investment, 65. Overall, it was relatively difficult to provide accurate evaluation of the level of poverty in Kazakhstan during this period. On average, however, the estimates varied between 30 and 60 percent. For example, speaking at a press conference in February 1998, the chair of the Committee of Analysis and Statistics Zhaksybek Kulekeev stated that 60 percent of the population lived below poverty level. See “V Kazakhstane 60% naselenia zhivet za chertoi bednosti” (60 Percent of the Population Is Living Below Poverty Line in Kazakhstan), Reuters, Feb. 17, 1998.

dropping significantly from 9.6 percent to 6.3 percent (table 6.3.).

Further calculations make the picture even more alarming, illustrating that the real income of the poorest group of the population declined an apparent 68 percent from 1989 to 1994, while those of the richest 20 percent declined only 52 percent. In other words, the economic crisis affected all strata of society; however, the poorest were affected the most.

Table 6.3. The Distribution of Income in Kazakhstan Between 1989 and 1994

<table>
<thead>
<tr>
<th>Population quintiles</th>
<th>Percentage of Income in 1989</th>
<th>Percentage of Income in 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest 20 percent</td>
<td>9.6</td>
<td>6.3</td>
</tr>
<tr>
<td>Next Poorest 20 percent</td>
<td>13.7</td>
<td>12.4</td>
</tr>
<tr>
<td>Middle 20 percent</td>
<td>18.2</td>
<td>17.8</td>
</tr>
<tr>
<td>Next Richest 20 percent</td>
<td>24.0</td>
<td>29.5</td>
</tr>
<tr>
<td>Richest 20 percent</td>
<td>34.5</td>
<td>34.0</td>
</tr>
</tbody>
</table>


As time passed, poverty became regionalised, with the largest percentage of the poor households located in the south of the country and, to a lesser extent, the east of the country (table 6.4.). More than two out of three people live in poverty in the south compared with a national average of around one in three. In contrast to the south, one out of eleven people lived in poverty in the north. Not only was poverty more limited in the north; it was less deep and far less severe than in the south. In addition, according to KLSS, poverty was higher in rural areas than in urban centres, although the differences were rather small (table 6.5.).

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22. Ibid.


24. Ibid.

25. Ibid., 165.
Table 6.4. Regional Dimensions of Poverty in Kazakhstan

<table>
<thead>
<tr>
<th>Region</th>
<th>Headcount Ratio, H</th>
<th>Poverty Gap, PG</th>
<th>P2</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>9.2</td>
<td>1.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Centre</td>
<td>26.4</td>
<td>9.0</td>
<td>4.4</td>
</tr>
<tr>
<td>East</td>
<td>31.3</td>
<td>9.0</td>
<td>3.6</td>
</tr>
<tr>
<td>West</td>
<td>37.8</td>
<td>10.8</td>
<td>4.2</td>
</tr>
<tr>
<td>South</td>
<td>69.2</td>
<td>26.4</td>
<td>13.0</td>
</tr>
<tr>
<td>Total</td>
<td>34.6</td>
<td>11.4</td>
<td>5.2</td>
</tr>
</tbody>
</table>

North: Kostanai, Kokshetau, Pavlodar, and North Kazakhstan oblasts; Centre: Zhezkazgan, Karaganda, Akmola and Torgai oblasts; West: Manghystau, Atyrau, Aktyubinsk, West Kazakhstan; East: Semi Palatinsk, East Kazakhstan, Taldykorgan and Almaty oblasts and Almaty city; South: Kzyl-Orda, South Kazakhstan and Zhambyl oblasts. In April 1997, the merger of oblasts reduced the total number from 19 to 14.

Source: Murthi et al., “Poverty and Economic Transition in Kazakhstan,” 166.

Table 6.5. Urban versus Rural Poverty in Kazakhstan

<table>
<thead>
<tr>
<th></th>
<th>Headcount ratio, H</th>
<th>Poverty gap, PG</th>
<th>P2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>30.0</td>
<td>8.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Rural</td>
<td>39.0</td>
<td>13.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Total</td>
<td>34.6</td>
<td>11.4</td>
<td>5.2</td>
</tr>
</tbody>
</table>

The headcount ratio, H, is the proportion of individuals below the poverty line. The poverty gap, PG, is a measure of the depth of poverty. It measures average consumption shortfall in the population (the non-poor have zero shortfall) as a proportion of the poverty line. P2 is a measure of the severity of poverty. It is calculated in same way as the PG but gives more weight to poorer households.


Among the most vulnerable groups were pensioners, the disabled, families with many children, single mothers, the unemployed, women, the disabled, as well as the homeless, orphans, former prisoners and refugees. In addition, poverty was positively associated with unemployment, especially hidden unemployment. In the 1990s, the bulk of the poor were “working poor”, that is, they were at work but were poor either because they had too many dependents to support adequately; worked in low-wage occupations; were subject to involuntary

leave without pay or reduced hours; were paid irregularly; or some combination of these factors.  

Poverty was also positively associated with the type of household and its size: families with the household size of 4.5 members and more were especially hard hit during the transition, as well as families who had two or more children.  

Also, single elderly people and elderly couples were reported to have greater risks of living in poverty.  

In short, the collapsing industrial complex and deteriorating macroeconomic situation, rising numbers of pensioners and welfare recipients, and the inability of the government to rapidly assume responsibility for all social programs created a powerful impetus for social reforms. Something had to be done, as maintenance of Kazakhstan’s generous welfare system was no longer an option, especially under the conditions of collapsing rouble zone and skyrocketing inflation. At the same time, given the large extent of poverty in Kazakhstan, the government realised that only sustained economic growth coupled with effective welfare reform and introduction of targeting mechanism could help in alleviating the problem.  

Responding to these welfare challenges, the government set up a number of off-budget funds, including an independent Pension Fund (1991), the Social Insurance Fund (1992), and the Employment Fund (Gosudarstvennyi fond sodeistviia zaniatosti, 1991) and obliged the enterprises to pay mandatory social contributions to the funds.  

In 1992, the standard rate of

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29. Ibid.


social contributions was 30 percent of the payroll, out of which 80.5 percent went to the Pension Fund, and 19.5 percent went to the Social Insurance Fund. However, because of economic slowdown, many enterprises defaulted on their social contributions to the funds.

During this period President Nazarbaev launched his political campaign aimed at justifying the need for reforms and convincing the public in the necessity of painful measures. Convinced in the righteousness of his policies, the president made tremendous efforts to sell his ideas to the country. Speaking to the people on May 12, 1993, the president formulated the main principles guiding the development of Kazakhstan in the post-Soviet period, which could be summarised as follows: creation of socially-oriented market economy, enactment of all measures necessary for the development of small businesses, and structural transformation of Kazakhstan’s industrial complex. Promises to provide for the poor and disabled were also made, although the message was clear: the government did not have the willingness or financial resources to maintain the old Soviet welfare state, but was determined to retrench the existing welfare system and offer financial assistance only to the needy population.


33. Aitken, Nazarbayev and the Making of Kazakhstan, 115.


35. Ibid., 100-1.
Words were followed by deeds. Supported by the IMF and the WB, the government introduced tight fiscal austerity measures and went ahead with reforming its entire welfare system.\(^{36}\) The reforms began with the restructuring of the Ministry of Social Provision of the Republic of Kazakhstan established in 1969. On 9 December 1993, the government announced the establishment of the Ministry of Social Protection of the Republic of Kazakhstan (Resolution Nr. 1228), and entrusted the Ministry with the administration of the Pension Fund.\(^{37}\)

The government envisioned that by 1999, the entire social benefits system would be restructured and fully monetised.\(^{38}\) Citizens would have to pay for their transportation, telephone, communal, housing, electricity and other services by themselves and then, if eligible for some type of social assistance, reimbursed for the incurred expenses. The new system would be targeted and meant to provide monetary assistance to the truly needy only. All other citizens had to take responsibility for their social well-being in their own hands.

The reform was launched in the beginning of 1994, when the government tightened the eligibility criteria for receiving social assistance, which led to significant decline in the number of program beneficiaries. The government also cut several social assistance programs, arguing that it was a temporary measure necessary to overcome the initial difficulties of economic


\(^{37}\) See Resolutions 1228 and 561, in Zakonodatel’stvo: pensii i posobiia.

transition. In March 1994, the President of Kazakhstan issued a decree that suspended several forms of social assistance to the victims of nuclear tests in Semipalatinsk, ecological catastrophe in Priaral’ie, mass political repressions, some groups of disabled people, and so on, until 1997. Furthermore, resolutions #1529 “On the republican budget for 1994” (Article 23), #1652 “On changes to the 1529 resolution” (Article 5) and #1668 “On preserving social benefits to the participants and the invalids of the Great Patriotic War and other eligible groups” effectively replaced in-kind social benefits with monetary compensations.

The reforms affected numerous population groups, including people disabled during WWII, persons equal to them on benefits and insurance arrangements, workers of the home front, families with four and more children, and other categories of citizens. The situation was further complicated due to the rapidly deteriorating economic situation, which resulted in the sharp fall of social expenditures and high inflation. As a result, the real value of the remaining unemployment and other social benefits eroded so much that many people still eligible for social assistance simply did not bother registering.

During the next stage of the reform, the government offered its citizens a temporary option of choosing between monetary and a limited number of non-monetary compensations. In 1996, responding to rising utility prices, the government designed a housing allowance scheme that


40. Resolution of the Government of the Republic of Kazakhstan passed on 27 April 1994 Nr. 437 “O l’gotakh (denezhnykh kompensatsiiakh) sotsial’no zashchishchayemym kategoriam naseleniia (s izmeneniami, vnesennymi postanovleniem kabineta ministrov RK ot 03.08.94 g. # 873)” [On Social Benefits (Monetary Compensations) for Welfare Recipients (With Changes Introduced Following the Passage of the Resolution of the Government of Kazakhstan of 3 August 1994 Nr. 873)], in Zakonodatel' stvo: pensii i posobiia.

41. Ibid.
granted compensations for utilities and maintenance expenditures only to those households whose utilities and maintenance expenditures were above a certain proportion of household income for a pre-determined maximum floor space. One year later, in April 1997, the government offered several population groups, including war veterans, military personnel and their families, invalids (groups I, II and III), individuals who have been exposed to radiation, victims of political repressions, “hero” mothers and orphans, a transitory option of choosing between non-monetary services and monetary compensations. In the majority of the cases, the government provided eligible citizens either with a discount on housing, communal services, telephone and transport fees, or with a monetary compensation that, in theory, had to cover the service for which it was provided.

The final step was made on 1 January 1998, when all in-kind social benefits were replaced with monetary compensations. From now on, all citizens had to pay for their communal, housing, transportation, telephone, electricity and other services by themselves and, if eligible for some type of social assistance, would be compensated for the incurred expenses. However, the problem was that the size of those compensations was rather insignificant and hardly covered the actual expenses incurred by the individuals. For instance, the veterans of Afghan war received a


44. Ibid.
monthly monetary compensation in the amount of 416 tenge, an equivalent of US$ at that time, which covered only a few bus rides in the capital.\textsuperscript{45} Likewise, the disabled and the veterans of WWII received a monetary compensation of 1000 tenge, an insignificant amount as well.\textsuperscript{46}

In short, over the period of 5 years, the government consistently worked on restructuring Kazakhstan’s social benefits system in such a way that the benefits and social assistance would target poor households only. The government succeeded in restructuring the old welfare system, cutting down the number of welfare recipients, and replacing in-kind social benefits with monetary compensations. The problem was related to the size of monetary compensations, which were generally small in value and often delayed due to lack of resources. In addition, targeting of benefits to impoverished households was poor due to the multiplicity of small benefits programs and non-transparency of the administration process.\textsuperscript{47} All these negative aspects of the reform contributed to the fact that by 1996, over 60 percent of poor households eligible for some type of social assistance received no social assistance at all. By then, poverty reached alarming dimensions and threatened to destabilise Kazakhstan.\textsuperscript{48}

Responding to these challenges required tremendous efforts and skills from the president. Nazarbaev’s communication and framing strategy during this period rested on his deep understanding of the Kazakhstani mentality and cultural frames, as well as his communication


\textsuperscript{46} Ibid.

\textsuperscript{47} Pustorzhevskaia Alla Sergeevna, Chair of the Social Movement “The Association of Retired People of Astana,” interview with the author, June 19, 2008, Astana.

and persuasion skills. First of all, he devoted a lot of time to communicating with the public in every imaginable form, ranging from his regular speeches on television, long press-conferences, meetings with the people at various events, regular visits to the regions, and spontaneous talks to the population. The great plus of this strategy was that he was emotionally committed to the reforms, thus transcending an image of a leader who understood the suffering the people of Kazakhstan were going through, but truly believed that the suffering of the transitional period was temporary and would soon end. According to Igor Romanov, Nazarbaev’s press-secretary during the 1990s, Nazarbaev truly believed in the importance of personal communication with the public, as well as his persuasion skills, and thus was never afraid of meeting with the public, however dissatisfied these people were, using such meetings and talks as a way to explain what was happening in the economy and persuade the protesters to wait a little bit more:

The best quality in [Nazarbaev] was that he was never afraid to go out and talk to people. Sometimes he would be travelling through an aul (village) and see elderly men and women holding up placards saying “We want our pensions.” He would stop his car, get out, invite the demonstrators to come off the cold streets, go inside a room with them and explain why their pension could not be paid for the time being. When there was a strike in the Karaganda coalfield, he went underground down the mine shaft. There he spoke to the men, who had not had their wages, answering their questions for eight hours but without making easy progress. In the end, they went back to work. Besides these face-to-face meetings he was always communicating through the media. Once a month he had a live press conference on TV. It had no time limit, so he did not come off the air until the last question had been asked.

In one such speech, delivered on 16 December 1996, the president described the challenges of the transitional period, especially after the collapse of the ruble zone in 1993, and explained


51. Ibid., 116.
how it affected Kazakhstan’s ability to develop its own economic policy. He pointed out that standing on the verge of collapse, the young Kazakhstani state was able to withstand the tremendous economic challenges, primarily thanks to a series of wise decisions made by the leadership of the Kazakhstani republic prior to the disintegration of the Soviet Union, but also thanks to the bravery of ordinary Kazakhstani during this difficult period. This, however, Nazarbaev emphasised, was not enough to build a prosperous country. The government had to continue its economic and fiscal reforms. In addition, more was needed and expected from every Kazakhstani citizen:

Enough of feeding ourselves and the people of Kazakhstan fables, that somewhere there in stable prosperous countries with sesquicentennial democracy and market institutes, people are freer, live better lives and enjoy more generous social programs. We will also reach that level. But not today and not tomorrow. For this to happen, we have to build stable economic system, which will be based on principles, which five years ago none of us had any idea. Everyone has to work, first of all for his own benefits, and that means, for the benefit of the state. Everyone has to strive to help his or her country during this difficult period. Parasitism is unacceptable today and won’t be tolerated. Before reaping the benefits of the system, one has to actually create something real.

This message was further reinforced in the presidential speech delivered on 10 October 1997. The speech titled “Kazakhstan-2030: Prosperity, Security and Improvement in the Well-Being of All Kazakhstani” outlined the top priorities of the Kazakhstani government, including

(i) national security; (ii) domestic stability and social cohesion; (iii) economic growth; (iv)

52. Nazarbaev, “Nezavisimost’ Kazakhstana: uroki istorii i sovremennost’. Doklad na torzhestvennom sobranii, posviashchennom 5-letiiu nezavisimosti respubliki Kazakhstan” [Kazakhstan’s sovereignty: Historical lessons and modernity. Speech at a ceremonial meeting, devoted to the fifth anniversary of sovereign Kazakhstan], 180-216.

53. Ibid., 196-7.


health, education and welfare for the citizens of Kazakhstan; (v) energy resources; (vi) infrastructure, transport and communications; and (vii) a professional state. Reminiscent of his earlier speeches, the president began by describing the state of Kazakhstan’s economic, social, and political situation in 1997, and then offered his vision of Kazakhstan’s future and what was required of its citizens to make this vision a reality. National security, unity, and economic prosperity were placed at the top of his priority list. Speaking on the importance of economic reforms, Nazarbaev emphasised that “We won’t be able to build a strong state and military forces, solve our demographic, ecological and social problems, improve the quality of life and raise our living standards, without establishing a healthy and prospering economy.”

Poverty and unemployment would in turn be eliminated with the help of the various economic initiatives, including developing the system of microcredits; supporting small and medium businesses; running the system of public works, especially in the area of road construction and forest plantation; and public services and strict labour regulations protecting the workers.

In the same vein, responding to the complaints regarding low compensation sums, the president emphasised the difficult economic and financial situation in Kazakhstan and the need to implement radical economic reforms and fiscal austerity measures that in the long run would benefit all citizens. Speaking in September 1998 to the students at the Almaty State University, the president stated that for the benefit of all in Kazakhstan, the government had to live within means: “We know what happens, when these principles are not followed, when expenditures exceed our income, when some individuals, driven by populist calculations, come up with


57. Ibid., 70-1.
several impossible social programs, not supported by financial means. [We know about it] from the experience of our neighbours, who are now struggling through a much deeper economic crisis.”58

Framing was an important component of Nazarbaev’s strategy. In an effort to raise the spirit of the Kazakhstani citizens and instil some hope in brighter future, the president drew some parallels with the experience of South Korea, Taiwan, and Singapore:

Today we are standing on the brink of grand opportunities. Many of you are aware, how some of the poorest Asian countries fought hard against poverty during the 30 years and became prospering industrial states. Among the first were [South] Korea, Taiwan and Singapore, and now they were joined by Malaysia, Indonesia and Thailand. […] Forty years ago, when Singapore was granted independence, it was one of the world’s poorest countries with per capita income less than 200 dollars per year. [Today], these countries are known as Asian Tigers. [...] Are there any reasons, which could prevent Kazakhstan with all its capabilities from achieving similar results? There are none. By 2030, I am confident that Kazakhstan will become the Central Asian panther and serve as an example to other developing countries. [...] The Kazakhstani Leopard will possess both the Western elegance, multiplied by its advanced level of development, as well as Eastern wisdom and endurance.59

By drawing several parallels between the East Asian experience and Kazakhstani development, and reminding the Kazakhstani citizens of their bravery during hard times in the past, Nazarbaev delivered a clear message: just like other Asian nations, we can succeed, and, judged by our past, we know that we can if all the people of Kazakhstan contribute their energy and enthusiasm to the main cause:

Do we have such a short memory, that we forgot how we triumphantly emerged from all the ordeal in the past thanks to our unity, enthusiasm and our faith in the future. Working nights and days, often starving, we gave everything to our children and truly believed in the brighter future. What is stopping us from doing it today and tomorrow? [...] Everything depends on us, and our faith. Enthusiasm. Unity and work. ‘Don’t ask what


the country can do for you, but ask, what you can do for your country’. These words, spoken by John Kennedy to the American people, more than ever relate to us.

In other words, instead of promising its citizens social protection, the president confirmed the people’s biggest worries: times will be difficult, but nothing is impossible. The future of Kazakhstan could be similar to the success of Singapore and Japan, but only if the government continued with liberal economic reforms. The idea was clear and concise: Kazakhstan has the potential to become a Central Asian panther, but only if reforms continue.

As a summary, four factors helped Nazarbaev in realisation of his communication strategy. First, the size and speed of the country’s economic disasters and the increasingly centralised political structure demobilised the population and legitimised the government’s claims about dire financial situation and growing budget deficit. Second, Nazarbaev knew his people and rationally calculated that during the time of enormous economic hardship, the majority of the Kazakhstani population would accept the political centralisation and entrust him with an important task of leading the country out of economic misery. He also knew that the citizens’ trust was an elusive phenomenon that depended heavily on how effective his persuasion and communication techniques were. Therefore, Nazarbaev engaged in active communication with the public. In the end, his communication strategy worked, allowing the government to buy some time necessary for carrying out the reforms. Third, Nazarbaev was aided by the fact that similar, or even more distractive processes, were happening all across the former Soviet Union, and in

60. Ibid., 26.


63. Ibid., 116.
particular, in Russia. The Russian, but also Kazakhstani media reported extensively on the challenges and negative consequences of the political and economic reforms in Russia, signalling to the Kazakhstani population that they were not alone in their suffering. Moreover, news of ethnic tensions and the war in Chechnya vividly illustrated to the Kazakhstanis how relatively stable their country was. Thus, the mass media aided Nazarbaev in maintaining his image of a wise, experienced, and devoted country leader.64

Finally, the retrenchment of the state social benefits was made easier due to the fact that it coincided with a number of other economic and welfare initiatives, sending a message of revolutionary changes happening on various fronts, a process labelled by Nazarbaev “the period of transition,”65 which could not be reversed, but only completed. In particular, along with its social benefits reform, the government also launched its health care (1995) and pension reforms (1998).66 Within 2 years (1995–1997), the government suspended the existing free public health care system and introduced a multilevel system of health protection with state, private, and emergency funding.67 The immediate purpose of this reform was to cut down on state health care expenditures and to adjust the existing public health care system to the new realities of a market economy.

The pension system also underwent radical changes. Despite some positive developments in the economy since 1994, the government was still unable to meet all the claims placed upon it.

64. Ibid.

65. Ibid.


67. Ibid.
This resulted in the build-up of wage and pension arrears: for instance, at the end of March 1997, pension arrears stood at 26 billion tenge (equivalent to 3 months’ payments). Responding to widespread discontent caused by delays in his government’s payment of pensions and wages, the government launched an attempt to clear all pensions and wages arrears during 1997. At the same time, the government realised that the state could no longer maintain its obligations and that a radical pension reform was the only way out of the crisis. This was publicly confirmed in April 1997 by then Kazakh Prime Minister Akezhan Kazhegeldin. With advice and financial support from the Asian Development Bank (ADB) and the WB, the Kazakhstani authorities designed a private pension-fund system that aimed to reform its retirement system radically,

68. World Bank, *Kazakhstan: Living Standards during the Transition.*


71. Ibid. See also “Politsiia na zashchite interesov pensionerov” [Police Is Guarding the Interests of the Pensioners], *Kazakhstanskaia pravda,* Apr. 10, 1997, 2.
eliminate its debts to pensioners, and reduce the government’s social burden.\textsuperscript{72} Inaugurated on 1 January 1998, the reform transformed Kazakhstan’s pension system from an expensive pay-as-you-go (PAYG) system to one of fully funded, defined contribution accounts.\textsuperscript{73} The new system was based on private investments and was intended to promote self-sufficiency instead of government dependence, to reduce government expenditures, to encourage savings, and to promote the development of the capital market.\textsuperscript{74} In addition, the government raised the retirement age from 60 to 63 for males, and from 55 to 58 for females. All these initiatives were meant to assist the state in meeting its basic social obligations and completing its radical market reforms.

Struck by the double transition – in the economic and welfare sectors – the population turned to self-production: reliance on subsistence farming and family ties substantially grew during this time.\textsuperscript{75} According to various accounts, monetary and non-monetary assistance from immediate and extended family, other households, charities, cultural and religious organisations, [numbered list]

\textsuperscript{72} Chris Bird, “Kazakhs Prepare for Sweeping Pension Reform,” \textit{Reuters News}, Nov. 13, 1997. Of note here is that the cooperation between the Kazakhstani government and the IMF also continued, with the IMF advising the government on structural and economic reforms. See, for example, Kokovinets, “Kazakhstan prodolzhit programmy MVF, ne ispol’zuia kredity” [Kazakhstan Will Continue Its IMF Reforms, Without Relying on Any Credits], \textit{Reuters}, May 28, 1998.


\textsuperscript{74} Andrews, \textit{Kazakhstan: An Ambitious Approach to Pension Reform}.

\textsuperscript{75} Ibid.
and NGOs were a significant source of cash income in Kazakhstan in the early and mid 1990s (table 6.4. for the structure of cash incomes in Kazakhstan during the mid-1990s). As evident from table 6.4., private cash transfers represented a significant portion of income for many Kazakhstani families. While it is difficult to assess what influence Nazarbaev’s calls to mutual

Table 6.6. Structure of Cash Incomes in Kazakhstan

<table>
<thead>
<tr>
<th>Consumption quintile</th>
<th>Bottom</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
<th>Top</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary wage</td>
<td>45</td>
<td>49</td>
<td>55</td>
<td>51</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td>Pensions</td>
<td>16</td>
<td>21</td>
<td>14</td>
<td>13</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>Other public transfers</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Secondary/other occupations</td>
<td>6</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Own business</td>
<td>8</td>
<td>3</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Sale of food</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Private cash transfers</td>
<td>14</td>
<td>13</td>
<td>9</td>
<td>14</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Average per capita cash income (tenge)</td>
<td>957</td>
<td>1 535</td>
<td>2 167</td>
<td>3 067</td>
<td>4 116</td>
<td>2 370</td>
</tr>
<tr>
<td>Average per capita income (including imputed income from own production)</td>
<td>1 371</td>
<td>2 412</td>
<td>3 229</td>
<td>5 156</td>
<td>9 473</td>
<td>4 743</td>
</tr>
</tbody>
</table>

Includes all transfer payments excluding pensions.


assistance and support had during this period, the bottom line is, Kazakhstani families did rely on extended family networks for assistance during this period, with gifts and transfers between households being an important source of cash income. The KLSS recorded private transfers between households, including assistance from immediate and extended family, other households, charities, cultural and religious organisations, and NGOs. The data suggest that parents were the single most important source of private cash transfers in Kazakhstan, followed
by other relatives, reflecting the importance of the extended family network as a source of informal social security. In terms of overall magnitude, private transfers were a smaller share of household income than pensions, but are significantly larger than the sum of all other public transfers. In fact, private assistance was nearly five times the size of all government transfers excluding pensions. This probably reflects the erosion in the value of benefits and the impact of arrears.\(^\text{76}\)

In short, by 1999 the government of Kazakhstan had completed the most painful stage of Kazakhstan’s welfare reform. Conducted simultaneously with the health care and pension reform in the context of deep economic crisis and radical market reforms, the social benefits reform has quickly attained its short-term objectives: the government cut several non-monetary and monetary social programs, minimised the percentage of people eligible for receiving social assistance, and thus helped to somewhat relieve the financial burden faced by the state during a time of economic crisis. In that sense, the social benefits reform was successful: by carefully framing the problem, the government was able to achieve its immediate goals without causing major social disruptions.

This is not to say that the welfare retrenchment was not met with a certain degree of resistance.\(^\text{77}\) As Kazakhstan’s financial crisis worsened, demonstrations and hunger strikes to protest pension and wage arrears, the lack of adequate social protection, and rising food and


utility costs spread across the country. Predictably enough, most of these protests occurred in urban areas, while the rural areas remained politically passive. However, even in urban areas, the intensity of these protests was rather modest, especially if compared with the wave of protests that engulfed the Russian Federation during the 2005 monetisation reform.

Several factors help explain the relatively low level of public protests in Kazakhstan. As I already mentioned, the reform was conducted in the context of institutional change, economic crisis, and an unstable social environment. Moreover, it was launched simultaneously with a number of other policy initiatives, such as the pension reform, the education reform, the judicial reform, the housing reform, the institutional reform, and the financially extremely expensive policy initiative of moving the capital from Almaty to Astana. In the end, such socioeconomic difficulties had somewhat demobilised the masses, and in fact legitimised the welfare reforms in the eyes of the citizens, who viewed them as necessary measures required for the newly established state to survive.

In addition, given Kazakhstan’s soft authoritarian political system, it was easy for the Kazakhstani authorities to silence the opposition and stir the social welfare discourse in the needed direction. In fact, even the opposition seemed to agree on the inevitability of drastic measures needed to stabilise the socioeconomic situation. However, what were more important were the government’s efforts to get the message across and inform the people of the difficult


80. Larin, Kazakhstan: The Exemplary Experience of Transformation.
situation. With the help of the media and the administrative resource, the president and the government managed to sway public opinion polls in their favour. Reports of the government’s continuous work aimed at improving the living conditions of the people appeared regularly on television and in printed media, framed as stories of extraordinary struggle conducted by the government for the people of Kazakhstan.\(^{81}\) As an example, one can think of the situation during the fall of 1998 when the government announced that the financial resources received from the realisation of a project in the Caspian Shield would be spent solely on financing four social programs, including the provision of heat and light during the winter period, payment back of wage and pensions arrears, fight against unemployment, and social assistance to peasants.\(^{82}\) For greater persuasiveness of the president’s message, the government used the akimats to mobilise the population in support of the president and the reforms. So, in 1998, the Kazakhstani newspapers run numerous stories about massive actions in support of the president, which occurred in various cities, towns, and even villages.\(^{83}\)

In short, by the end of the 1990s, with its lowered level of social expenditures, and strong linkages between social policy and political and developmental objectives, Kazakhstan’s new welfare system displayed features of a liberal welfare state that perfectly fit into Kazakhstan’s developmental model. As such, it was considered a great success by many observers in Kazakhstan, as well as other post-Soviet republics, including Russia. The critics, however, pointed out that the new system of social assistance displayed several shortcomings. In

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particular, the efficiency of the programs was undermined due to the poor organisation of benefits distribution, with many benefits still leaking to unintended beneficiaries and not the poor, and the lack of adequate and timely indexation of social benefits. In addition, corruption and misuse of public funds worsened the situation, illustrating serious weaknesses in implementation and control over the resources.\textsuperscript{84} Thus, it was evident that although the government managed to achieve its immediate goals in reforming the Soviet welfare state, further changes were required to address the needs of the poor population. The government had to change its coverage system, raise its benefit levels, and eliminate the problem of leakage of benefits to unintended beneficiaries. As a result, starting from 1999, the government concentrated on developing its program of targeted social assistance aimed specifically at the poor. An overview of Kazakhstan’s welfare system formed by the end of the 1990s is presented in table 6.7.

\textbf{Table 6.7. Kazakhstan’s Social Welfare System, 1998}

| A. Social assistance (paid out of republican and local budgets) | 1. Social assistance to families with children |
| | a. Social assistance to families with children, granted on the basis of aggregate family income (depending on the number of children under 18 years of age) |
| | b. Social assistance to families of military personnel with children |
| | c. Social assistance to families with disabled children |
| | d. Social assistance to HIV-infected children and adults |
| | e. Temporary social assistance to children, whose fathers evade paying alimony payments |
| | f. Social assistance to unemployed mothers with four and more children under the age of seven |
| | 2. Housing subsidies, granted on the basis of aggregate family income |
| | 3. Subsidies for transportation, housing and communal expenses (granted to the most vulnerable groups including war and labour veterans, low-income pensioners, etc.) |
| | 4. Social services for low-income groups including care attendant services for elderly people, disabled, etc. |
| | 5. Social pensions |

\textsuperscript{84} Valentina Sivriukova, “Iz pustogo basseina vody ne zacherpnesh’,” 3.
### B. Pensions (administered by the Pension Fund)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Old-age pensions</td>
</tr>
<tr>
<td>2.</td>
<td>Disability pensions (groups I, II and III – in decreasing order based on the degree of physical disability)</td>
</tr>
<tr>
<td>3.</td>
<td>Pensions granted in case of loss of breadwinner</td>
</tr>
<tr>
<td>4.</td>
<td>Other pensions (special pensions based on merit or as a reward for special services)</td>
</tr>
</tbody>
</table>

### C. Unemployment Assistance (Administered by the Employment Agency)

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<table>
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<tr>
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<tbody>
<tr>
<td>1.</td>
<td>Unemployment Allowance</td>
</tr>
<tr>
<td>2.</td>
<td>Retraining</td>
</tr>
</tbody>
</table>

### D. Other social benefits (administered by the Social Insurance Fund)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Temporary sickness payments</td>
</tr>
<tr>
<td>2.</td>
<td>Child care allowance</td>
</tr>
<tr>
<td>3.</td>
<td>Child delivery assistance</td>
</tr>
<tr>
<td>4.</td>
<td>Death benefit</td>
</tr>
</tbody>
</table>

This overview does not include assistance for medical services.


### 6.3. Developing Targeted Social Assistance Program, 1999–2004

In 1999, in an attempt to solve the poverty problem, the government launched another series of social reforms. Specifically, the government decided to consolidate all social assistance programs into three categories: state social allowances, state special benefits, and targeted social assistance. Together, state social allowances and state special benefits contained 22 types of social benefits. State social allowances included disability allowance, social payments paid to all eligible family dependents of the deceased breadwinner, and old age allowance. State special

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87. Resolution of the Government of the Republic of Kazakhstan passed on May 12, 1999 Nr. 568 “Ob utverzhdeni v pravil o naznachenii i osushchestvlenii vyplaty gosudarstvennych sotsial’nykh posobii po invalidnosti, po sluchaiu poteri kormil’tsa i po vozrastu” [On the Passage of Rules Regarding the
benefits replaced earlier existing cash payments or discounts designed for various groups of the population related to payment for housing maintenance and utilities, fuel, benefits and discounts on telephone, medicines, glasses, public transportation, periodical subscription, and so on.\(^8\)

The government promised to pay these special benefits in cash to the following eligible categories: veterans of the Great Patriotic War; the disabled; individuals who participated in the liquidation of Chernobyl catastrophe; families of military deceased in service; individuals awarded orders or medals; victims of political repressions; and mothers and families with many children.\(^9\) The financing of these new welfare groups was formalised in the 1999 Budget System Law, which stipulated that state social allowances and state special benefits would be paid out of central budget to ensure that all the “privileged categories” would receive their benefit payments on time.\(^10\)

The problem of poverty was addressed with the help of the targeted social assistance program, which the government tried to improve by adopting better targeting mechanisms and tailoring the size of the assistance to a household’s individual circumstances. The main eligibility criteria for this program were the family’s poverty status, strengthened by a self-targeted work-test requirement.\(^11\) Trying to raise the effectiveness of its poverty program, the government has

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89. Ibid.


devolved its financial arrangements to the regional level. According to Government Resolution No. 1036 on the Approval of Temporary Rules of Targeted Social Assistance Provision (22 July 1999), oblast akimats were made responsible for determining the amount of social assistance and distributing it in the form of benefits to families with children, the unemployed, and one-time social assistance upon the birth of a child or in the case of a burial in the family. Essentially, the targeted social assistance program was the only social assistance program financed solely from local budget revenues.

As a summary, after 1999, Kazakhstan’s system of social assistance was streamlined and divided into three main categories with the expenses split between national and local governments. Further changes took place in January 2002, when the government introduced the Targeted Social Assistance (TSA) scheme that presupposed monetary transfers to persons or families with monthly incomes below the poverty line, as established in each oblast, and in Astana and Almaty cities. Citizens of Kazakhstan, refugees, foreigners, and persons without citizenship having a residence permit and permanently residing in Kazakhstan were eligible for targeted social assistance if they had an average per capita income below the poverty line, which was defined quarterly as a fixed percent of the subsistence minimum, formulated in accordance with the Law “On the Subsistence Level”, effective January 2000. To allow the regions to address the differences in their regional poverty lines, the government introduced not only


94. Ibid.
national, but also regional and even district poverty lines. The subsistence minimum was calculated by the Kazakh Nutrition Institute, which determined the items in the food basket, as well as consumption norms for each food item, and then, based on age, sex, and consumption norms, calculated an average consumption norm for each food item. The subsistence minimum was calculated for regions and for the country as a whole, thus differing from a uniform standard subsistence minimum used in Kazakhstan earlier and allowing the regions to fix their own subsistence minimum. In turn, regional authorities calculated their regional poverty lines guided by national guidelines, but also taking into account various region-specific factors.

The organisation of the TSA program was such that each local government had a divisional commission, which was responsible for checking the source of income of those applying to receive TSA and making conclusions on the need to provide TSA in a form to be approved by the akims of oblasts, Astana, and Almaty cities. Once the commission examined the income position of applicants and their families, it forwarded their conclusions to the authorised agency or akim of the aul/village. Figure 6.4. illustrates the organisation of the TSA process.

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The overall application process can be summarised as follows. In the beginning, an individual was required to make an application to the akim of aul/village or to the authorised agency of the oblast, according to where he/she lives, which registered the application and forwarded it to the divisional commission. In turn, the divisional commission checked the income of the individual/household and reached a conclusion about eligibility for TSA. The conclusion was then forwarded to the agency where the application was originally filed, which would then make a decision to provide TSA or not within 10 days of receipt of the application. This decision was subject to the approval of the akims of oblasts, Astana, and Almaty cities and was dependent upon sufficiency of funding. The applicant was advised of the decision in writing, with the basis being specified in the case of rejection. Following approval by the oblasts, TSA was provided. If TSA was not approved, applicants have the right to appeal to higher
It is also important to note that if a member of a family receiving TSA refuses three job offers, TSA will not be offered further.

The amount of TSA given to recipients is determined every quarter but the assessment of TSA entitlement and actual payments of TSA are done monthly. Essentially, the amount of TSA given to recipients is the difference between household income and the poverty line, calculated as follows: \((\text{PL} - \text{PI}) \times \text{number of family members entitled for TSA} = \text{Total amount of TSA for one family per month}\), whereas PL refers to poverty line, and PI to per capita average income of family member. For example, in 2002, the average amount of TSA provided to each recipient was about 989 tenge, an increase from 644 tenge in 2000 and 675 tenge in 2001. Receiving TSA is usually relatively simple, with the majority of TSA distributed either through post offices (90 percent) and banks (10 percent), with some exceptions made for those living in extremely remote areas without financial facilities. Although the whole population of Kazakhstan, including adults living below the poverty line, was now entitled to receive TSA, it was primarily children under 18 who became the main TSA recipients (table 6.8.).

<table>
<thead>
<tr>
<th>Population Groups Receiving TSA</th>
<th>Group Size (in thousands and %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children under 18</td>
<td>668.3 (56.5)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>214 (18.1)</td>
</tr>
<tr>
<td>Working poor</td>
<td>83.9 (7.1)</td>
</tr>
<tr>
<td>Pensioners</td>
<td>25.7 (2.2)</td>
</tr>
<tr>
<td>Disabled</td>
<td>20.6 (1.7)</td>
</tr>
<tr>
<td>Students</td>
<td>16 (1.3)</td>
</tr>
<tr>
<td>Other categories</td>
<td>155 (13)</td>
</tr>
</tbody>
</table>


97. Ibid., 21.
The TSA Scheme proved to be an important instrument in alleviating poverty. Over the period 1998–2004, the situation improved and the population living below the poverty line in Kazakhstan declined significantly from 39 percent in 1998 to 20 percent in 2004.\textsuperscript{98} At the same time, the organisation of the program illustrated some weaknesses, which tended to undermine its efficiency. In particular, fiscal decentralisation contributed to further regionalisation of poverty, as poor oblasts in general had lower revenues and more poor persons; hence, they were facing a greater demand for the program benefits.

The government tried to equalise the gap between the rich and the poor regions by providing the poorer regions with transfer payments, whose aim was to provide a similar level of public services across the country. In 2001, these transfers accounted for 12.2 percent of regional and local budgets. By 2004, they had increased by three times, reaching 34.3 percent of the sub-national budgets.\textsuperscript{99} In other words, even though the TSA showed good results in alleviating the widespread poverty, the large disparities across the regions rather limited its success. For example, in 2004, regional government expenditure per person varied from 107,500 tenge per person in Atyrau to 24,800 tenge in the Almaty oblast.\textsuperscript{100} Therefore, by 2005, the issue of under-financing in poorer regions was still serious given the large regional differences in poverty rates.\textsuperscript{101}

\begin{flushleft}
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\textsuperscript{101} Ibid.
\end{flushleft}
In conclusion, the transformation of Kazakhstan’s social benefits system went through several stages. Launched in 1994 in response to the deepening economic and fiscal crisis, the government cut its social expenditures in an attempt to alleviate the immediate financial burden faced by the state during this time. Simultaneously, the government went on to restructure and monetise its social benefit system completely. The success of the reform during these initial stages of transformation was somewhat undermined by the inefficiency of its social assistance program, known for its low social payments and ineffective targeting mechanism. During this period, social sector spending as a share of GDP fluctuated considerably guided primarily by economic considerations. At the beginning of the transition period (1991–94), there was a substantial decrease in social expenditures, with pensions and social assistance spending dropping from 11.2 percent of GDP in 1991 to 4.6 percent in 1994. After this initial period, social spending increased to 6.6 percent and peaked at 9.6 percent in 1998, when the government paid most of its pension and social assistance arrears.

The next step in the reform process began in 1999, when the government went on to streamline the system and divide its social programs into three categories: state social allowances, state special benefits, and TSA. The problem of poverty was entrusted to the local governments that became responsible for administering the TSA program, whereas the role of the national government was limited to monitoring the national poverty trends and, when necessary transferring funds to the regions, requiring additional financial resources for these purposes. The TSA was launched in 2002 and offered monetary assistance to those individuals who were living with a per-capita income not exceeding the poverty line. As a result of steady economic growth and introduction of the TSA program, the poverty ratio in Kazakhstan steadily declined, especially in urban areas. The incidence of poverty still remains relatively high in rural
areas, with the government working on the problem. By and large, however, over the last several
years, the government of Kazakhstan has consistently worked on strengthening the sustainability
and effectiveness of its new welfare system. Not only was the government able to make the
system financially sustainable, it also addressed the problem of social justice. The TSA program
proved to be an important tool in assisting the poor, despite some obvious problems of efficiency
and effectiveness.

6.4. What Explains the Success of Kazakhstan’s Welfare Reform?

In the beginning of the transition, faced with several challenges and paralysed by the depth of the
country’s economic crisis, the Kazakhstani government viewed the welfare reform as secondary
to economic reforms. To some extent, the government hoped that most social issues would be
resolved once the state addressed vital economic problems, such as inflation, falling production
rates, and so on. Armed with this logic, the government concentrated on liberalising its economy,
privatising its small, medium and large-scale enterprises, and reforming Kazakhstan’s banking
sector. The only welfare area that received close governmental attention during this period was
related to the emergence of unemployment. To deal with a surge of displaced and unemployed
workers, the government established a system of employment services including cash benefits,
training, and job placement.102

Such determination would not be possible without the full support of President Nazarbaev
who was acutely aware of the importance of economic reforms and the inflow of international

money and management expertise. He realised that for foreign investors to invest in the Kazakhstani economy, they needed stable legal framework and investor-friendly environment. And so Nazarbaev seized every single opportunity for providing an investor-friendly regime in Kazakhstan during 1993-1995 when he was governing the country largely by presidential decree. This was a temporary, but legal window, allowing him to act as a one-man executive and legislature combined while parliament was dissolved. Using his formidable powers given to him by the Constitution, Nazarbaev issued 141 presidential law-enacting decrees in 12 months, most of them dealing with economic issues at the top of the foreign investor’s agenda. Of these issues, privatisation was by far the most important.103

As time passed, the President and the government realised that many of Kazakhstan’s economic problems, such as a serious fiscal deficit, as well as the rapidly growing level of poverty could not be resolved unless the government went ahead with reforming its entire welfare system.104 Supported by the IMF and the WB, the government introduced a tight fiscal policy and launched a radical retrenchment of its social programs.105 The transformation of Kazakhstan’s social welfare system started in 1994 with the retrenchment of the majority of welfare programs and monetisation of in-kind social benefits. The government cut several social assistance programs, arguing that it was a temporary measure necessary to overcome the initial difficulties of economic transition. Several resolutions were signed, which replaced in-kind social benefits with monetary compensations for several groups of the population, including

103. Aitken, Nazarbayev and the Making of Kazakhstan, 161.

104. See, for example, Jaura, “Kazakhstan: Despite Progress, Continued Reform Needed.”

people disabled during WWII, workers of the home front, families with four and more children, and so on.\footnote{Postanovlenie Kabineta Ministrov Respubliki Kazakhstan ot 27 aprelia 1994 goda #437 “O l’gotakh (denezhnykh kompensatsiiakh) sotsial’no zashchishchaemym kategoriiam naselenia (s izmeneniiami, vnesennymi postanovleniem Kabineta Ministrov RK ot 03.08.94 g. # 873)” [Resolution of the Government of the Republic of Kazakhstan of 27 April 1994 No. 437 ‘On Social Benefits (Monetary Compensations) for Socially Protected Categories of the Population (With Amendments, Passed by the Government of the Republic of Kazakhstan on 3 August 1994 No. 873)], in Zakonodatel’stvo: pensii i posobiya.}

Within a few years, the Kazakhstani government completed the most painful stage of the reform: it cut several non-monetary and monetary social programs, minimised the percentage of people eligible for receiving social assistance, and thus helped to somewhat relieve the financial burden faced by the state during a time of economic crisis. In this sense, the reform was successful.

The problem was that the retrenchment initiatives were not accompanied by the development of effective TSA programs, which would directly address the needs of the most unprotected group of society. This is not to say that the retrenchment initiatives were not followed by the attempts to restructure the system in such a way that it would target poor households only. The problem was that most such initiatives were rather inefficient, resulting in the fact that in 1996, over 60 percent of poor households eligible for some type of social assistance received no social assistance at all.\footnote{World Bank, Kazakhstan: Living Standards during the Transition, Report No. 17520-KZ, Mar. 23, 1998, http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/1998/03/22/00000 92653980623151019/Rendered/PDF/multi_page.pdf, iii.} This issue was addressed in 1999, with the government working consistently to improve the effectiveness of its targeting mechanism, tailoring the size of the assistance to a household’s individual circumstances. The attempts proved to be effective in alleviating poverty and assisting the most disadvantaged population groups.
Several factors aided the reform. For one thing, the presence of a deep economic crisis helped justify the welfare retrenchment in the eyes of the population, whereas Kazakhstan’s centralised political system and the lack of strong political and civil opposition minimised the political costs of the reform. The retrenchment was accompanied by the media campaign, which not only justified the drastic government initiatives by the difficult economic situation in the country, but also linked these initiatives to the old Kazakh traditions of family support, and promised an effective and fair welfare system in the future.\textsuperscript{108} In other words, Kazakhstan’s social benefits reform was made possible thanks to Kazakhstan’s centralised political system and skilful actions of the authorities who framed the problem in a way that it generated widespread support for radical reform initiative and thus allowed the government to move on with the reform.

One of the key actors driving the reform was, obviously, Nazarbaev, who, in addition to being an authoritarian leader, also possessed a lot of charisma and was in fact one of the most popular and successful post-Soviet leaders. Nazarbayev’s ability to control the political elites, persuade the public in the soundness and necessity of Kazakhstan’s socioeconomic reforms were remarkable, just as his ability to move proactively and address the problems before the public had a chance to formulate its opinion. Nazarbaev’s ability to stand above the political conflicts and economic problems also deserves closer attention. As Aitken points out, when Nazarbaev’s reforms were going well and produced positive results, Nazarbayev was quick to claim credit for

\textsuperscript{108} This point was made by four elderly welfare recipients, whom I interviewed in Astana, June 2008. Two of the interviewed were ethnic Russians, and two – Kazakh. According to their accounts, the First National TV Channel “Қазақстан” (http://kaztrk.kz/rus/) and Commercial TV Channel (KTK) (http://www.ktk.kz/ru/about/english/) delivered numerous news programs focusing on Kazakhstan’s economic crisis and the re-birth of Kazakhstani cultural and social traditions. Interestingly enough, the two Russian respondents emphasised that they gathered most of its information from newspapers, including Kazakhstanskaia pravda (http://www.kazpravda.kz/eng), Ekspress-K (http://www.express-k.kz/) and Komsomolskaia pravda (http://www.kp.kz/).
his management of the economy. And when there were periods of stagnation or disruption, he was skilful in playing the part of the “Teflon President,” to whom political opprobrium did not stick.109 As ministers took the heat of public criticism, Nazarbaev rose coolly above it. For example, when the Asian financial crisis was at its peak, Nazarbaev managed to disassociate himself from his entire government, saying in a speech to Parliament and the nation on 30th September 1998, “No one in Kazakhstan, including myself, is satisfied with the performance of our government… We find that every day the operation of government is too slow, too bureaucratic, too confused and lacking responsibility.”110 This professed detachment from the government was accompanied by ruthless hiring and firing of ministers. Nazarbaev was constantly reshuffling his cabinet, running through four different Prime Ministers in as many years between 1997 and 2001.111 The Economist commented on the 2005 presidential election, saying that “Mr. Nazarbaev [was] genuinely popular.”112 Needless to say, much of this popularity depended on Kazakhstan’s economic success, but also Nazarbaev’s ability to remain master of the game in Kazakhstani politics.113

A great strategist, Nazarbaev succeeded in framing all problems in the most advantageous way for him. Having built his political capital in the period preceding Kazakhstan’s independence and transition, Nazarbaev accumulated a lot of experience, which helped him


110. Ibid.

111. Ibid.

112. Ibid., 189.

113. Ibid., 191.
anticipate the crises, frame the problems, and move proactively in trying to prevent the possible blows to the regime. In the words of Jonathan Aitken:

Nazarbaev is an attentive listener and an eager learner. He absorbs facts, opinions and fresh ideas with the enthusiasm of a much younger politician. These skills have served him well. [...] It might be added that he possesses several of the talents that would have propelled his political career upwards if he had been born in the West. He is a shrewd tactician, a charming conversationalist, a persuasive speaker, and a charismatic leader of vision and courage, particularly when facing difficult situations.\textsuperscript{114}

Nazarbaev is no doubt an autocratic leader. But, as Jonathan Aitken emphasises, despite the fact that the President runs his government under tight control, “his centralised Presidency is a benevolent form of autocracy, responsive to private criticism and public opinion.”\textsuperscript{115} In the words of the Russian scholar, S. Panarin, Nazarbaev’s regime represents “an authoritarian model, but with real elements of democracy; a presidential republic with significant and constantly expanding authority for the head of state; a regime of soft or ‘enlightened’ bonapartism; a plebiscitary and edict-based administration in combination with a constitutional division of power.”\textsuperscript{116}

What differentiates him from other post-Soviet leaders is his lasting popularity, which could be attributed to his ability to deliver the expected outcomes, as well as his willingness to engage and explain.\textsuperscript{117} In the words of Llewellyn King, the secret of Nazarbaev’s lasting popularity is that “in his 20 years of near absolute power, [Nazarbaev] has had the unique good

\textsuperscript{114} Ibid., 247-8.
\textsuperscript{115} Ibid., 245.
\textsuperscript{117} Aitken, Nazarbayev and the Making of Kazakhstan, 246.
fortune of being able to deliver above the expectations of his people." And, as Edward Schatz and Elena Maltseva argue, Nazarbaev is a shrewd politician and a skilful communicator, who is effective at strategically re-packaging the problems in such a way that the proposed solutions win the support of the people.

Having discussed the case of the social benefits reform in Kazakhstan, I will now turn to Russia to analyse the course of welfare reforms under the leadership of Boris Yeltsin and Vladimir Putin.


119. Schatz and Maltseva, “Kazakhstan’s Authoritarian Persuasion.”
7.1. Introduction

When communism collapsed, the Russian government faced a deep political, social, and economic crisis. Convinced that radical change was necessary to destroy the remnants of the old Soviet regime, Yeltsin embarked on painful political and economic reforms that, at one point, resulted in a confrontation with parliament and in the passage of the Constitution of 1993. In the economic realm, the government, led by a young reform economist named Egor Gaidar, established a program of economic reforms known as “shock therapy.” The reforms had three components: price liberalisation, fiscal stabilisation, and the privatisation of state-owned enterprises. They were meant to establish a market economy in Russia with low inflation and stable economic growth in the shortest period of time possible.¹ Social reforms followed the logic of liberal economic transformation, which was promoted by Gaidar and other young economists and supported by all major international financial organisations. In particular, according to Gaidar’s original plan, the government would try to radically retrench the Soviet welfare state. Such plans, however, shattered at the wall of several political and institutional

obstacles, which prevented the government from carrying out its initiatives and, in fact, rendered the welfare sector more complex than before.

In this chapter, I aim to illustrate the causes behind the government’s inability to carry out the reforms as planned. I will begin the discussion with an overview of Yeltsin’s rise to power, followed by an analysis of the political and economic context before and after the passage of the 1993 Constitution. The social reforms will be discussed alongside the economic reforms, as together they produced significant resistance in parliament and among the public. This resistance slowed down the reform process and resulted, first, in the expansion of social benefits and, then, in the stagnation of the welfare state. The chapter concludes with an overview of Russia’s welfare system on the eve of Putin’s accession to power.


The collapse of communism has been attributed to numerous economic, political, ethnic, and international factors that together produced the slow erosion and eventual breakdown of the Soviet system. Among the most important long-term factors that undermined the foundation of the Soviet regime were the inefficiency of the centrally planned Soviet economy, social and demographic changes, and ethnic pressures. These factors were further exacerbated over time by the spread of modern technology and a greater exposure to the West. By the mid-1980s, the protracted fiscal crisis, intensified by the fall of global oil prices, had resulted in the inability of the Soviet government to effectively compete with the United States in the arms race, thus signalling to the Communist leadership a necessary change in government procedures.² The

appointment of Mikhail Gorbachev to the post of General Secretary of the Communist Party was thus meant to mobilise the masses with the goal of overcoming the country’s economic stagnation and its political and social “sclerosis.” Yet contrary to their purpose, the reforms ensured that the fall of the USSR occurred sooner rather than later. The Soviet Union crumbled only a few years after Gorbachev had implemented the reforms.

While the inherent flaws of the Soviet institutional structure are indisputable and have been extensively covered elsewhere, it is questionable whether the collapse would have occurred so quickly without such triggers as the rise of Boris Yeltsin and the coup attempt of August 1991. Yeltsin’s ascent served as a symbol, indicating to the population that the regime was losing its grip. Yeltsin began his accession to power from his position as the head of the Communist Party organisation in Moscow, to which Gorbachev had appointed him in December 1985. Bold and ambitious, Yeltsin had difficulty accepting Gorbachev’s authority and soon started challenging the general secretary, causing further erosion in Soviet institutions. His first attempt to challenge Gorbachev occurred at the 27th Soviet Party Congress in February 1986, where Yeltsin debuted


with a hard-hitting speech in which he attacked privilege, castigated the “inert stratum of timeservers with party cards” who were inhibiting reform, called for an end to “zones beyond criticism,” and rebuked himself for not speaking out with “sufficient boldness” earlier. The speech contributed to growing tensions between Gorbachev and Yeltsin, and, at the same time, boosted Yeltsin’s popularity. The irreconcilability of Gorbachev’s and Yeltsin’s political views, as well as their personal antipathies, became obvious during the Central Committee Plenum on October 21, 1987. As Gorbachev recalled, the plenum proved a “watershed” for Yeltsin that “largely determined his future.” Indeed, Yeltsin’s speech was unlike anything that most members of the Central Committee had ever heard. Yeltsin denounced Yegor Ligachev’s work in the Secretariat, complained about the “glorification” of the general secretary, and asked to be relieved of his position in the Politburo, while leaving it up to the Moscow party committee to determine whether he should continue as its head. The confrontation resulted in Gorbachev’s fateful decision in October 1987 to remove and humiliate Yeltsin, an episode that Yeltsin passionately sought to avenge in later years.

Ordinarily, Yeltsin’s ouster from the CPSU leadership in 1987 would have marked the de facto end of his political career, but the political reforms introduced by Gorbachev during this period created new rules, thus allowing Yeltsin to be elected to the USSR Congress of People’s

8. Ibid., 135–6.
9. Ibid.
Deputies in March 1989. No similar opportunities had been available in the pre-Gorbachev era (and in that sense Yeltsin was one of the greatest beneficiaries of Gorbachev’s reforms).

_Glasnost_’ and greater political freedoms contributed to the rise of Yeltsin’s popularity. In the March 1989 election to the Soviet Congress of People’s Deputies, Yeltsin won 89 percent of the vote in the largest voting district in Moscow with almost 7 million voters, defeating the CPSU’s handpicked candidate. From that point on, Yeltsin received broad public exposure and managed to extend his popularity well beyond Moscow. One year later, in March 1990, Yeltsin participated in the election to the new Russian Congress of People’s Deputies and was later elected by Congress as Chairman of the Presidium of the Supreme Soviet of the RSFSR, effectively the leader of Russia. This gave Yeltsin not only a broader political platform but also provided him with a real base of power from which to challenge Gorbachev.

The political developments in the country during this period benefitted Yeltsin, opening for him a rare window of opportunity. In March 1990, the Soviet Congress of People’s Deputies voted to amend Article 6 of the Soviet Constitution and to remove the monopoly of the Communist Party. This resulted in the rapid proliferation of various political parties and movements, including the very popular Democratic Russia movement. By the end of 1990, more than 500 parties had been formed. Sensing the wind of change, Russians went on strikes, raising

11. Ibid.
13. Ibid., 143–4.
various economic and political demands.\textsuperscript{15} During this period, the demand for national sovereignty proved most salient, and Yeltsin viewed himself as a legitimate leader capable of leading Russia to independence. As he stated in May 1990, “The problem of the [Russian] republic cannot be solved without full-blooded political sovereignty. This alone can enable relations between Russia and the Union and between the autonomous territories within Russia to be harmonised. The political sovereignty of Russia is also necessary in international affairs.”\textsuperscript{16} Such statements clearly challenged the center and Gorbachev’s position specifically, thus contributing to a further escalation of the relationship between the two leaders. According to various accounts, Yeltsin did not intend to break apart the country; he did, however, increasingly seek to assert Russia’s autonomy from the Soviet Union, rather than simply wanting to personally gain predominance over—or replace—Gorbachev.\textsuperscript{17} Yeltsin would have preferred to hold the Soviet Union together in an arrangement that gave Russia a commanding position, but his personal animus toward Gorbachev prevented the collaboration between the two leaders.\textsuperscript{18}

In June 1991, Yeltsin participated in the first Russian presidential election, which he won with 57 percent of the popular vote (see table 7.1.). His authority was further enhanced during


\textsuperscript{18} Ibid.
the coup attempt of August 1991. In resisting the coup, Yeltsin raised his popularity and reinforced his control over most Soviet institutions on Russian territory.

Table 7.1. Russian Presidential Election, June 12, 1991

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Vote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boris Yeltsin (Dem. Russia)</td>
<td>57.30%</td>
</tr>
<tr>
<td>Nikolai Ryzhkov (Communist Party)</td>
<td>16.85%</td>
</tr>
<tr>
<td>Vladimir Zhirinovskii (LDPR)</td>
<td>7.81%</td>
</tr>
<tr>
<td>Aman-Geldy Tuleev (Ind)</td>
<td>6.81%</td>
</tr>
<tr>
<td>Albert Makashov (Ind)</td>
<td>3.74%</td>
</tr>
<tr>
<td>Vladimir Zhirinovskii (LDPR)</td>
<td>3.42%</td>
</tr>
<tr>
<td>Against All</td>
<td>1.92%</td>
</tr>
<tr>
<td>Invalid ballots</td>
<td>2.16%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
</tr>
</tbody>
</table>


Following the coup attempt, the days of the crumbling empire were counted. In September 1991, the independence of all three Baltic republics was recognised. Yeltsin supported their sovereignty, which many observers interpreted as an attempt to undercut Gorbachev’s authority. The final blow to the regime came on December 1, 1991, when Ukraine held a referendum in which more than 90 percent of its residents supported the Act of Independence of Ukraine. This event symbolised the end of the Soviet Union. On December 8, 1991, the Belavezha Accords were signed, with Russia, Ukraine, and Belarus announcing the formation of the Commonwealth of Independent States. On December 25, 1991, Gorbachev

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19. Ibid., 15.

20. Ibid.

21. Given the richness of literature analysing the causes of the USSR’s collapse, and of the August coup attempt in particular, I will omit a detailed discussion of these events.


announced his resignation as the Soviet president, indicating formally that the Soviet Union had ceased to exist.24

This brief overview makes evident that Yeltsin built an image of a popular oppositional leader who represented all Russian people from the beginning of his political career. In his attempts to undermine Gorbachev’s authority, he preferred to speak over the heads of party apparatchiks directly to the people, and his charisma and populist appeals helped him get his message to the masses. Impulsive and confrontational, Yeltsin’s political style helped him prevail over the old Communist Party apparatchiks during the actual breakup of the Soviet Union. In addition, Yeltsin’s initial popularity and political capital helped him preserve the Russian Federation and launch the necessary political and economic reforms.

Yet as I will illustrate in the next section, the circumstances that brought Yeltsin to power, as well as his character and the nature of his support base, severely limited his maneuvering options in the context of the new Russian realities. Having been supported by the members of the Democratic Russia movement, as well as by the broader population, he could not but feel the pressure and need to listen to common people’s concerns. Yeltsin’s political mastery and persuasion skills were put to the test when the social and economic situation drastically deteriorated and parliament started to openly oppose Gaidar’s economic reforms. The president soon found himself squeezed between popular demands to roll back the economic and social reforms, represented in parliament by the majority of deputies, and the need to continue the painful reform process, as suggested by a group of young economists and all major international financial institutions. Balancing between these two groups proved to be an extremely complicated task, which cost Yeltsin public support and, eventually, his health.


Yeltsin’s political agenda at the beginning of Russia’s transition was limited to three fundamental goals: avoiding the collapse of the Russian Federation, the reshaping of Russian political institutions, and the acceleration of economic reforms.25 At the start of Russia’s transition and even before the collapse of the Soviet Union, regional elites had used the existing power vacuum and the antagonism between Gorbachev and Yeltsin to obtain as many privileges as possible. Yeltsin had encouraged these moves by calling on regional and republican leaders to take as much autonomy as they could swallow.26 With the collapse of the Soviet Union, the future of the Russian Federation itself came in doubt, as no one could be sure whether the trend of disintegration would continue. To preserve the unity of the Russian Federation, the Russian Congress of People’s Deputies granted Yeltsin broad powers in dealing with the regions.27 The president used these powers to appoint presidential representatives to the regions and to postpone elections in nonethnic regions for a year, in the meantime appointing regional governors instead. The republics, that is, the ethnic-based units of the Russian Federation, were allowed to elect their own leaders.28

25. See, for example, Biriukov and Sergeev, Stanovlenie institutov predstavitel’noi vlasti v sovremennoiRossii, 323–83. Also, McFaul, Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin, 122–4.


28. Ibid.
By 1992, the Russian Federation consisted of 89 federal subjects. Among these were twenty-one republics, forty-nine oblasts (provinces), six krais (territories), and two cities (Moscow and St. Petersburg), subordinate only to the federal government. In addition, there were eleven “autonomous formations” (one autonomous oblast and ten autonomous okrugs, or districts), which had a “titular,” non-Russian nationality.29 To keep this complex entity stable and united, the president offered regional leaders the first economic concessions.30

The next step in the reconstitution of the relationship between the center and the regions was taken on March 31, 1992, when all constituent units of the Russian Federation (except for Chechnya and Tatarstan) and Moscow signed the Federation Treaty.31 This treaty confirmed the asymmetric structure of the Russian Federation: it granted more autonomy to the republics than to the regions in controlling natural resources and managing economic matters.32 By 1993, the asymmetric nature of the Russian Federation had become especially apparent, with the behavior of the regional elites, especially those representing the republics, not only having negative economic consequences (the exacerbation of Russia’s fiscal crisis) but also undermining the credibility of the federal government (i.e. by passing the laws that openly contradicted the federal Constitution).33

29. Ibid.


The passage of the Constitution in December of 1993 did not change the situation. The Constitution proclaimed Russia a federal state composed of three tiers—the federal, the regional, and the municipal. The central government represented the first tier. The second tier comprised 89 geographic administrative units, which reflected substantial differences in the relative degree of autonomy from the center and in the ethnic composition of the region’s population.\textsuperscript{34} The third tier was represented by cities in urban areas and districts in nonurban areas. However, the peculiarity of Russia’s new federal arrangement consisted in the fact that although Article 5 of the Russian Constitution officially described the Russian federal system as equal, in practice it remained asymmetrical.\textsuperscript{35}

Moreover, following the constitutional crisis of October 1993, the decentralisation trend continued. The president granted governors the right to make the final decisions on the regional budgets, to veto laws passed by the regional legislatures, and to appoint executives at the municipal level.\textsuperscript{36} He also allowed the regional elites to compete for power at the regional level, which resulted in increasing the corruption of regional authorities.\textsuperscript{37} Over time, regional leaders began viewing their regions as their \textit{vorchinas} (fiefdoms), often neglecting the federal regulations and engaging in corrupt activities.\textsuperscript{38} Such situations continued well into 1995–96,

\begin{itemize}
\item \textsuperscript{35} Elena Maltseva, “The Institutionalization of Political Parties in Russia from a Regional Perspective,” MA thesis, Carleton University, 2004, 25.
\item \textsuperscript{36} Tolz and Busygina, “Regional Governors and the Kremlin: The Ongoing Battle for Power,” 404.
\item \textsuperscript{37} Ibid., 403–4.
\item \textsuperscript{38} See, for example, Maltseva, “The Institutionalization of Political Parties in Russia from a Regional Perspective.”
\end{itemize}
when the president urgently needed the support of regional elites to ensure his victory in the 1996 presidential election. The uncertainty of this early transitional period was further aggravated by the fact that there was little agreement among Russia’s elite or within society as a whole about the course of the country’s economic reforms and the type of constitutional system that Russia needed. The constitutional debate reflected the complexity of the problem and resulted in several drafts of the Constitution, with Yeltsin supporting the presidential form of government and parliament proposing to establish a parliamentary republic. As in Kazakhstan, however, the political debate was interrupted by evidence of a rapidly deteriorating economic situation. Gaidar, the father of the Russian “big-bang” strategy, summarised the situation following the coup attempt of 1991 as follows:

After the attempted coup of August 1991 the Communist Party was banned, many republics declared their independence, and the system ceased to function entirely. One week after the attempted coup, all procurement stopped. Why should I deliver grain to the state for money that is entirely worthless rather than bartering it for something I need? [On the eve of Russia’s independence,] the country was bankrupt. The grain reserves could last only until February 1992. No grain, no credits, no working system of grain distribution. This reality was very well felt in the country. If you went to the shops in the autumn of 1991 you would see that they were entirely empty.

According to Gaidar, there were only two choices left for the Russian leadership, either to impose the system of bureaucratic distribution, as the Bolsheviks did in 1918, or to launch

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40. Of note the constitutional preferences of the parliament underwent significant transformation since 1991. If originally Congress supported the president and even granted him some extraordinary powers to carry out the reforms, by mid-1992 it had grown more and more concerned about the possibility of power concentration in the office of the president. Biriukov and Sergeev, *Stanovlenie institutov predstavitel’noi vlasti v sovremennoi Rossii*, 323–83; McFaul, *Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin*, 167–222.

radical market reforms.\textsuperscript{42} This view was also supported by Andrei Illarionov, who stated that “the enormous budget deficit, the absence of currency reserves, the bankruptcy of the foreign trade bank, the collapse of administrative trade, the real threat of hunger in the major cities were only a few characteristics of the economic situation in which the Gaidar government found itself. Under those circumstances, abstaining from immediate and complete price liberalisation would have threatened the country with unpredictable consequences.”\textsuperscript{43}

Realising the importance of economic reforms, the president and parliament agreed to temporarily halt their constitutional debate and focus on the economy.\textsuperscript{44} In the words of Ruslan Khasbulatov, then the chairman of the Supreme Soviet of the Russian Federation: “I told him [Yeltsin] several times, let’s set aside constitutional questions, and work together on the economy, and then do a compromise Constitution acceptable to all.”\textsuperscript{45} The implementation of economic reforms was entrusted to the team of young economists led by Gaidar.\textsuperscript{46} The goal was the rapid transformation of the Russian economy, and it included price and trade liberalisation accompanied by decreased state spending and tight control over the monetary supply, as well as mass privatisation.\textsuperscript{47}

\textsuperscript{42} Ibid.

\textsuperscript{43} Stefan Hedlund, \textit{Russia’s “Market” Economy: A Bad Case of Predatory Capitalism} (London: UCL Press, 1999), 155.

\textsuperscript{44} Biriukov and Sergeev, \textit{Stanovlenie institutov predstavitel’noi vlasti v sovremennoi Rossii}, 373; McFaul, \textit{Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin}, 146.

\textsuperscript{45} McFaul, \textit{Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin}, 146.


\textsuperscript{47} McFaul, \textit{Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin}, 162–3.
Economic reforms began as early as January 2, 1992, with price liberalisation being the key element of Gaidar’s economic program. The reforms aimed to fulfill the following goals: “[T]o eliminate shortage of goods and administrative system of shortage distribution, leading to corruption and arbitrary rule; to create stimulus for producers to increase production of goods; to cut budget subsidies strictly and to balance the state budget.” Privatisation also stood at the top of the governmental agenda, with the first attempts at privatising state enterprises made already in July 1991, before the August coup and the dissolution of the USSR. Headed by Anatoly Chubais, the privatisation program presupposed a transfer of all eligible state enterprises into private hands. It was expected that during the first stage of the privatisation program, all eligible state enterprises would be transformed into joint-stock companies, which would be followed by the next stage, voucher actions. During this second stage, all citizens would receive vouchers, which they could then use to bid for shares in privatising enterprises.

Economic reforms were accompanied by important changes to Russia’s fiscal system, as the government moved to decentralise its highly centralised Soviet fiscal procedures. This


50. Ibid., 23.

51. The Soviet fiscal system was a highly centralised, redistributive order, in which planning and budgeting were oriented more toward industrial branch and defense needs than toward geographical concerns. Therefore the central budget funded all activities and enterprises that were considered of paramount importance to the state, such as transport, heavy industry, and defense. In addition, the center was also responsible for foreign affairs, national law enforcement, debt servicing, university education,
fiscal decentralisation resulted in ever more tax revenues being devolved to the regional
governments.\textsuperscript{52} Officially, the Basic Principles of Taxation Law, passed in December 1991,
exclusively assigned different taxes to different levels of government (corporate and personal
income taxes to the regions; VAT, export taxes, and certain excise taxes to the federal
government; see table 7.2.). In practice, however, the regions received much more than officially
assigned, as revenue sharing was practiced unofficially, with the corporate tax and VAT divided
between the federal and regional governments, at changing, bilaterally negotiated rates.\textsuperscript{53} During
1992–93, the regional shares tended to increase, so that from 1994 onward, the federal share of
VAT revenues has been well below the statutory 75 percent, mainly due to some negotiated
settlements with individual regions, according to which those regions were allowed to keep the
federal VAT proceeds against offsetting reductions in the federal transfers to the regions in
question.\textsuperscript{54} Several additional taxes—an excise tax on petroleum, a petroleum/natural resource
production tax, and an export tax on oil—all intended as strictly federal taxes when introduced,
have also ended up being shared with the regions. In short, during this early period of Russia’s transition, the country’s intergovernmental fiscal relations were based on three main pillars: (1) a quasi-equalising tax (VAT), unofficially shared with the regions, with local shares differentiated according to the supplementary revenue needs of local budgets in relatively weaker financial positions; (2) transfers from the federal government to the regions, which took the form of grants or budget loans; and (3) special treatment granted to selected regions on a case-by-case basis, often involving exemptions from paying export taxes or import duties, as well as exemptions from transferring federal taxes to Moscow.

Table 7.2. Official Tax Distribution in Russia during the Early 1990s

<table>
<thead>
<tr>
<th>Federal</th>
<th>Regional</th>
<th>Rayon</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT</td>
<td>1. Personal income tax</td>
<td>Rayons were permitted to set both the rate and base on 21 taxes and fees:</td>
</tr>
<tr>
<td>2. Export taxes (abolished in 1996)</td>
<td>2. Corporate income tax</td>
<td>1. property tax on natural persons including the land tax, business registration fees, construction in resort areas, resort fees, tax on the right to trade, taxes for maintenance of militia, taxes on advertising, resale of cars, computers; license fees for sale of wine and liquor, conduct of auctions, occupancy of apartments, car parking, etc.</td>
</tr>
<tr>
<td>3. Excises on motor vehicles and alcohol</td>
<td>3. All excises except motor vehicle excise and alcohol</td>
<td></td>
</tr>
<tr>
<td>4. Taxes on bank and insurance profits</td>
<td>4. Revenues from property and asset taxes on enterprises, forestry taxes and payment for water use, etc.</td>
<td></td>
</tr>
<tr>
<td>5. Taxes on “exchange activities” and securities operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Customs duties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Natural resource taxes (shared with the subnational governments)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In addition to sustaining economic reforms and changes in Russia’s intergovernmental fiscal relations, and in line with the logic of Gaidar’s liberalisation program, the Russian welfare state had to be decentralised and divested of many of its functions that were seen as


“inappropriate under market conditions.”\textsuperscript{57} In particular, the government planned to minimise the government’s social spending by reforming the inherited systems of social security, education, health care, and housing provision, and to concentrate instead on economic reforms, as the problem of poverty supposedly could only be addressed by economic growth. According to this plan, the state’s role in welfare provision had to be reduced from 53 percent of the GDP at the beginning of transition to 40 percent by the end of 1995, whereas the social consequences of lower government spending on social welfare could be offset by using money more efficiently—giving it directly to the needy rather than wasting it in generous benefits and subsidies.\textsuperscript{58} The federal government also announced its decision to restructure its social responsibilities by shifting the burden of financing the majority of social services to regional and local governments (see table 7.3.).\textsuperscript{59} As the government pointed out, these measures would help reduce the growing budget deficit and thus were the necessary preconditions for economic growth. As a result, by 1994, the regions and localities held responsibility for 80 percent of consolidated budget spending on education, for 88 percent of spending on health, for 64 percent of spending on culture and the mass media, for 74 percent of spending on social protection, and for 71 percent of spending on the national economy (mostly capital investment and subsidies).\textsuperscript{60} This change was reflected in Russia’s fiscal trends. As Daniel Treisman has illustrated, between 1992 and 1994, federal public spending dropped from 23.4 percent of the GDP to 18.6 percent, whereas regional spending rose from 12.7 percent to 17.5 percent (see table 7.4.). It is also worthwhile noting that


\textsuperscript{58} Cook, \textit{Postcommunist Welfare States}, 50.

\textsuperscript{59} Ibid., 49.

\textsuperscript{60} Treisman, \textit{After the Deluge: Regional Crises and Political Consolidation in Russia}, 51.
during this period the central budget revenues fell from 15.9 percent in 1992 to 13.3 percent in 1994, whereas those of the regions rose from 12.8 percent to 14.6 percent. In essence, this trend symbolised the growing fiscal but also political decentralisation of the Russian Federation.

In this context, the most important question was whether increased decentralisation would impose a significant financial burden on local governments. As I mentioned, according to the government’s original assumption, changes in Russia’s taxation system, with many taxes collected and kept by the regions, as well as federal transfers would help alleviate the financial burden faced by the poorer regions. However, these assumptions proved incorrect, because many regional governments experienced major difficulties collecting the taxes in the first place and because the federal government was unable to provide adequate and regular transfers from the federal budget. As a result, regional governments, squeezed between their funding shortfalls and the pressure to maintain the various social services delegated to them by the federal government, sought out new revenue sources in often spontaneous, uncoordinated ways, taxing the emerging commercial sector of cooperatives and other small firms. Reduced revenues also created an incentive for regions to seek ways to reduce their tax payments to the center and motivated them to request ever more transfers from the federal government and economic concessions to finance their regional needs. Suffice it to mention the situation that unfolded during the regional budget round of June 1992, when eighty-five of the eighty-nine regions reportedly protested the spending level assigned to them by the Ministry of Finance and sent delegations to Moscow to press for changes. In the words of one analyst, Russia’s fiscal system in the early 1990s “[was]  

61. Ibid., 50.

not truly a ‘system,’ but rather a series of ad hoc bargained agreements, non-transparent at best, whose effects and incentives [were] not well understood.”

Table 7.3. Expenditure Assignments in the Russian Federation under Yeltsin

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Federal</th>
<th>Regional</th>
<th>Districts (Rayons)</th>
<th>Village Soviets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defense</td>
<td>100% except military housing</td>
<td>Military housing</td>
<td>Wages, operations construction, and maintenance of all primary and secondary schools</td>
<td></td>
</tr>
<tr>
<td>Justice and internal security</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Economic Relations</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education*</td>
<td>All university and research institute expenditures</td>
<td>Several special vocational schools</td>
<td>Secondary hospitals</td>
<td>Paramedics</td>
</tr>
<tr>
<td></td>
<td>All technical and vocational expenditures</td>
<td></td>
<td>Medical research institutes</td>
<td></td>
</tr>
<tr>
<td>Culture and parks**</td>
<td>National museums</td>
<td>Some museums with oblast significance</td>
<td>All recurrent expenditures of all sport and park facilities and all other cultural facilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>National theater</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health***</td>
<td>Medical research institutes</td>
<td>Tertiary hospitals, psychiatric hospitals, veteran hospitals, diagnostic centers, and special service hospitals (cardiology, etc.)</td>
<td>Secondary hospitals, Primary health clinics, Medicines</td>
<td></td>
</tr>
<tr>
<td>Roads****</td>
<td>Construction of all roads</td>
<td>Maintenance of oblast roads</td>
<td>Maintenance of rayon and city roads</td>
<td>Maintenance of commercial roads</td>
</tr>
<tr>
<td>Public Transportation</td>
<td>(Previously interjurisdictional highways, air, and rail)</td>
<td>Most public transportation facilities (earlier assigned to federal government)</td>
<td>Some transportation facilities including subway systems</td>
<td></td>
</tr>
<tr>
<td>Fire Protection</td>
<td></td>
<td>Most fire protection services</td>
<td>Voluntary, military and enterprise services possible at this level</td>
<td></td>
</tr>
</tbody>
</table>

---

63. Ibid.
<table>
<thead>
<tr>
<th>Libraries</th>
<th>Special libraries, i.e., Lenin Library</th>
<th>Special library services</th>
<th>Most local library services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police services</td>
<td>National militia</td>
<td>Road (traffic) police</td>
<td>Local security police (since 1991)</td>
</tr>
<tr>
<td>Sewerage</td>
<td>Infrastructure capital investment</td>
<td></td>
<td>Most operational expenditures</td>
</tr>
<tr>
<td>Public utilities (gas, electricity and water)</td>
<td></td>
<td></td>
<td>Subsidies to households (not enterprises)</td>
</tr>
<tr>
<td>Housing</td>
<td>Building and development</td>
<td>Maintenance and small-scale building</td>
<td></td>
</tr>
<tr>
<td>Price subsidies</td>
<td></td>
<td>Fuels</td>
<td></td>
</tr>
<tr>
<td>Welfare compensation</td>
<td>Part central government responsibility</td>
<td>Part oblast government responsibility</td>
<td>Managing programs funded by upper-level governments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capacity to invest in joint ventures (keeps 50 percent of privatisation proceeds if rayon subordination)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Responsible for local environmental problems, i.e., preservation of forests</td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>Responsible for national environmental issues</td>
<td>Responsible for local environmental problems, i.e., preservation of forests</td>
<td></td>
</tr>
<tr>
<td>Enterprises</td>
<td>“Group A” enterprises, i.e., transport and heavy industry</td>
<td>“Group C” enterprises, i.e., local light industry, housing construction, and food industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“Group B” enterprises, i.e., light industry, transport, and agriculture</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Public enterprises also build schools but typically do not operate them. They frequently operate kindergarten services.
** Some enterprises build sport facilities.
*** Some enterprises build hospitals and in some cases also operate them. Social insurance mostly financed by enterprises pays for health services of those covered.
**** There is a special extrabudgetary fund financed by an excise tax on oil consumption.

Table 7.4. Estimated State Budget Revenues and Expenditures in Russia in the Early 1990s

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Federal</td>
<td>15.9</td>
<td>11.8</td>
<td>13.3</td>
<td>13.7</td>
<td>12.5</td>
</tr>
<tr>
<td>- Regional+Local</td>
<td>12.8</td>
<td>15.0</td>
<td>14.6</td>
<td>12.4</td>
<td>12.3</td>
</tr>
<tr>
<td>- Off-budget funds</td>
<td>17.4</td>
<td>12.6</td>
<td>9.9</td>
<td>7.9</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Federal</td>
<td>23.4</td>
<td>17.2</td>
<td>18.6</td>
<td>15.7</td>
<td>12.3</td>
</tr>
<tr>
<td>- Regional+Local</td>
<td>12.7</td>
<td>17.0</td>
<td>17.5</td>
<td>14.6</td>
<td>15.0</td>
</tr>
<tr>
<td>- Off-budget funds</td>
<td>26.8</td>
<td>13.8</td>
<td>9.1</td>
<td>7.5</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Industrial Off-budget funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Revenues</td>
<td>5.8</td>
<td>4.2</td>
<td>2.5</td>
<td>1.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>- Expenditures</td>
<td>3.6</td>
<td>3.3</td>
<td>2.3</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Central Bank Directed Credit</strong></td>
<td>15.5</td>
<td>5.0</td>
<td>1.9</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Memo: GDP (trillion rubles)</strong></td>
<td>18.1</td>
<td>162.3</td>
<td>630.0</td>
<td>1,659.2</td>
<td>2,256</td>
</tr>
</tbody>
</table>

* - Estimate from Le Houerou 1995 and Illarionov 1996, 32; includes directed credit for investment and conversion.

Source: Treisman, *After the Deluge: Regional Crises and Political Consolidation in Russia*, 50.

In addition to shifting many social responsibilities to the regional level, the government also moved the Pension, Employment, Medical, and Social Insurance Funds from budget financing to separate off-budget funds, which were underwritten by a payroll tax levied almost entirely on employers. The responsibilities of the Pension Fund, created in accordance with the resolutions of the Supreme Congress of the Russian Federation dated December 22, 1990, and December 27, 1991, included the management of the system of pension provision, including the collection and accumulation of social insurance contributions, the payment of pensions, and the provision of social assistance to the elderly and to disabled individuals. Two other funds—the

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State Employment Fund and the Compulsory Medical Insurance Fund, also established in 1991—financed the operation of employment agencies and health-care facilities throughout the country; the provision of employment services, retraining programs, and information sessions; the payment of unemployment benefits and social assistance to the families affected by unemployment, and the like. The fund’s revenues were generated from several sources, including employers’ social insurance contributions and transfers from the federal and regional budgets. Russia’s Social Insurance Fund (SIF) was established a few years later, in 1994, in accordance with the government resolution Nr. 101, “On the Social Insurance Fund of the Russian Federation,” passed on February 12, 1994, and the resolution Nr. 1, “On the Division [Otdelenii] of the Social Insurance Fund of the Russian Federation,” passed on January 5, 1995. The fund revenues covered the payment of temporary disability benefits, maternity and child-care benefits; the provision of free-of-charge treatment in various therapeutic facilities and resort areas and free-of-charge transportation to the place of treatment; payment for specialised dietary products; and the maintenance of sanatoria/therapeutic facilities and children’s and youth sports schools. They also financed the operation of the fund itself. The fund’s revenues came primarily from such sources as employers’ social insurance contributions, transfers from the federal budget (to cover the expenses associated with the social protection of citizens affected by


67. Ibid., 187.

68. Ibid., 181.

69. Ibid., 181–3.
the nuclear disasters and accidents), and other contributions. Table 7.5. illustrates the SIF’s revenue structure.

Table 7.5. Structure of SIF Revenues in 1999

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social insurance contributions</td>
<td>92.79</td>
</tr>
<tr>
<td>Transfers from the federal budget</td>
<td>1.82</td>
</tr>
<tr>
<td>Repayment of funds borrowed earlier by the Pension Fund</td>
<td>1.00</td>
</tr>
<tr>
<td>Other revenues</td>
<td>4.39</td>
</tr>
</tbody>
</table>


In conclusion, the early period of Russia’s transition from communism was marked by significant institutional and ideational changes, which transformed Russia into an asymmetrical federal state with a liberal market economy, decentralised intergovernmental fiscal relations, and a changing welfare system. Yet the political instability and economic difficulties that accompanied the reforms in this early transitional period weakened the state’s capacities and undermined the reform process.

Shortly after the reforms were introduced, they caused uproar in the left-leaning parliament, primarily due to the ensuing inflation, which seemed to spin out of control rapidly. Following price liberalisation on January 1, 1992, inflation increased by 2,508 percent in 1992; it dropped again to 840 percent in 1993 and to 204 percent in 1994. Still, the high inflation rates came as a surprise, as no one, including the economists, had expected that the prices would rise by more than 50 to 100 percent, 150 percent at most. Production levels had fallen much lower

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70. Ibid., 181–2.


than had been anticipated, and the national production level fell to circa 80 percent of its 1991 level in the fourth quarter of 1992.\textsuperscript{73} In the end, the collapse of the industrial sector, as well as the deep economic and fiscal crises, resulted in a growing budget deficit, wage and pension arrears, and rapidly deteriorating health and social services. Tables 7.6. and 7.7. and figure 7.1. offer an overview of Russia’s economic performance during the early 1990s, illustrating the dramatic changes to the Russian inflation rates between 1992 and 1997 and to the budget deficit between 1990 and 2002. In 1994 the latter reached almost 10 percent of Russia’s GDP.

Viewed as an indispensable component of liberal economic reforms and of the democratisation process, fiscal decentralisation had a significant impact on Russia’s political and economic performance during the transition: implemented in a very unstable institutional, political, and economic environment, it weakened the capacity of the central government to control the regional elites and to carry out necessary reforms, thus contributing to fiscal disparities across the regions and endangering the country’s overall macroeconomic and social stability. Most important, fiscal decentralisation contributed to a major deterioration in the provision of social welfare services, as many regions were unable to cover their high social expenditures.\textsuperscript{74}

\begin{flushright}
\textsuperscript{73} Ibid., 266.
\end{flushright}

\begin{flushright}
\textsuperscript{74} Treisman, \textit{After the Deluge: Regional Crises and Political Consolidation in Russia}, 51.
\end{flushright}
Table 7.6. Selected Economic Indicators for Russia, 1992

<table>
<thead>
<tr>
<th>Indicator</th>
<th>December 1991</th>
<th>Quarters of 1992 (calculated using the monthly average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of industrial production (in percentages)</td>
<td>100</td>
<td>99 89 76 78</td>
</tr>
<tr>
<td>Volume of commodity turnover in December 1991 prices (in percentages)</td>
<td>100</td>
<td>31 29 33 37</td>
</tr>
<tr>
<td>Real wages of blue-collar and white-collar workers in industry (in percentages)</td>
<td>100</td>
<td>42 42 45 50</td>
</tr>
<tr>
<td>Real money income per capita (in percentages)</td>
<td>100</td>
<td>39 28 36 39</td>
</tr>
</tbody>
</table>


Table 7.7. Russian Inflation Rates, 1992–1997

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Annual Average</td>
<td>1,526.5</td>
<td>874.3</td>
<td>307.2</td>
<td>197.5</td>
<td>47.7</td>
<td>14.7</td>
</tr>
<tr>
<td>End of Year</td>
<td>2,508.8</td>
<td>840.1</td>
<td>204.7</td>
<td>131.3</td>
<td>21.8</td>
<td>11.0</td>
</tr>
</tbody>
</table>

Source: Hedlund, Russia’s “Market” Economy: A Bad Case of Predatory Capitalism, 156.

Figure 7.1. General Government Budget Balance

Source: Dabrowski et al., Russia: Political and Institutional Determinants of Economic Reforms, 22.
The situation of the central government was also difficult: concerned about the integrity of the Russian state and in need of regional support during the election, the government had no other option but to maneuver between the center and the regions and to continue appeasing the regions with fiscal benefits and concessions. This policy of fiscal appeasement served the important purpose of keeping the federation intact, defusing various threats to its integrity. At the same time, however, fiscal decentralisation further weakened the central authorities in the regions and led to rapidly deteriorating social services.

Realising the dangers of this situation, the government tried to recentralise this system in 1994 by introducing the redistributitional Fund for Financial Support of the Subjects of the Federation, which made payments to needy regions based on publicized formulas. Between 1994 and 1995, several regions were designated as “needy” or “very needy” and thus received transfers from the fund. Yet despite this move toward greater transparency and toward the reliance on rules rather than on discretion a series of problems arose. First, the transfer mechanism was based on actual expenditure and revenue data for each region, rather than on the underlying objective measures of revenue capacity and expenditure needs. This allowed regions to manipulate the formula to their advantage. In addition, the mechanism provided incentives for regions to overspend. In other words, despite these efforts, “the systemless distribution of

75. Ibid., 47.

76. Ibid., 47–8.

77. Ibid., 52. See also Craig, Norregaard, and Tsibouris, “Russian Federation,” 694.


79. Ibid., 695.
benefits and subsidies to different regions continued.”

The government tried to improve the system of transfers from the Fund for Regional Support following the 1996 presidential election, when the federal authorities no longer needed the political support of regional elites.

In conclusion, the early results of Yeltsin’s economic and institutional reforms turned out to be controversial: the continuing economic and political crises, the growing fiscal decentralisation of the Russian state, as well as the collapse of Russia’s industrial base limited the options available to the government, forcing it to maneuver between liberal and conservative political forces. In addition, concerned about the territorial integrity of the Russian Federation, as well as about the necessity to secure regional support during the upcoming presidential elections, the president engaged in endless bargaining with the regional authorities about the nature of Russia’s federal arrangements and the distribution of federal and regional responsibilities. Witnessing the weakness of the federal center, the regional elites pressured the center concerning such issues as who had greater control over economic and political decisions affecting particular regions, and how much tax the regions should contribute to the federal budget. Such a practice of informal negotiations led to an obvious neglect of the institutional mechanisms of control and promoted informal relationships between the center and the regions, thus undermining the powers of the federal authorities in the regions and making the president’s political survival dependent on regional support. Finally, the economic and institutional instability negatively

80. Treisman, After the Deluge: Regional Crises and Political Consolidation in Russia, 52.


affected the Russian welfare state: with many regions and off-budget funds reporting growing fund shortages, the government faced the threat of social instability as people demanded their wages, pensions, and social benefits.

Deep economic and welfare crises obviously had an adverse effect on the Russian population. As prices skyrocketed and the country plunged into a deep economic recession, one accompanied by the collapse of the Soviet welfare state (which was also highly ineffective in targeting the poor), the government saw a sharp increase in the rates of poverty and inequality, as well as a rapid deterioration of public health indicators and a drop in life expectancy. According to Ella Pamfilova, then Russia’s Minister for Social Protection, in 1992, 30 million of 35 million Russian pensioners were getting a monthly stipend of just 342 rubles, which ranged well below the survival limit of 550 rubles and constituted slightly more than three dollars at the Russian Central Bank’s market rate. Other population groups were equally affected, especially families with children, single mothers, and the disabled. Yet the greatest threat of instability stemmed from the growing number of underemployed workers. As many enterprises went bankrupt, released workers, or sent them into unpaid holidays, the families of many Russian workers in industrial areas and large cities found themselves on the verge of poverty.


Pamfilova warned, millions could go hungry in the future, because the government runs the risk of not being able to pay unemployment benefits.  

Scared by the depth of Russia’s economic and social crises and afraid of a possible political backlash during the next parliamentary election, parliament (then the Supreme Soviet) raised concerns about the course of Russia’s economic reforms and demanded that the government slow its pace. The first such criticism occurred as early as during the Sixth Congress in April 1992, when many deputies openly criticised Gaidar’s stabilisation strategy. This view was expressed by the Communist opposition under the guidance of Vice President Alexander Rutskoi who advocated a more state-controlled transition to the market and the preservation of the old Soviet welfare state. Other deputies, including the members of Working Russia, the Industrial Union, the Agrarian Union, the Union of Communists, and the Congress Chairman Ruslan Khasbulatov, supported Rutskoi’s position.

In fact, the concern over the course of economic reforms was also raised by industrialists and several members of the Democratic Russia movement, including M. Astafiev, who explained his decision to support the Communists in the following way: “What convinced us to unite with the leftist forces? The fact that the country was facing a catastrophe, and hence our task was to


88. Schleifer and Treisman, Without a Map: Political Tactics and Economic Reform in Russia, 23–4, 41–2.

rescue it, leaving all contradictions aside for a moment.”

In a similar vein, Arkady Volskii, the president of the Russian Union of Industrialists and the leader of the Civic Union movement, argued that, as they were conducted on the initiative of the IMF and the World Bank, the reforms worked on destroying Russia’s industrial base and on ruining the country’s future. Speaking to his supporters in 1993, Volskii stated that “the current government has said it aims to create a socially-oriented economy, but in fact it has neglected social problems,” adding that “the situation in the country is such that any further reform step should be considered only through the prism of citizens’ social conditions.”

Even Grigoriy Yavlinsky openly criticised the reforms, calling them a “failure” if judged by the government’s own goals articulated in early 1992. “Considering the impoverished condition and the pauper psychology of the broad masses, struggle may begin over particular territories, food reserves and resources. It is a serious socio-political problem at this moment,” Yavlinsky warned in his study of economic reforms in 1992.

This criticism, raised by various political actors who were prominent in parliament and in the


93. Ibid.


95. Ibid.
government, resonated with the masses, who demanded their wages, pensions, and better living
conditions.96

Caught between a growing opposition to the reforms and the necessity to continue the
reform process despite a deep economic crisis, Yeltsin faced a difficult choice. Initially, he
placed some hopes on the West and its monetary assistance, planning to allocate some of the
Western money to social welfare programs and to support the collapsing industrial and
agricultural sectors.97 He believed that Western countries and the IMF, afraid of the new Russian
government being swept away by growing mass discontent and political opposition to the
reforms, would offer generous financial help to Russia. As one observer reflected on the
relationship between the IMF and the Russian government during this early transitional period:

"For the bankers and economists who worked at those institutions and had spent a lifetime
schooling unruly nations in the ways of financial rectitude, it was a bemusing
experience, at once comical and exasperating, to watch Russia’s leaders cheerfully
rewrite the rules of the capitalist club before they had even joined. High-flying
bureaucrats, used to laying down the law in every semi-bankrupt finance ministry in the
world, found to their astonishment that Russian officialdom treated them with
condescension: the condescension of borrowers who know that their banker has no real
choice, because the political cost of meanness is even higher than the financial risk of
profligacy.98"

The reality, however, did not fully conform to Yeltsin’s expectations. Already at the
beginning of the transition, the G-7 countries insisted that the Russian government “continue

96. See Biriukov and Sergeev, Stanovlenie institutov predstavitel’noi vlasti v sovremennoi Rossii, 366–7.

relationship between the Russian government and international financial institutions is discussed in Alvin
Z. Rubinstein, “The Transformation of Russian Foreign Policy,” in The International Dimension of Post-
Communist Transitions in Russia and the New States of Eurasia, ed. Karen Dawisha (New York: M. E.
Sharpe, 1997), 39–41; Pinar Bedirhanoglu, “The Nomenklatura’s Passive Revolution in Russia in the
Neoliberal Era,” in Russian Transformations: Changing the Global Narrative, ed. Leo McCann (London:

98. Hedlund, Russia’s “Market” Economy: A Bad Case of Predatory Capitalism, 123.
servicing its Soviet foreign debt, at a time when the G-7 should have been working hard to provide the new government with fiscal breathing space.”\textsuperscript{99} The complexity of the situation was heightened by the fact that even though the IMF and Western countries promised the Russian government generous monetary assistance and consulting services to keep the Russian economy afloat, they linked the delivery of this assistance to Russia’s compliance with stringent IMF requirements in the area of economic reforms, something that the Yeltsin government failed to fulfil.\textsuperscript{100} As a result, the foreign assistance actually delivered to Russia during the early 1990s turned out to be much less than the originally promised package of $24 billion. This shortfall contributed to the further collapse of the Russian economy and undermined the position of the Russian government.\textsuperscript{101}

In an attempt to satisfy Western demands for economic reforms, the president tried to defend the government from the criticism raised in parliament, stating that “we can’t sacrifice the reformist government, which is truly reformist [. . .]. It is a bold, cohesive and young team”; he added that no compromises would be made.\textsuperscript{102} Yet despite this tough talk, there were indications that Yeltsin was slowly beginning to distance himself from Gaidar and was prepared to make

\textsuperscript{99} Jeffrey Sachs, quoted ibid., 120.


\textsuperscript{101} Felkay, \textit{Yeltsin’s Russia and the West}, 96–7. See also Hedlund, \textit{Russia’s “Market” Economy: A Bad Case of Predatory Capitalism}, 166.

concessions, including a government reshuffle and the easing of some aspects of the reforms, to ensure the basic continuity of policy and to preserve his own power. Already in his speech to parliament in April 1992, for example, the president blamed the government for underestimating the extent of the price rises and for the slow pace of privatisation. He then urged a faster pace for privatisation, since Russia must “create millions of owners of property and not hundreds of millionaires.” In May 1992, to appease parliament, he appointed Vladimir Shumeiko as a second first deputy prime minister to balance out Gaidar, and Georgii Khizha and Viktor Chernomyrdin as deputy prime ministers, all of whom adhered to a more state-centered economic approach. At the same time, to counter these conservatives in the government, Yeltsin appointed Gaidar as the acting prime minister in June 1992. Yet the arrival of the industrialists essentially meant that Gaidar and his team lost control over economic policies,


105. McFaul, Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin, 182.

106. Ibid., 183.
which resulted in a further destabilisation of the socioeconomic situation. The shock-therapy approach was thus replaced with a mixed plan, which meant a freeze in the liberalisation of oil and gas prices, renewed state spending for enterprise subsidies, concessions to business directors regarding the government’s privatisation program, and the stagnation of most social reforms.107

In response, monthly inflationary rates soared back to double digits at the end of 1992 and the public grew ever more discontent.108

Protests, demonstrations, and a general sense of social instability threatened Yeltsin’s position vis-à-vis parliament.109 In an attempt to soothe the public and to weaken political opposition to Gaidar’s reforms, the president launched a series of social initiatives. Several decrees were signed, including one that raised the size of public allowances and compensations to families with children, public employees, doctors, teachers, and others.110 A number of

107. Ibid.


emergency measures were signed that included free medical care in state health establishments and the right to get medicines and use public transport free of charge. Yet all these measures were of an ad hoc manner driven by political considerations and not supported by adequate financial contributions.

By the end of 1992, disagreements concerning economic reform between the parliament and the president reached their peak and transformed into a constitutional debate about the structure and organisation of the Russian political system. During the Seventh Congress in December 1992, parliament launched the first serious attack to curtail Yeltsin’s extraordinary executive power, forced Gaidar out, and replaced him with the more conservative Viktor Chernomyrdin. The president hoped that with the appointment of Chernomyrdin to the post of prime minister, the situation would normalise. Yet with the departure of Gaidar, the


112. Biriukov and Sergeev, Stanovlenie institutov predstavitel’noi vlasti v sovremennoi Rossii, 390.

113. Ibid., 401.
confrontation between the two branches only escalated.\textsuperscript{114} Moreover, the appointment also affected the government itself: reform-minded ministers, who were in charge of the most political ministries (especially finance and privatisation) and who saw as their main task the reduction of the budget deficit, argued with those ministers in charge of such ministries as energy, agriculture, and industry, who saw it as their job to lobby for more subsidies.\textsuperscript{115} And Chernomyrdin, when faced with difficult choices, usually sided with the conservatives.

For Yeltsin, the situation proved extremely difficult. Not only did he have to deal with public protests and with rapidly declining popular support but he also faced enormous pressures from parliament and from within the government itself. He admitted that he could not withstand the pressure coming from several parliamentary factions, parties, political movements, economic schools, and entrepreneurs. In the end, Yeltsin questioned the necessity of radical economic reforms and agreed to a referendum, to be held in early April 1993, to have the electorate confirm their trust in the Russian president and their support for liberal economic reforms.\textsuperscript{116}

In a bit of a surprise, Yeltsin won this referendum, with 58.7 percent of voters stating their trust in the president, compared to 39.3 percent who said they did not trust Yeltsin. In addition, 53 percent of the people approved his socioeconomic reforms, whereas 44.5 percent disapproved.\textsuperscript{117} Yeltsin’s victory, however, also indicated how divided the country was, allowing parliament to claim that the results of the referendum signaled that economic reforms should not

\textsuperscript{114} Ibid., 401–15.

\textsuperscript{115} “Reforming Russia’s Economy: Cruel to Be Kind,” 23.

\textsuperscript{116} Biriukov and Sergeev, \textit{Stanovlenie institutov predstavitel’noi vlasti v sovremennoi Rossii}, 410–15; McFaul, \textit{Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin}, 189.

\textsuperscript{117} Ibid., 190.
be continued as practiced by the Yeltsin government. In the end, the referendum did not resolve the political confrontation between the two branches of government, and in May 1993, the government stopped all attempts to negotiate with the parliament.

The dispute about the direction of economic policy resulted in a prolonged constitutional crisis, which dragged on for several months. By the fall of 1993, all attempts to come up with a compromise draft of the Constitution that would satisfy both the parliament and the president had failed. As one commentator described the situation in August 1993: “The President issues decrees as if there were no Supreme Soviet, and the Supreme Soviet suspends decrees as if there were no President.” In September 1993, the situation came to a complete stalemate. On September 21, 1993, Yeltsin issued Presidential Decree No. 1400. The decree dissolved the Congress of People’s Deputies and called for the popular ratification of a new constitution and elections to a new bicameral parliament in December 1993. Yeltsin also announced that an early presidential election would be held in March 1994. In response, parliament declared the president’s decision null and void, impeached Yeltsin, and proclaimed vice president Alexander Rutskoy as acting president. The situation deteriorated at the beginning of October. On Sunday,

118. Ibid., 191.


121. A detailed discussion of the October constitutional crisis can be found in McFaul, Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin, 194–8.

122. Ibid., 195.

123. Ibid.
October 3, demonstrators removed police cordons around the parliament building and, urged by their leaders, took over the mayor's offices and tried to storm the Ostankino television center.\textsuperscript{124} In response, the army, which had initially declared its neutrality, by Yeltsin’s orders stormed the building of the Supreme Soviet in the early morning hours of October 4 and arrested the leaders of the resistance.\textsuperscript{125} Hundreds of people died and many more were wounded during these days of conflict.\textsuperscript{126}

A referendum on the new Constitution and a parliamentary election were held on 12 December 1993. The referendum approved the Constitution with more than 54 percent of the eligible electorate casting ballots on the question, about 58 percent of them approving the draft.\textsuperscript{127} The new Constitution thus took effect immediately.\textsuperscript{128} It significantly expanded the president’s powers in three crucial aspects. First, it empowered the president to dissolve the State Duma when it either rejected the president’s candidate for prime minister on three consecutive votes or failed to support a government-initiated vote of confidence.\textsuperscript{129} Second, the Constitution limited the power of the Federal Assembly to only overseeing the performance of government

\textsuperscript{124} Ibid., 197–8.

\textsuperscript{125} Ibid., 198.

\textsuperscript{126} Ibid.


\textsuperscript{128} The results of the referendum were, however, questioned by the opposition. In particular, some analysts questioned that voters would simultaneously vote in favor of Yeltsin's constitution and in unexpectedly large numbers for the parties opposing Yeltsin, including the Communist Party and the reactionary Liberal Democratic Party (LDP), suggesting that the results may have been tampered with. Moore, “The Path to the New Russian Constitution: A Comparison of Executive-Legislative Relations in the Major Drafts,” 56.

officials. Only the post of the prime minister was subject to confirmation by the State Duma, and the lower house could not dismiss individual ministers.\textsuperscript{130} Finally, as a “guarantor of the Constitution,” the president gained important residual powers, such as the power to veto.\textsuperscript{131}

Although the president was granted enormous constitutional powers, the election results proved disappointing for Yeltsin. In the parliamentary election, the government-backed liberal \textit{Russia’s Choice} came only second, whereas the populist \textit{Liberal Democratic Party of Russia (LDPR)} led by Zhirinovsky garnered almost 23 percent of the votes (for an overview of the election results refer to Table 7.8. in the Appendix). As a result, the political situation did not change significantly after the 1993 constitutional crisis. Although the passage of the new Constitution partially resolved the struggle between the executive and legislative branches, the two continued to represent fundamentally opposing visions of Russia’s future. The government remained the driving force behind reform, while the lower house of the parliament, the State Duma, opposed radical economic and welfare restructuring. During this time, nearly all governmental attempts at developing an economically sustainable welfare policy and at reducing social privileges failed in Russia’s left-leaning parliament, which blocked any drafts aimed at rolling back the existing social system.

To recapitulate on this early period in Russia’s transition, from the very beginning of the reforms, the President found himself between a rock and a hard place. On the one hand, opposition parties such as the \textit{CPRF} decried the path of Russia’s post-Communist economic and social reforms and called for the resignation of Yeltsin’s government. On the other hand, the imperatives of liberal economic reforms and the deep economic crisis put intense pressure on the

\textsuperscript{130} Chaisty, “Legislative Politics in Russia,” 105.

\textsuperscript{131} Ibid.
government to cut social expenditures and implement welfare reforms. However, even though
the Gaidar government did launch the reforms as early as 1991, the strong political and public
opposition to the reforms left Yeltsin with no choice but to slow down the reform process.
Continuing with the radical economic reforms and welfare retrenchment at that time was a risk
that could possibly cost Yeltsin the presidency. In the end, responding to public demands, the
President distanced from Gaidar, slowed down economic reforms and increased the number of
eligible beneficiaries and the size of in-kind social programs.

Several factors contributed to the slow and protracted welfare reform process during this
period. First, in contrast to Kazakhstan, where even the opposition supported Nazarbaev’s
economic and welfare reforms, the Russian political elites illustrated weaker support for the
reforms. Arguably, this was partially the result of greater political liberalisation in Russia during
the early 1990s, when many deputies were afraid of possible political backlash during the
elections, and hence preferred to oppose any reforms that could jeopardise their re-election.
Second, the reforms unfolded amidst a deep constitutional crisis, and were used by the deputies
as an instrument in the power game against Boris Yeltsin. Therefore, it was not a struggle over
policies per se, but rather a struggle for personal and institutional power between Khasbulatov
and Yeltsin. In this political cacophony, it was difficult for the President to persuade the
opposition and the public in the necessity of continuing the already launched economic and
welfare reforms. Even though the 1993 constitutional crisis helped to temporarily resolve the
stalemate between the two branches of power, the results proved to be disappointing for Yeltsin,
as the new parliament largely opposed Yeltsin’s economic and social reforms, and thus the
President run into the same wall again.
Equally important was the fact that neither the government nor the President made any serious attempts to effectively communicate with the public and frame the problem in such a way as to convince the majority of the population in the necessity of the reforms. If Nazarbaev and his team spent considerable amount of time communicating with the public and explaining the essence of the pending economic and welfare reforms, Boris Yeltsin and his team of young economists, often described as a team of “arrogant young upstarts,” either underestimated the importance of communication or simply neglected the public, confident in their ability to carry out the reforms. As Hoffman described their role in the transformation of the Russian state:

The Gaidar team realised that no one would be building monuments to them for the transformation they intended to impose on their country. They often described themselves as kamikaze pilots, because they would certainly destroy themselves in trying to tear down so many entrenched interests. Not only would they battle old-school bureaucrats, party bosses, the military and security establishments; they were setting out to destroy the mindset of millions of Russians who knew no other political or economic life other than what they had experienced during Soviet Communism. […] Gaidar and Chubais had no intention to be gentle; slow, or painless. […] The reformers feared that they did not have more time – to wait was to fail. I think their fears were not imagined. All around them were signs of utter collapse. At any minute, they could be history too.

The problem, however, was not that their ideas were modern, capitalist and radical, (in the end, Poland and Kazakhstan implemented similar economic reforms!), but that their political tactics were often arrogant and naïve. They largely neglected the parliament and failed to explain the essence of the reforms to the public. As Hoffman points out, “[Gaidar and Chubais], along with Yeltsin, neglected from the outset to lay a grassroots base for their revolution.”


133. Ibid., 182-3.

134. Ibid., 182.

135. Ibid.
Viewing themselves as technocrats, these young economists shared disdain for politics.\textsuperscript{136} According to Yeltsin, “Gaidar’s ministers and Gaidar himself basically took this position with us: Your business is political leadership; ours is economics. Don’t interfere with us as we do our work, and we won’t butt in on your exalted councils, your cunning behind-the-scenes intrigue, which we don’t understand anyway.”\textsuperscript{137} This attitude, obviously, complicated Yeltsin’s task and proved that even for such an extremely efficient politician as Yeltsin, it was too much to handle alone. In contrast to Nazarbaev, who never tried to embellish the reality and called the people to get ready for a long and painful transition, Yeltsin – optimistically, or, as some observers claimed, foolishly, promised the people that their lives would gradually get better by the next autumn.\textsuperscript{138} And when it became clear that the situation was much more serious than originally anticipated, the President found himself in an extremely difficult and contradictory situation. In one of his speeches after the October crisis of 1993, Yeltsin, for example, criticised the government for not pushing ahead faster with the economic reforms, only to attack the government on the social costs of the reforms seconds later. He was worried that “among the protesters and supporters at the White House, there were not only criminals and bandits, but also desperate people. Through the government’s fault, millions of people did not receive their wages, pensions and grants on time.”\textsuperscript{139} Such confused statements illustrated Yeltsin’s anxieties about the reform process as well as his inability to effectively frame the problem. In the end, the failure of the President to effectively communicate with the public and frame the problem cost the

\textsuperscript{136} Ibid., 181.


President the trust of the electorate, slowed down the reform process and contributed to the formation of an environment that was increasingly oppositional to welfare reforms.


Yeltsin’s second term in the office was marked by similar political instability and financial uncertainty. As I mentioned earlier, as parliament and the public grew more and more opposed to Yeltsin’s economic and social reforms, the president had no other choice but to further postpone the fundamental restructuring of the existing welfare system. And dismantling it on the eve of the 1995–96 parliamentary and presidential elections would have proven comparable to a suicide, a decision that could jeopardise the future of Russia’s transition from communism. Taking away the social privileges and guarantees that many people considered a just reward for their hard work and personal sacrifice was a risky political decision, one for which nobody wanted to assume political responsibility. Therefore the basic eligibility criteria to receive social protection remained unchanged: privileges were granted primarily on the basis of merits, professional hazards, and vulnerability, but rarely on the basis of income.\textsuperscript{140}

The risk of social instability coincided with poor economic performance and the rise of political uncertainty on the eve of the 1996 presidential election. Political uncertainty stemmed from the realisation on the part of the Russian elite, but also on the part of the West, that Russia was heading toward a Communist victory in the upcoming presidential election. Various public opinion polls and Ziuganov’s boosted political confidence made his victory seem almost certain.

In fact, the turning point had come after the 1993 parliamentary election, which brought the communist and nationalist opposition to the fore. As the Chernomyrdin government announced the end of the period of “market romanticism,” Russian oligarchs and the West realised the danger of a possible Communist return.\textsuperscript{141}

Their worries were confirmed during the December 1995 parliamentary election, whose results illustrated the Russian population’s growing frustration and people’s willingness to vote for oppositional political parties.\textsuperscript{142} The Communist Party showed significant gains, winning almost a quarter of the popular vote. The LDPR showed less impressive results than in the 1993 parliamentary election, but it still managed to capture 11.4 percent of the popular vote.\textsuperscript{143} The pro-government party of Prime Minister Chernomyrdin was running a poor third, with less than 10 percent of the vote, while the reformist Yabloko party had 8 percent. And as in the previous Duma, the parliamentary groups of independent deputies had a significant influence on the balance of power in the parliament. Following the election, on January 17, 1996, a Communist, Gennady Seleznyov, was elected the speaker of the Duma.\textsuperscript{144}

Such unimpressive election results of pro-presidential parties were partially attributed to Yeltsin’s low popularity rating. In fact, by early 1995, Yeltsin had become so unpopular that his tour of the Russian heartland had to be called off after one stop because even loyal governors

\textsuperscript{141} Hedlund, Russia’s “Market” Economy: A Bad Case of Predatory Capitalism, 167.

\textsuperscript{142} McFaul, Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin, 285.

\textsuperscript{143} Ibid.

could gather only an embarrassingly small group of well-wishers to meet the president’s train.\footnote{145} The results were an awkward setback for the Russian government and its supporters, which had poured millions of dollars into a slick campaign of billboards and television commercials. Yet as some observers pointed out, the election had succeeded in one of their key objectives: it had prevented a Communist sweep, as the results were insufficient for the Communists to prevail in the Duma, forcing the parliament into a state of limbo once again.\footnote{146}

The 1995 election did not result in any fundamental policy changes, as all eyes were focused on the upcoming presidential election. As Chubais recalled the situation on the eve of the 1996 presidential election:

I saw many of my good friends, presidents of major American companies, European companies, who were simply dancing around Ziuganov, trying to catch his eye, peering at him. There were the world’s most powerful businessmen, with world-famous names, who with their entire appearance demonstrated that they were seeking support of the future president of Russia, because it was clear to everyone that Ziuganov was going to be the future president of Russia, and now they needed to build a relationship with him. So, this shook me up!\footnote{147}

Similar thoughts were on Boris Berezovksy’s mind; he believed that “Ziuganov was a danger to us, and to Russia.”\footnote{148} To prevent a Communist victory, the wealthy businessmen threw themselves behind Yeltsin, offering him their support.\footnote{149} Therefore the 1996 election campaign


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symbolised the merger of power and wealth, with the oligarchs benefiting enormously from the so-called loans-for-shares privatisation scheme.\textsuperscript{150}

Afraid of a possible Communist comeback, the oligarchs and the West threw themselves behind Yeltsin, supporting him throughout the campaign and eventually leading him to victory.\textsuperscript{151} The mastery of Yeltsin’s campaign organisers, in particular of Berezovskii, was accompanied by solid international financial assistance, which started to flow into the country from the mid-1990s and eventually made some observers warn the West of the possible dangers of such unrestricted lending to Russia:

The relationship between the world financial policeman and its biggest debtor after Mexico is now so cozy that it has become a tad unwholesome. So anxious are the Russians to please the Fund that they often agree to unrealistic financial targets that are impossible to meet. So keen is the Fund to help Russia that it often turns a blind eye when its supposedly stringent lending conditions are infringed on . . . .\textsuperscript{152}

For better or worse, by the end of 1995, the Russian government, with IMF assistance, was able to bring inflation down and stabilise the ruble.\textsuperscript{153} As Daniel Treisman summarised the situation in 1995: “International aid did help to finance the budget deficit in 1995–1996 more than it had in previous years. Yet, even quite large amounts of aid had not led to successful stabilisation in the past. And the assistance to Russian stabilisation from the IMF came in response to an extremely austere macroeconomic policy, not as a substitute for it. This assistance


\textsuperscript{152} Hedlund, \textit{Russia’s “Market” Economy: A Bad Case of Predatory Capitalism}, 170.

\textsuperscript{153} Ibid.; Shleifer and Treisman, \textit{Without a Map: Political Tactics and Economic Reform in Russia}, 40–51.
certainly helped stabilisation, and it is unlikely that stabilisation would have succeeded without it in 1995.”154 The government had thus succeeded in lowering the monthly inflation rate from 17.8 percent in January 1995 to 0.3 percent in September 1996.155

To win votes, the presidential election committee placed social policy at the top of Yeltsin’s electoral agenda. Facing a strong Communist challenge, the president fought from behind to take a narrow lead in most opinion polls by stumping vigorously across Russia, reaching out to voters with empathy, and promising them the world.156 In that sense, his platform slightly resembled the platform of his strongest opponent, Gennadii Ziuganov. Yeltsin rejected Ziuganov’s call for a return to Soviet-era controls over wages, prices, and production, but he embraced many elements of the Communists’ social welfare program to compensate for the plunge in living standards since 1992.157 For example, speaking to Russian voters during the presidential campaign, the president claimed that he felt their pain,158 and he promised that the following four years would bring a period of peace, stability, modest economic growth, and declining rates of inflation, a period that would complete Russia’s traumatic passage from communism to the free market with rising personal incomes and no massive unemployment.159 “In the last years we managed to fill our stores,” Yeltsin said, summarising his program in a 25-minute speech to supporters in the Ural Mountain city of Perm. “Now we must fill

154. Shleifer and Treisman, Without a Map: Political Tactics and Economic Reform in Russia, 50-1.

155. Ibid., 51.

156. See, for example, “Communism Starts to ‘Look Good,’” Winnipeg Free Press, May 27, 1996.


158. Ibid.

159. Ibid.
pocketbooks.”  

One week later he confirmed it by stating to the Russian newspaper Rossiiskaia Gazeta that “Russians have already forgotten what empty shelves are. . . . Now what’s needed is for people to forget about empty wallets.”

To achieve this, Yeltsin’s vigorous election campaign and the government’s attempts to stabilise the Russian currency were accompanied by increased federal spending on the social needs of the population. Yeltsin went on to pay back and raise wages and pensions, and he even offered additional social protection measures to disabled people, veterans, children, women, and other disadvantaged groups. As Chubais declared in December 1995: “Today we have paid out everything down to the last ruble.” By early April 1996, most of the pension and wage arrears in the budget sector had been eliminated, although they began to reappear in the following months. Total wage arrears also decreased. In November 1995, responding to miners’ threats to launch a nation-wide strike, the president promised them to fully finance the industry’s needs.

160. Ibid.


until the end of the year. In the words of one regional newspaper, all this was done with the goal of making the president “look kind and fair like Robin Hood.”

In addition to clearing wage and pension arrears, the government went on to increase nominal pensions and wages in the budget sector. In mid-April 1996, Yeltsin doubled the minimum pension, to be effective May 1, 1996. The real minimum wage also increased, and real federal spending on transfers to regions also jumped. The president further promised compensations to those whose savings had been devalued by the hyperinflation of 1992. On June 10, six days before the first round of the election, the first set of payments was made to those over the age of 80. As several scholars noted, these initiatives did seem to have affected people’s votes, as evidenced by Yeltsin’s rating among the elderly following the payment.

Finally, the government went on to extend its welfare coverage, offering social protection to several population groups, including the Chernobyl and Semipalatinsk victims, rehabilitated victims of Stalin-era repressions, refugees, forced migrants, and others. It also introduced


additional welfare programs that addressed the particular problems of the transitional period such as poverty, high unemployment, forced migration, and ethnic conflict. Populist in nature, such policies were not sustainable in the long run, which Yeltsin indirectly admitted shortly after the election. They did, however, help the president win the elections by swaying undecided voters in support of his candidacy.

Despite all these initiatives, the results of the presidential election proved rather unimpressive. The first round was held on Sunday, June 16, 1996, in which Yeltsin and his Communist challenger Ziuganov finished first and second with 35 and 32 percent of the vote, respectively. They met in the runoff round on July 3, 1996, in which Yeltsin won with 53 percent of the vote, compared to Ziuganov’s 40 percent. Even though Yeltsin’s campaign strategy had helped him keep Ziuganov out of office, the results of the election, which some observers argued were slightly manipulated, illustrated how divided the country was.

Yeltsin was able to win the votes of undecided voters by increasing the federal spending on social welfare with the help of government bonds and money received from the ongoing privatisation of state property, as well as thanks to IMF financial help.\(^\text{171}\) Despite the difficult economic situation and ineffective tax collection, Yeltsin was thus able to win over those voters who were inclined by irritation to vote for Ziuganov. Another factor that seemed to help Yeltsin during the election campaign was the support of regional elites, bought by Yeltsin with the help of increased public spending and economic concessions granted to select, strategically important regions.\(^\text{172}\)


Given Yeltsin’s lavish social spending, many observers unsurprisingly warned Yeltsin that such a strategy was not sustainable in the long run. For example, Boris Nemtsov, then the governor of Nizhny Novgorod, describe the election campaign as “a nightmare for the Russian economy, because it has caused a surge in federal spending, while scaring away foreign investors.” Gaidar echoed this statement, saying that “budget policy must not be made a hostage to the election campaign.” They argued that even though social promises were an essential part of any electoral campaign in the West, in Russia such reckless social spending was economically dangerous and politically risky.

The problem with increased social spending and with paying back wage and pension arrears was not only that it was done on credits but also that many of Yeltsin’s welfare initiatives did not fit with the logic of liberal economic reforms and contributed nothing to the development of comprehensive antipoverty and targeted social-assistance programs. By expanding the old Soviet system of social privileges, the government allowed ever more services to be available to various groups of the population, thus significantly undermining the hopes of the poor for any meaningful assistance or improvements to their living conditions.

Quite predictably, the country plunged into another recession following the presidential election of 1996. In its aftermath, the government deficit began to grow again, primarily as a consequence of the costs of the presidential election campaign, the postelection political instability connected with Yeltsin’s poor health and frequent changes in government, the deep-

174. Ibid.
seated political conflict between the mainly market-oriented government and the Communist-dominated Duma, and the increasing influence of oligarchs. The country found itself on the verge of another economic, political, and social crisis, with the majority of the population viewing its government as weak, corrupt, disorganised, and ineffective at providing basic public goods such as law and order. As one expert noted: “The country’s leadership, discrediting itself step by step, is steadily losing its social base. Today it rests only on a part of the power-wielding structures.”

The Asian financial crisis of 1997 further exacerbated the situation and collapsed any hopes for economic stabilisation. As the prices for major commodities such as oil, natural gas, and metals dropped, the country’s economic situation deteriorated. Following the dismissal of Chernomyrdin and appointment of Sergei Kirienko as acting prime minister in March 1998, the government revenues dropped and the country faced the financial crisis of August 1998. And even though the IMF and the World Bank provided $22.6 billion to support reforms and to stabilise the Russian markets, Russia’s monthly interest payments still exceeded its monthly tax revenues. On August 17, 1998, Russia devalued the ruble and imposed a 90-day moratorium on the repayment of private external debt. In September 1998, inflation reached 84 percent and many banks closed down as a result of the crisis.

As usual, economic and political crises coincided in Russia, and they were linked to the government arguments that the state should move away from the policy of making empty and generous welfare promises when social initiatives were not backed up by money. Yet all


177. Ibid., 48.

governmental attempts to forge ahead with welfare reforms again failed in the left-leaning parliament. In particular, in the summer of 1997, parliament conditionally approved a new tax code but rejected a bill to cut the spending of 1997 by a fifth after a drop in tax revenue and threw out most of a package of measures to cut back on Soviet-era welfare benefits, which the government said it could no longer afford.\(^\text{179}\) In response, the Russian government, frustrated by the Communist-dominated Duma’s rejection of its economic and welfare reforms, brandished the threat of new parliamentary elections.\(^\text{180}\) Speaking at a news conference, Oleg Sysuyev, a deputy prime minister, warned that ministers’ patience was wearing thin and raised the threat of the parliament’s dissolution.\(^\text{181}\) Sysuyev pointed out that he personally did not favor new elections, acknowledging that the Duma’s current makeup fairly reflected voters’ sentiments. But he claimed that the house was trying to force the government’s hand and that the executive could raise the issue of dissolution “in a tough manner”: “The Duma is doing all it can to create an extraordinarily tense situation by the autumn, to force the president to change policy. This will not happen. [. . . ] The situation will be even more difficult in autumn and the question of changing the Duma may be raised by the executive branch. It may raise it in a tough manner.”\(^\text{182}\) The chief architect of reform, First Deputy Prime Minister Chubais, also accused the Duma of being “incapable of working,” after it had rejected two of three key pieces of economic reform

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\(^\text{181}\) Ibid.

\(^\text{182}\) Ibid.
legislation. As Chubais emphasised, “with or without the Duma, with or without its desire to help, all the necessary solutions will be found in any case,” adding that the government experts were already looking at ways to implement immediate cost savings and welfare cuts, which could be imposed by presidential decree.

Responding to Chubais’s statements, Duma speaker Seleznyov, a Communist, told Interfax news agency that parliament would not be pushed around by ministers who insisted on continuing their “monetary course” without thought for the sufferings of ordinary people. The government responded by saying that parliament had simply lost any touch with reality, reminding them that the state was incapable of paying its bills and that whereas it did everything possible to meet its pledge and pay off arrears on old-age pensions, drastic changes to Russia’s welfare system were needed to make it sustainable in the long run. Foreign financial analysts welcomed the government’s determination but warned that the doubtless sufferings of ordinary Russians after six years of post-Soviet reforms meant ministers still had a tough job on their hands.

In January 1998, the Russian government finally published the “12 Main Tasks in the Area of Social and Economic Policy,” which clearly formulated the main principles of the future social benefits reform. In particular, the program aimed to ensure the payment of pensions and

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184. Ibid.

185. Ibid.

186. Ibid.

wages on time and the adoption of laws on targeted social assistance to the poorer strata of the population. Yet these programs were never actually realised due to the onset of the 1998 economic crisis, which made the implementation of new social policies highly problematic. Coupled with a lack of political will and the Russian state’s weak organisational capacity, the social benefits reform needed to be postponed until better times.188

Responding to this situation, the president tried to be on both sides of the fence. On the one hand, Yeltsin stated in 1998 that “if there [wasn’t] enough money to put some particular law into effect, the Deputies [should] be honest with the people and change that law.”189 This meant that no legislative acts establishing new social benefits could be passed if these laws had no financial backing, in the case both of off-budget funds and of local budgets.190 The government also announced its plans to abolish entitlement benefits and to replace them with a limited set of targeted, means-tested benefits.191 With this proposal, the government echoed Yeltsin’s statement and acknowledged the system’s financial unsustainability and unfairness: social benefits to the non-poor had to be reduced, while the needs of the poorest households needed to be concentrated on.192 On the other hand, responding to several strikes and protests against unpaid wages and pensions organised by the trade unions and backed by the Communist-

188. See, for example, “Sotsial’nye l’goty i posobiia—neposil’naiia nosha dlia gosudarstva” [Social Benefits and Allowances—An Intolerable Burden for the State], Kommersant-Daily, Mar. 11, 1999.


190. Ibid., 59.


dominated parliament, the president warned the government that “people’s patience [was] running out.”

Overall, by the end of the 1990s, the situation in the Russian welfare sector had not changed: more than two-thirds of Russia’s 148 million people were still entitled to various kinds of social privileges. According to various accounts, by 1999, there were more than 150 types of social protection covering 236 categories of the population at the federal level alone. Table 7.9 provides an overview of the number of households with at least one welfare recipient. As the table illustrates, according to the official statistics, the number of such households reached almost 40 percent. Other experts argued that the number of such households was even higher. According to NOBUS, households with at least one welfare recipient amounted to almost 51 percent of the total population.

Table 7.9. Percentage of Households Receiving Social Benefits, 2003

<table>
<thead>
<tr>
<th>Type of Social Benefit</th>
<th>ROSSTAT</th>
<th>NOBUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>39.8</td>
<td>50.7</td>
</tr>
<tr>
<td>Housing benefits</td>
<td>27.2</td>
<td>41.6</td>
</tr>
<tr>
<td>Transportation benefits</td>
<td>25.5</td>
<td>38.7</td>
</tr>
<tr>
<td>Health care and medicine benefits</td>
<td>3.4</td>
<td>19.8</td>
</tr>
<tr>
<td>Vacation benefits</td>
<td>0.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Privileges for receiving free apartments</td>
<td>0.1</td>
<td>4.0</td>
</tr>
</tbody>
</table>


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195. NOBUS is a literal translation of the Russian abbreviation «НОБУС» that stands for “Натсональ’ное обследование благосостояния населения и его участия в социальных программах” [National survey of household welfare and participation in social programs]. See Maleva, Zubarevich, and Ibragimova, Obzor sotsial’noi politiki v Rossii: nachalo 2000-kh (Moscow: NISP, 2007), 334.
Such a system clearly put an incredible burden on the Russian state. Moreover, in addition to federal social programs, there were several social programs at the regional and local levels. In Moscow, for example, 70 categories of the population, accounting for 60 percent of the city’s inhabitants, had the right to use municipal transport free of charge or with substantial discounts.\textsuperscript{196} Similar situations were reported in other regions, including Bashkortostan, in which the regional budget required about 10 billion rubles to cover all social expenditures. According to various accounts, two-thirds of the Bashkortostani population, an equivalent of 2.63 million people, were eligible for social assistance, whereas an average resident of Bashkortostan was eligible for four and more social benefits.\textsuperscript{197}

The lack of transparency and the huge number of beneficiaries made the system cumbersome and difficult to monitor, allowing many people to receive duplicate privileges.\textsuperscript{198} In the case of transport privileges, for instance, the government lacked a mechanism for tracking how many pensioners were permitted to ride public transportation for free, how many times a day, and for what distance. Transit companies made arbitrary estimates of these figures, and the fiscal authority, which had no means of verifying these estimates, reacted with an equally arbitrary response: allotting the transit companies state resources depending on what was available.\textsuperscript{199} Thus, in addition to being extremely expensive, the Soviet welfare system suffered from unequal access to in-kind social benefits and from the absence of an effective monitoring

\textsuperscript{196} Kapeliouchnikov, “Russia’s Social Safety Net: Standing at the Cross-Roads.”


\textsuperscript{198} Alexandrova, Kuznetsova, and Grishina, “Reforming In-Kind Privileges at the Regional Level in Russia: Political Decisions and Their Determinants,” 117.

\textsuperscript{199} Ibid., 121.
system. That social assistance was offered as an entitlement, and did not directly target the poor and the most disadvantaged groups, contributed to its ineffectiveness and unnecessary waste of financial resources. Child allowance, paid for all children under 16 irrespective of their parents’ income, offered a prime example of the system’s poor evaluation mechanisms and chaotic indexation. This particular allowance was so negligible in size that it could not provide any meaningful support for poor families.\textsuperscript{200} Table 7.10. offers an overview of the provision of benefits to the poor and non-poor strata of the Russian population.

### Table 7.10. Prevalence of Benefits among Poor and Non-Poor Families, Percent of Poor and Non-Poor Households

<table>
<thead>
<tr>
<th>Types of benefits</th>
<th>Poor households</th>
<th>Non-poor households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits for housing, communal services, and utilities</td>
<td>28.2</td>
<td>49.5</td>
</tr>
<tr>
<td>Benefits for health services and medicines</td>
<td>11.7</td>
<td>21.3</td>
</tr>
<tr>
<td>Benefits for transportation</td>
<td>24.2</td>
<td>47.5</td>
</tr>
</tbody>
</table>


According to various estimates, by 1999, nearly 38 percent of the Russian population lived in poverty. This represented a jump of more than 15 percentage points from January of the previous year, and a sharp increase from the official annual poverty rate of about 21 percent in 1997—the lowest one recorded during the transition period. This figure declined to slightly more than 26 percent by the end of 1999, leaving more than 40 million people in poverty.\textsuperscript{201} Other research findings indicate that the poverty rate may have been even higher. According to the Russian Longitudinal Monitoring Survey (RLMS) data, more than one-half of the population was poor by the end of 1998. The highest incidence of poverty was found in households that

\textsuperscript{200} Kapeliouchnikov, “Russia’s Social Safety Net: Standing at the Cross-Roads.”

included children and pensioners, with nearly 60 percent of these households being poor in 1998. The largest group among the poor was households comprising one or more adults and children: almost 55 percent of these families were poor. Pensioners and families with children were the group hardest hit during the transition period.

By the late-1990s, the Russian welfare system thus provided social benefits to three large population groups, including the “deserving disadvantaged,” that is, those who mostly, through no fault of their own, suffered impoverishment in the absence of assistance (e.g., orphans, the disabled, and the elderly without pensions); the “privileged groups,” who had rendered special services to their country (e.g., labor heroes, veterans of the Second World War and other conflicts, and those who worked in particularly hazardous professions or demanding locations, such as first responders at Chernobyl); and the public servants, whose benefits provided a hidden salary supplement (e.g., members of the military, the security services, and judges). The drawbacks of such an extensive welfare state were many and varied: the failure to target poor households and a system that was at once expensive, inefficient, and excessively generous and socially unjust. Massive and persistent delays in the payment of pensions, unemployment benefits, and child allowances, chaotic procedures for indexing social compensations, and the poor quality of services pointed to deep structural and financial problems. As the Russian scholars M. L. Zakharova and E. G. Tuchkova characterised Russia’s social welfare system of the late 1990s:

202. Ibid., 45.

203. Ibid.

This social welfare system was extremely unstable; it was continuously transforming depending on what social benefits were eliminated and/or introduced [. . .] . [It] rather resembled a constellation of multiple social benefits, not linked to each other by any specific goal. These benefits were extremely low and did not allow the government to solve any of the existing social problems. [. . .] This has predetermined the inefficiency of the system, despite the fact that the costs spent on maintaining it were significant.205

The authorities realised that the existing system of privileges was economically unsustainable, financially nontransparent, and unsuccessful in targeting the poor. Yet political instability and a lack of political will on part of key political actors prevented the government from implementing the necessary changes to Russia’s welfare system.206 As a result, the government kept all of its traditional welfare programs inherited from the Soviet Union, despite the inability to pay for all of the benefits they contained.

The social situation was further aggravated by evidence of a growing differentiation between the amount and quality of social welfare services provided to the majority of the population and a privileged minority composed of military personnel, former and present ministries’ employees, members of the state bureaucracy, and the like.207 As social inequality grew, the failure of the government to provide citizens with a just and efficient system of social protection became increasingly evident.

7.5. Understanding the Causes of Welfare Reform Stagnation under Boris Yeltsin

Several factors were used to explain the inability of the Russian government to reform its outdated welfare system and effectively assist the least protected population groups in overcoming the challenges of the transitional period. On a broader scale, political instability


207. Zakharov and Tuchkova, Pravo sotsial’nogo obespecheniia Rossii, 51.
greatly contributed to the protracted reform process. Due to a remarkably strong opposition in parliament, the political support for market reforms in Russia gradually waned, proving to be more fragile than in other post-Soviet republics, including Kazakhstan. Frustrated by the actions of the left-leaning parliament, the Russian government had no other choice but to accept many compromises, form political alliances not based on program principles, and accept second- and third-best choices to move forward. This led to a slow pace of reform and an inconsequent implementation, with many dramatic turning points, which in turn further undermined political support for reform and the reformers’ own political leverage. In that sense, the Russian political situation differed from that in Kazakhstan, where even the political opposition realised the importance of liberal economic reforms and supported them.

At the beginning of transition, Yeltsin and Nazarbaev faced similar political and economic challenges. Yet their response to these challenges differed greatly. In contrast to Yeltsin, who gradually grew more and more distanced and isolated from the people and became enmeshed in continuous political struggle, Nazarbaev avoided any unnecessary confrontation, strategically using moments of political uncertainty to rule by decree and to advance economic reforms. Nazarbaev ensured that he stood above all political squabbles and was viewed by the population as being closer to them than to the political elites, minding their—not elitist—interests. The mastery with which the Kazakhstani president ran the country and communicated with the people made the Economist comment on the 2005 presidential election, saying that “Mr. Nazarbaev [was] genuinely popular.”²⁰⁸ It is true that much of this popularity depended on

²⁰⁸. Aitken, Nazarbayev and the Making of Kazakhstan, 189.
Kazakhstan’s economic success, but Nazarbaev’s ability also allowed him to remain a genuine master of the political game.209

By contrast, the Russian president found it more and more difficult to run the country and connect with the people as time passed. In part, the problem derived from the nature of Russia’s political, institutional, and federal systems. At the federal level, although the president could prevail over parliament and could impose his version of the Constitution in December 1993, the balance of power did not change much, so that the president was still forced to deal with a highly oppositional parliament. At the regional level, the powers of the federal center were challenged by the regional elites, who used their position to bargain with the center, promising their support during federal elections in exchange for greater economic concessions. Finally, increasing public dissatisfaction with the economic crisis and the course of the reforms placed Yeltsin in a situation in which he had to maneuver between the left-leaning and highly oppositional parliament and the public. The latter was growing increasingly critical of liberal market reforms, on the one hand, and of a liberal and reform-oriented government, on the other. In this situation, the president desperately needed the support of the regional elites during the election, which, in turn, undermined his political leverage in the regions and ruined his popular support base.

The complexity of the situation in which the Yeltsin found himself and his failure to implement the welfare reform should also be attributed to the origins of his political regime, as well as to his leadership qualities. Yeltsin came to power on a wave of public support and enthusiasm, viewed as a representative of the people, as someone who fought for average Russian citizens and was concerned about their overall well-being.210 Yet with the onset of

209. Ibid., 191.

210. William Mishler and John P. Willerton, “The Dynamics of Presidential Popularity in Post-Communist Russia: How Exceptional are Russian Politics?,” paper presented at the Annual Meeting of
liberal economic reforms and the dramatic collapse of the Russian economy, the president suddenly found himself on both sides of the fence: realising the importance of the reforms, he was nevertheless also well aware of the consequences of such unpopular actions. Rapidly deteriorating economic conditions, a regional war in Chechnya, and a series of ineffectual policy responses, as well as, most important, his failure to establish an effective line of communication with the people, significantly undermined Yeltsin’s political standing and popular support base.

It is true that Yeltsin’s determination to avoid a Communist restoration and his political skills in retaining a hold on political power and rotating reform-minded politicians in subsequent governments kept the limited pro-reform momentum going throughout an entire decade. At the same time, however, the president failed to adequately address the challenges of the transitional period and to build an effective communication with the public and such policy frames that would ensure popular support and the successful implementation of painful economic and welfare reforms. In the words of William Mishler and John P. Willerton, “although Yeltsin was able to use his powers effectively at critical junctures, not least because of the incompetence of his rivals, his popularity suffered over the long run because of his inability to respond adequately to Russia’s fundamental domestic [...] policy challenges.”211 Highly confrontational and populist, Yeltsin’s leadership style only aggravated the situation, and his frequent illnesses in the later years of his presidency fundamentally undermined his capacity to run the country effectively, to communicate with the people, and to ensure public support for the reforms.

211. Ibid., 3.
CHAPTER 8

THE POLITICS OF WELFARE REFORM UNDER VLADIMIR PUTIN,
2000–2008

8.1. Introduction

Boris Yeltsin’s departure was preceded by an acute financial crisis that hit Russia early in 1998. As the number and the ranks of economic losers expanded, the situation became a serious threat to the regime. In this situation, Yeltsin’s decision to resign as president six months before the end of his term and to hand over power to his favoured successor, Prime Minister Vladimir Putin, was welcomed by the majority of the Russian population, even if it came unexpectedly.

The country Putin inherited was in shambles. The political and economic crisis of 1998 clearly showed up as illusory many of the alleged successes of postcommunist transformation. Growing political instability in the center and in the regions, a deep economic crisis, the collapsing system of social welfare, poverty, and open public dissatisfaction with the results of the post-Soviet transition complicated the situation in which the new president found himself. The government realised that drastic changes were needed on all fronts. The president began with radical political reforms, which aimed at recentralising the political authority over the federal units and at stabilising the existing federal structure of the Russian Federation.

The political reforms were accompanied by economic and welfare reforms. In particular, as early as 2000, the government introduced important changes to Russia’s taxation and pension systems. These were followed by the social benefits reform that presupposed a gradual transition
from an in-kind to a fully monetised system of social support monitored by both federal and regional authorities. Yet long overdue, these reforms failed to achieve the desired results, largely because of the government’s failure to effectively communicate the reforms’ essence and their goals to the public and the regions. It also failed to build a broad-based policy coalition to support the proposed changes, and encountered organisational and financial difficulties at the federal and regional levels during reform implementation.

This chapter will begin with an overview of the political and economic changes that accompanied Putin’s accession to power. This survey will be followed by a discussion of the aims, motives, and outcomes of the social benefits reform. I will analyse the various factors that contributed to the reform’s stalling, offering a comparative outlook on the reform and its outcomes. The chapter concludes with a summary of factors that prevented the successful execution of the reform and suggests possible remedies for the future.

8.2. Political, Institutional, and Economic Changes under Putin, 2000–2004

Putin became acting president on December 31, 1999 after Yeltsin’s surprise resignation on New Year’s Eve. Three months later, on March 26, 2000, Putin won the presidential election and became the second post-Soviet president of Russia. In 2004, he was re-elected for a second term that lasted until May 7, 2008. The Putin era was marked by a fundamental shift in Russian political dynamics. For one, the election of 1999 marked the birth of a new party of power, Edinstvo (Unity), thus ending the left’s dominance in parliament and providing the government with an opportunity to launch radical economic and welfare reforms. Formed in 1999 and almost unknown to Russian citizens, Edinstvo had its position secured when Putin, then the prime
minister, openly supported the movement, stating that he would vote for the party.¹ The efforts of skillful Moscow campaign managers led by Boris Berezovskii led *Edinstvo* to a second-place finish with 23 percent of the vote in the 1999 Duma elections, surpassed only by the *CPRF* with 24 percent (see table 7.8. in the appendix). In parliament, *Edinstvo* formed a coalition with its primary contender, *Fatherland–All Russia* (OVR), which had received 13.3 percent of the vote. In December of 2001, the two parties merged to form a new political entity, *United Russia*, which has since dominated Russia’s political landscape.² As a result of these changes, the Duma ceased to be an oppositional force, turning instead into a compliant partner of the executive in its liberalisation project.

Changes in the political arena were followed by the recentralisation of Russia’s fragmented institutional structure. The institutional reforms launched by Putin in 2001 aimed at building an “executive vertical” and were described as a process of streamlining the existing model of governance from the president to local executives, thus making it more efficient and manageable. In particular, the president reinstated federal control over the regional leaders by changing the makeup of the Federation Council in 2000. The reform presupposed that each federal subject would be represented by two senators, one of which was elected by the provincial legislature, the other nominated by the provincial governor and confirmed by the legislature.³ The reform thus


ended the earlier practice of dual posts, in which regional governors simultaneously served as members of the Federation Council and enjoyed parliamentary immunity. During this time, the president also reminded the regional elites of his right to remove regional chief executives and to disband regional legislative bodies should they violate federal laws. Furthermore, Putin reframed the federal bureaucracy’s geography by creating seven so-called federal districts from the country’s 89 regions and by installing representatives personally loyal to him to oversee the new administrative areas.⁴

In 2004, following the Beslan hostage crisis, the federal system was further centralised when Putin decided to have regional governors appointed by the president himself, rather than have them directly elected. The appointees could later be confirmed or rejected by the provincial legislatures. In the beginning, such recentralising measures proved partly effective at restoring nationwide state authority and at bringing Russia closer to being a normal federation. Some observers have even argued that these initial recentralisation initiatives helped accelerate the reform process in such sectors as the economy and welfare.⁵

Yet over time, Putin’s efforts resulted in the creation of a system of presidential domination, often referred to as “managed democracy.” The system led to greater cooperation between the government, the legislature, and regional leaders on issues of radical reform.⁶ At the same time, it also signaled a decay in the representative functions of the legislature, and the weakened influence of regional elites and welfare constituencies.

⁴. Ibid., 343–4.
⁶. Ibid., 146.
After solidifying his power base, Putin and his government went on to reform Russia’s taxation system, which resulted in the introduction of a flat income-tax rate of 13 percent. A year later, the lower house of parliament approved legislation to cut the corporate tax rate from 35 percent to 24 percent, while also eradicating a number of regressive tax measures that crippled business, such as a tax on revenues. As German Gref, Minister for Economic Development and Trade, stressed, the “[c]reation of a favorable investment climate is a priority of our economic policy; we aim to lower investment risks, ensure investment security, strengthen ownership and shareholders' rights, and improve our legislation.”7

Eventually, the liberal tax reform and government initiatives directed at de-bureaucratising Russia’s licensing system and at simplifying customs procedures and import tariffs resulted in the growth of foreign direct investment. Combined with rising oil prices, the reforms produced impressive results, with the Russian GDP showing a growth of 10 percent as early as 2000 (see table 8.1.). In 2001, the country’s international currency reserves had grown by 26 percent to $35 billion, from a low of $13 billion in 1998.8


Table 8.1. Russian Federation: Key Economic Indicators, 1997–2004

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<tr>
<td><strong>Gross Domestic Product</strong></td>
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<tr>
<td>(nominal)</td>
<td>2343</td>
<td>2630</td>
<td>3823</td>
<td>4830</td>
<td>7306</td>
<td>8944</td>
<td>10834</td>
<td>13285</td>
</tr>
<tr>
<td>- In national currency</td>
<td></td>
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<td></td>
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<tr>
<td>(billion rubles)</td>
<td>405</td>
<td>271</td>
<td>196</td>
<td>260</td>
<td>307</td>
<td>346</td>
<td>433</td>
<td>572</td>
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<tr>
<td>- In US dollars (US$b)</td>
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<tr>
<td><strong>Growth in real GDP</strong></td>
<td>1.4</td>
<td>-5.3</td>
<td>6.4</td>
<td>10.0</td>
<td>5.1</td>
<td>4.7</td>
<td>7.3</td>
<td>7.1</td>
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<tr>
<td>(percent)</td>
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<tr>
<td><strong>Population (million)</strong></td>
<td>147.3</td>
<td>146.9</td>
<td>146.3</td>
<td>145.6</td>
<td>144.8</td>
<td>144.1</td>
<td>143.4</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Energy Consumption</strong></td>
<td>596.8</td>
<td>582.9</td>
<td>604.2</td>
<td>615.2</td>
<td>622.7</td>
<td>619.0</td>
<td>n.a.</td>
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<td>(Mtoe)</td>
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| Mtoe – Million tonnes of oil equivalent


Positive economic developments contributed to improvements in the socioeconomic situation of the Russian population. Between 2001 and 2005, the index of consumer prices steadily decreased from 18.6 percent to 10.9 percent, while the wages and real disposable income of Russians increased significantly. The level of poverty declined from 27.3 percent in 2001 to 15.8 percent in 2005.⁹ Furthermore, economic growth resulted in profits for the federal budget: starting in 2001, the federal and consolidated budgets were run with significant budget surpluses.¹⁰

In light of this overall stabilisation of Russia’s political and socioeconomic situation, the government believed the context to be right for a radical transformation of the outdated welfare system. Under the leadership of Gref and Alexei Kudrin, the finance minister, the government proclaimed its commitment to the restructuring of Russia’s welfare system, stressing it as a

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¹⁰ Ibid., 19.
necessary element in the broader process of macroeconomic stabilisation, market transformation, the modernisation of the economy, and poverty reduction. As Mikhail Kasyanov summarised the problem in his address to the Duma prior to the vote confirming him as the Russian prime minister on May 17, 2000:

However, so far these [economic] successes are based on a fragile economic foundation and they are not irreversible. I must say that we have not fully overcome the after-effects of the [1998 economic] crisis. We are witnessing profound trouble in the economy and the social sphere. First and foremost, poverty is a most acute issue. This embraces the low standard of living of the population, the majority of which, over a third to be exact, has an income lower than the subsistence minimum. The existing social security model does not make it possible to guarantee elementary living needs for the have-nots. [...] Over the last decade the GDP per capita has decreased by 40 per cent. It is several times lower than that in developed countries. Revenue is being distributed extremely unevenly among branches of industries and regions. This is aggravated by unequal access to free benefits and social aid. Poverty is the main reason for many other social and economic diseases. The inability to start up the engines of demand, which is one of the sources of economic growth, is the most serious obstacle to the stable growth of the Russian national economy. [...] Poverty and low standards of living are in their turn the result of the technological backwardness of Russian industry, the cultural level of labour and the undeveloped structures of the market economy. [...] Another example is social security. Two thirds of social allowances are currently being paid to homes which do not need society’s support. The redistribution of this assistance and prioritising in directing revenue to families with the lowest incomes may not only let us start resolving the most acute social problems but also give real support to the demand for locally-made products. To ensure that social security reaches its destination a family should become a unit for social calculations and taxation. All social benefits should be calculated by family.


This point was further reinforced by the president during his address to the Federal Assembly on July 8, 2000, where he stated that:

[s]ocial policy means not just helping those in need, but investing in people’s future, their health and in their professional, cultural and personal growth. This is why we will give priority to developing health care, education and culture. [. . .] The current system of social support, based on non-specified social benefits and allowances, is wasting the government’s money by definition. It allows the rich to use public benefits at the expense of the poor. [. . .] We shall conduct social policy on the basis of the principles of accessibility to all and of acceptable quality—acceptable quality of fundamental social benefits. And benefits have to go first and foremost to those with incomes substantially lower that the subsistence minimum. Ministers’ children can get by without child benefit and bankers’ wives without unemployment benefit. 13

Such statements indicated that the government was embarking on the reform of Russia’s welfare system, stressing that the transformation of in-kind privileges into cash benefits would increase the transparency of the expenditures, give beneficiaries freedom of choice, and simplify administration. The government hoped that the social benefits reform would result in better targeting mechanisms and lead to the reduction of those in beneficiary categories. The transformation started with the adoption of a comprehensive welfare program, which presupposed radical changes in all sectors of Russia’s welfare system, including pensions and social assistance. 14 However, as will become clear in the following sections, not all these efforts proved successful or reform goals achieved.


8.3. Perception of the Problem by the Public before the Summer of 2004

It is important to understand public views on the problem of social benefits before the start of the reform. Until the early 2000s, the general populace did not see the provision of various in-kind social benefits as a problem, and the issue was discussed only as part of other much bigger and more important economic and political problems.\textsuperscript{15} Yet the presidential election of 2000 and the ensuing change of government brought the issue of social benefits to the forefront of the official political agenda. This created some public interest in the problem, with many people trying to formulate their own views on the issue, assessing the effectiveness of the existing system, and imagining possible ways for reforming it.\textsuperscript{16}

According to public opinion polls conducted by the Public Opinion Foundation (FOM) in 2000, the majority of respondents acknowledged the existence of a problem with social benefits.\textsuperscript{17} That is, although the Soviet welfare system had created powerful constituencies interested in preserving the existing system, the public understood rather well that the old system of social benefits was flawed and required significant changes.\textsuperscript{18} For example, in 2000, 68 percent of respondents asked to evaluate the existing social benefits system considered it unjust and ineffective, whereas only 18 percent of the respondents viewed it as being socially just. The majority of those who saw the system’s injustice were people with low income and/or those

\textsuperscript{15} See, for example, I. Klimov, “Reforma sistemy sotsial’nykh l’got kak sotsial’naia problema” [Social benefits reform as a social problem], \textit{Fond Obshchestvennoe Mnienie}, Feb. 15, 2005, http://bd.fom.ru/report/cat/journ_socrea/number1_05/gur050202.

\textsuperscript{16} Ibid.

\textsuperscript{17} Ibid.

\textsuperscript{18} Ibid.
possessing a postgraduate diploma.\textsuperscript{19} It is interesting to note that those respondents who preferred to keep the old system justified their opinion by saying that they did not trust the government or its actions.\textsuperscript{20} According to the FOM, the majority of respondents in 2000 did not yet view the problem of social benefits as requiring an urgent governmental response but acknowledged dissatisfaction and probably would have supported government initiatives aimed at reform.\textsuperscript{21}

Among the major weaknesses of the old social benefits system, the public named the absence of targeted social assistance programs, the complexity and excessive bureaucratisation of registration procedures, and the rudeness and indifference of social workers. Polls also indicated that 38 percent of all respondents supported the idea of replacing the old in-kind social benefits with \textit{monetary} compensations; 11 percent of these resided in rural areas. One of the arguments in support of such a change was that they rarely used certain services offered under the old system due to their place of residence, such as free-of-charge public transportation in urban areas. (It is therefore possible to argue that since the public was aware of the systemic flaws, the government in fact had a lot of room for pushing public opinion in the desired direction and creating an effective policy frame and broad-based policy coalition in support of the reform.)

An interesting observation made by the FOM during the 2000 public opinion poll was that the majority of respondents viewed the system of social privileges available to public officials as

\begin{itemize}
\item \textsuperscript{19} Ibid.
\end{itemize}
part of the Soviet welfare state. Essentially, it meant that in the eyes of the public one could not be reformed without the reform of other. It thus seems easy to understand that reforming the social benefits system without addressing the system of excessive social benefits available to state officials would result in public dissatisfaction with government actions and to a further decline in public trust.

The lack of public trust was one of the major factors that could potentially undermine the reform process. For example, in 2004, responding to the question about the goals of the monetisation of social benefits, many people expressed their suspicion that with this reform the government planned to retrench on its social obligations to the poor (which was exactly the opposite of what the government argued): “Yet another time [the state] plans to cheat the elderly and other disadvantaged people,” “[the state] does not want to have any obligations to its citizens,” “they simply want to refill the budget with the goal of filling their pockets,” “[they seek] advantages for themselves, and not for the people.” The public thus viewed the reform as a continuation of the social injustices begun under the Soviet regime and continued well into the post-Soviet period. In the words of one respondent, “Speaking about social benefits is pointless in this country. Benefits, but definitely not social. [. . .] We have privileges, and we know who benefits from them. As for social assistance to those who really need such help, it is simply nonexistent.”

22. Ibid.
23. Ibid.
25. Ibid.
Interestingly enough, this sentiment coexisted with the belief that social benefits were not only a tool of social protection but also a mechanism of social recognition for merit or service. Many people thus believed that social benefits should be distributed not only to the poor but also to those who had served the country well: “Social benefits illustrate the commitment by the state to the people, who deserved the best treatment from Russia, sacrificed their health, worked hard, and served in the military. Or, of course, it is people with low income, including disabled people.”

It is therefore important to understand the complexity of public views toward the Soviet welfare system. On the one hand, even though many Russian citizens were critical of the old social benefits system, they did not trust the government and doubted its ability to carry out an economically effective and—most important in the eyes of the public—socially just welfare reform. Arguably, this is why many welfare recipients supported the preservation of the old system, fearing that any changes would result in the deterioration of their material well-being. According to I. Klimov, by the summer of 2004, all public concerns related to the problem of the social benefits reform could be categorised into three different themes:

a) whether the reform would preserve the symbolic aspect of social benefits, which marked social benefits as a reward for service, as an attribute of special status, and as a way to preserve social justice for those who sacrificed for the country;


27. Klimov, “Reforma sistemy sotsial’nykh l’got kak sotsial’naia problema.”

28. Drobnina V. P. (a welfare recipient), interview with the author, Novokuznetsk, Russia, June 12, 2008. This point was also made in an interview with Nechaeva N. K., the Novoil’insky Department of Social Protection, Novokuznetsk, Russia, June 5, 2008.
b) whether the reform would improve the economic status and social well-being of the poor population; and

c) whether the state authorities would be accountable to the public and capable of carrying out the reform effectively: does the state act in the interest of poor people; is the state capable of not only designing the reform but also effectively carrying it out; who is responsible for the successful implementation of the reform at the federal and regional levels; what department is the first level of contact for the ordinary citizens; and so on. 29

As I will illustrate in the subsequent sections, the failure of the government to build an effective communication strategy and to address these public concerns turned out to be one of the major factors undermining the reform process. The Russian population was not inherently opposed to the social benefits reform, but rather had some understanding of the necessity of reform. 30 The social context was thus rather conducive to change, and with proper government framing and actions, the reform would have gained more supporters.

8.4. Policy Formulation: Context, Framing Strategy, and Main Actors

8.4.1. Background

The mobilisation of public interest around the social benefits reform unfolded against the background of a booming economy (discussed earlier) and radical pension reform, which was developed by the head of the Pension Fund, Mikhail Zurabov, and the deputy minister of economy and trade, Mikhail Dmitriev, who justified the need for the pension reform with


30. This point was also made in G. I. Osadchaia, “L’goty v kontekste reformirovania sotsial’noi politiki” [Social benefits in the context of reforming social politics], Sotsiologicheskie Issledovaniia 11 (2006): 38–9.
Russia’s worrying demographic trends. Under the old pay-as-you-go pension system, pensions had been paid out of the salaries of current workers, thus the system’s sustainability depended on a balance between pensioners and those in the workforce. Yet a combination of factors, including a growing number of retirees and a decline in birthrates during the 1990s, made the old Soviet pension system unsustainable in the long run. This is why the government decided to follow the Chilean example and introduced the new pension system that consisted of three levels and was financed by a mandatory pension fee of 28 percent of wages, paid by employers. Half of this pension fee would then go to finance the first or “base” level, a fixed pension paid to all retirees regardless of earnings. The other half would be recorded on personalised accounts for each wage earner. The real novelty in this system was the introduction of the third or “accumulative” pension segment, where workers could invest some portion of their personalised payments in government bonds or private investment firms.

The new pension reform came into effect on January 1, 2002. Yet several factors, including a lack of any serious analysis of transition costs from one pension system to another, vagueness about how private firms would be allowed to participate in the new system, and


33. Ibid.

confusion over which government agency had the authority to regulate the investment of the accumulative portion of pensions, undermined the reform process already at the stage of policy formulation. As time passed, several additional shortcomings weakened the effectiveness of the reform, drawing out some questions about the sustainability of the new pension system in the long run. In particular, it turned out that the government had failed to educate the masses about the opportunities available to them under the new pension accumulation scheme. As a result, according to the Russian Centre of Public Opinion Studies, in 2006, 60 percent of respondents “had heard something” about the reform, while 22 percent admitted that they “had never heard of it” before the poll. This essentially meant that the majority of the population had no idea about the aims of the pension reform and the issues it aimed to resolve. The experts blamed an ineffective advertising campaign for the poor performance of the new pension system. Because the government had failed to effectively inform the population, and because private insurance companies did not see why they should spend their own money to promote the reform, the majority of the population did not supplement their government-funded pensions with private savings. As a result, in 2009, more than 63 million people, or 93.2 percent of all workers, did not transfer their pension savings to private insurance companies and kept the funds in the State Pension Fund, which then invested them in state bonds, essentially marking the failure of the reform, because the pension money kept in low-yield state bonds did not make a difference as compared to the state-funded pensions: although the system still appeared to have an investment

35. Woodruff, “Pension Reform in Russia: From the Politics of Implementation to the Politics of Lawmaking?”

element, in reality it remained the old pay-as-you-go system.\textsuperscript{37} By 2011, the general consensus in Russia was that the pension reform had failed to achieve its goals and that the system had to be changed again.\textsuperscript{38}

Economic growth and the absence of public protests in response to a radical pension reform convinced the government that the timing was perfect for a social benefits reform. As early as 2001 the government thus started to regularly raise the issue in the media, suggesting ways for the system’s reform.\textsuperscript{39} At the same time, however, aware of the sensitivity of the problem and of the possible political costs of the reform on the eve of an upcoming presidential

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election, the government postponed the actual implementation of the reform until after the election of 2004.

### 8.4.2. Framing the Problem: The Early Stages of the Reform

Signs of the pending social benefits reform appeared as early as 2001. In particular, on June 10, 2001, the government of the Russian Federation passed resolution No. 910-p, which outlined the socioeconomic program of the Russian government for the period 2002–2004. The program announced the replacement of several social benefits with monetary compensations for the least protected population groups. Further steps were taken in 2003, when the government passed the federal laws No. 95 and 131, which transferred a number of social responsibilities to the municipal level, thus relieving the federal government.

The government’s intention to overhaul Russia’s social benefits system was further confirmed in the spring of 2004, when the Ministry of Health and Social Development presented the government with a draft for a social benefits reform, which, at that time, presupposed that the size of the compensatory payments would depend on the status of welfare recipient, which indicated that the government did not yet plan to replace the categorical social benefits system with a targeting mechanism. Other proposals also existed, some of them suggesting to split the...

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money allocated to the reform between all groups of welfare beneficiaries without changing the overall structure of the Russian welfare system.43

Yet the government soon realised that even though the state had a budget surplus and extra money in the stabilisation fund, it still could not afford to pay all recipients of benefits an adequate monetary compensation. So the reasoning in the speeches of government officials changed: the Ministry of Finances proposed to delay the monetisation of health-care services, whereas the Cabinet stated that Russia’s benefits system would have to be drastically retrenched, because the government could no longer maintain a system in which almost two-thirds of citizens were entitled to some form of benefits, with the total welfare expenditures amounting to 500 billion rubles.44

In May 2004, shortly after the presidential election, the chief executor of the reform, the minister of health and social development, Mikhail Zurabov, announced the beginning of the reform, proposing to give benefit recipients monetary compensation in addition to a social package, which would be mandatory for pensioners and the disabled from 2005.45 On June 1, 2004, the government met to discuss the financial aspects of the reform. One month later, on July 2, the Duma passed the government’s bill on replacing social benefits with monetary payments in the first reading. In the State Duma, the Rodina27 (with thirty-nine deputies) and the CPRF (with fifty-one deputies) opposed the legislation. The result of the first reading held on July 2

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was 296 yeas and 116 nays; the second reading on August 3 yielded 304 yeas and 120 nays; and
the third reading on August 5 309 yeas and 118 nays. At the third reading, 295 of United
Russia’s 300 faction members approved the law on monetisation.\textsuperscript{46} The reform was finalised on
August 22, 2004, when President Putin signed law No. 122-FZ, referred to as “the Law on
Monetisation,” into effect. According to it, the new system of social protection would come into
force on January 1, 2005.\textsuperscript{47}

The government justified the social benefits reform by pointing to the size of the existing
welfare system, its expensiveness and ineffectiveness in targeting the poor, the high level of
corruption and poverty levels, and extreme inequalities in incomes and consumption.\textsuperscript{48} Indeed,
according to various studies conducted by Russian experts, the old social benefits system was
unjustly tilted toward the non-poor categories of the population (see table 8.2.).\textsuperscript{49} Responding to
this situation, the president stressed in June 2004 that the new social benefits system would work
in the interests of welfare recipients, making the provision of social benefits more transparent,
effective in targeting the poor, and socially just, as even the residents of rural areas would be
able to enjoy the benefits of monetary social assistance.\textsuperscript{50}

\begin{footnotesize}
\begin{enumerate}
\item 46. Aburamoto Mari, “Who Takes Care of the Residents? United Russia and the Regions Facing
\item 47. Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 16.
\item 48. Ibid., 12.
\item 49. L. N. Ovcharova and A. I. Pishniak offer a concise overview of this problem in “Uroki
see also Sinitsina, “Experience in Implementing Social Benefits”; Alexandrova, Kuznetsova, and
Grishina, “Reforming In-Kind Privileges at the Regional Level in Russia: Political Decisions and Their
Determinants,” 117–44.
\item 50. Caroline McGregor, “Veterans, Disabled Slated for Extra Aid,” \textit{The Moscow Times}, Jun. 29,
2004; Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 13; E. S.
Benefits], \textit{Institut Otsenki Programm i Politik}, iopp.ru/pub/FZ-122.doc.
\end{enumerate}
\end{footnotesize}
Table 8.2. Prevalence of Social Benefits among the Poor and Non-Poor Population

<table>
<thead>
<tr>
<th>Social Benefit Category</th>
<th>Poor households</th>
<th>Non-poor households</th>
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<tbody>
<tr>
<td>Housing and communal services benefits</td>
<td>28.2</td>
<td>49.5</td>
</tr>
<tr>
<td>Health care and medicine benefits</td>
<td>11.7</td>
<td>21.3</td>
</tr>
<tr>
<td>Transportation benefits</td>
<td>24.2</td>
<td>47.5</td>
</tr>
</tbody>
</table>


Another motive behind the reform was related to the extreme inefficiency of businesses and entire sectors of the economy that provided in-kind social benefits. Since certain kinds of privileges encompassed almost half of the country’s population, they negatively influenced the working of Russia’s transportation, housing, and utilities systems, in turn hindering the reforms and the development of these sectors and, to some extent, of the economy as a whole.\(^{51}\) Since many privileges were only partially funded by the federal government, the quality of services was low and various subsidised goods and services in short supply (e.g., medicines or vouchers for health resorts), which further undermined the effectiveness and economic rationale behind such benefits. As a result of inadequate funding, many service providers over time faced financial difficulties, which often completely prevented them from offering the population their services.

Apart from money shortages, the lack of transparency in the mechanism for remunerating providers’ expenses by the state became an important obstacle for service providers; quite often, the providers had to resort to corruption schemes.\(^{52}\) Consequently, many people entitled to privileges were prevented from taking advantage of them, and inequality in access to benefits


\(^{52}\) Ibid.
increased. The failure to target public resources to the poor and the economic inefficiency of the Soviet system thus made the social benefits reform a vital necessity.

The government believed the current political, economic, financial, and social situation to be excellent for the successful implementation of the reform. Its only concern was the availability of sufficient financial resources, because monetisation required from the government an immediate, and extensive, financial inflow. “I hope that the government and the Finance Ministry will be ready to implement the [reform], bearing in mind that the resources required are very large,” Putin told top ministers, aides, and advisers at a Kremlin meeting on economic development. The government assured the president it was ready for the spending planned.

**8.4.3. Preparing for Reform Implementation and Persuading the Public**

*(Summer to Fall 2004)*

Despite noble intentions, the reform process was gravely undermined by an ineffective and short-lived information campaign; the failure to ensure appropriate training and preparation in the regional departments of social assistance; and bad timing and a hasty draft preparation without the adequate consultation of the public and the regions. The government used television and print media to inform the public about the flaws of the system and the goals of the reform. To

53. Ibid.

54. Ibid.

illustrate the ineffectiveness and social injustice of the old social benefits system, the government ran various stories that showed how in-kind privileges largely benefitted better-off households and facilitated corruption.  

56 Other stories emphasised the social injustice of urban public transportation benefits, which by default excluded those living in rural areas and those whose physical or health constraints prevented them from traveling.  

57 By stressing that the poor


suffered disproportionately under the old system and that the reform would improve poor people’s well-being and offer them wider consumer choices through payments made in cash, the government hoped to build a broad-based interest group to support its reform initiative.\textsuperscript{58}

Television was used as the primary means for informing the public about the goals and essence of the reform. Starting in the first days of July 2004, all major Russian TV channels launched a series of programs and daily news reports devoted to the social benefits reform, emphasising its importance and positive social consequences.\textsuperscript{59} These programs reached a large audience: for example, at the beginning of August 2004, 54 percent of respondents to a poll confirmed that they watched some programs discussing the social benefits reform.\textsuperscript{60}

As a result of these television programs, the number of people who knew about the upcoming social benefits reform and were concerned about how it would affect them grew steadily throughout July 2004 and reached 89 percent by the end of the month.\textsuperscript{61} This interest should not surprise, however. Since the majority of welfare recipients had received their benefits for many years and had grown accustomed to state social assistance, viewing it as an indispensable responsibility of the state, they naturally took interest in the reform.\textsuperscript{62} In this

\textsuperscript{58} Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 13.

\textsuperscript{59} See, for example, the news archive of Pervy Kanal (www.1tv.ru). Similar stories were run on RTR, Piaty Kanal, and numerous regional television channels. This point was also confirmed in Klimov, “Den’gi vmeso l’got: o sotsial’noi predystorii odnoi reformy,” 14.

\textsuperscript{60} Klimov, “Reforma sistemy sotsial’nykh l’got kak sotsial’naia problema.”

\textsuperscript{61} Ibid.

situation, the task of the government information campaign was to emotionally connect with the public and to persuade it of the necessity of the proposed changes, thus gaining the support of some key population groups, such as pensioners residing in urban areas, war veterans, and so on.

According to Klimov, by August 2004, the television campaign had helped to slightly decrease opposition to the reform. As public opinion polls conducted on July 24–25, 2004, and August 7–8, 2004, indicated, the dynamics looked rather positive: among those people who had seen television reports about the social benefits reform, the number of supporters increased from 61 to 71 percent, while the number of detractors decreased from 24 to 18 percent. Positive dynamics occurred even among the recipients of social benefits. Figures 8.1. and 8.2. offer an overview of the dynamics of public opinion toward the reform between July and August 2004 (with dark yellow referring to positive and grey to negative views).

**Figure 8.1. Changes in Public Opinion about the Reform in July-August 2004 (All Interviewed)**

This is not to say that the information campaign launched on TV was very successful. In fact, some respondents called the official explanations concerning the social benefits reform absolutely incomprehensible. As a result, the campaign did not greatly influence the views of those people who suspected the government of dishonesty. As one respondent from Moscow summarised his worries: “The government actions were unpredictable: they could do whatever they wanted. Most likely, they will keep on reducing the monetary compensations.” Another respondent from Moscow agreed, adding that “Fradkov speaks Russian, and taken separately, his words are clear. However, the general meaning of his speeches is vague: the process is on, it is getting better, we need to find a compromise, but nothing specific, nothing. He is like

63. Klimov, “Reforma sistemy sotsial’nykh l’got kak sotsial’naia problema.”
64. Ibid.
65. Ibid.
Gorbachev, having said a lot, he essentially said nothing.” Other statements illustrated a similar distrust of government actions: “All these failures to tell the truth on the part of him [Zurabov]: he promises first one thing, then another, and nothing is executed. It is one thing to declare your intentions, and a completely different thing to carry them out. They already have had to be ready [for the reform implementation]. And now they say they will calculate it all only in January […].”

The effectiveness of the media campaign was further undermined as a result of a sudden drop in media attention to and coverage of the upcoming reform on television after the law was passed. With the legislation signed, the government did not see any further need to mobilise public support for the reform, viewing it as a fait accompli. Thus the positive dynamics stalled and quickly returned to a negative one (see figure 8.3.). As is evident from figure 8.3., by the end of the year, the number of people critical of the reform had once again significantly increased. Even though the television campaign had thus showed some positive results when it was launched in July 2004, it was untimely rolled back, leading to growing skepticism toward the reform among the population.

In addition to the media campaign, the government and the Ministry of Social Assistance and Health Care called to action regional Departments of Social Protection, instructing them to set up permanent information kiosks in the local branches, run information sessions at local schools and community centers, and organise information sessions on local TV and radio.

66. Ibid.


68. Ibid., 16.

69. Ibid.
While this was obviously a well-intentioned initiative, it met with significant problems, such as personnel’s lack of training or basic knowledge about the essence of the reform. As some public servants at the Social Protection Departments in Novokuznetsk complained during the interviews with the author, the information sessions were very difficult to organise and carry out, primarily because regional social protection departments were often short of staff and had not been provided with timely commentaries on the law and the adequate training necessary for the effective administration of the law. In the end, many regional offices

**Figure 8.3. Public Opinion toward the Reform in August-November 2004**

Question: Have you heard any public conversation about the monetisation of social benefits? And if you heard something, where the opinions mostly positive or negative?

The first group of columns refers to the time period around August 28–29, the second refers to that of September 25–26, and the third to that of November 20–21.

Colors: Dark brown—never heard; light brown—negative; light grey—positive; dark grey—difficult to say.


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70. Interviews with L. A. Dolgopolova, head of the Department of Social Assistance at the Kuibyshev Department of Social Protection, Novokuznetsk, Russia, June 10, 2008; and with N. K. Nechaeva, Novoil’inskii Branch of the Department of Social Protection, Novokuznetsk, Russia, June 5, 2008.
carried out their own information campaigns and did everything possible to inform the population about the upcoming changes, but the campaign could have been more effective with more and better resources.\textsuperscript{71}

In conclusion, although it is very difficult to estimate the direct impact of such information campaigns on welfare recipients, various public opinion polls conducted during this period suggest that the information campaign proved rather unsuccessful at persuading the public of the soundness of the proposed changes. According to a study conducted by a group of scholars from the Russian State Sociological University in October 2004, during which 2,600 people representing various population groups (based on gender, age, and social status) were interviewed, many respondents viewed the replacement of in-kind social benefits with monetary compensation as an appropriate and rational action: 11 percent of the respondents supported a radical overhaul of the existing social benefits system, 10 percent spoke about a partial replacement of in-kind social benefits with monetary compensations, and 47 percent suggested that welfare recipients should have a choice in deciding whether to receive in-kind or monetary compensations.\textsuperscript{72} At the same time, however, the respondents criticised the financial and organisational dimensions of the reform process. Furthermore, this study showed that although the majority of the respondents were aware of the reform, they lacked essential information on its substance and could not explain how it would affect them personally. As a result, the population

\textsuperscript{71} Ibid. This point was also made in Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 21–2.

\textsuperscript{72} Kharkovenko, “Monetizatsiia l’got v sisteme sotsial’noi zachshity naseleniia Rossii: Sotsiologicheskii analiz,” 52.
dreaded the monetisation reform, even though many realised the necessity of changing the old Soviet benefits system.73

Similar findings were made in a study conducted by the Levada Center in January 2005: the majority of the population was poorly informed about the reform, with 44 percent of respondents saying that they had no idea of the compensation they were due, and 58 percent of the respondents believing that the reform would bring about the deterioration of their economic situation. Responding to a question about the reform’s goals, 53 percent of the respondents said that the reform was meant to save budget funds at the expense of the most disadvantaged, and only 13 percent responded that they believed the reform to be oriented toward improving the situation of the poor.74

Such disappointing indicators suggest that the government failed to reach out to the public and that its information campaign was unsuccessful at conveying the rationale behind and the main goals of the reform and at convincing the public of the sincerity of government actions.75 Moreover, public opinion polls indicated that the government lost the trust of even those population groups that logically should have supported the initiative.76 Stories about the significance of the reform for rural residents and daily images of members of the State Duma working on the reform did not convince the population that the reform was a well-thought and

73. Ibid., 53.


75. See Khakhulina, “Sotsial’nye reformy glazami rossiiskogo naseleniia.”

balanced government initiative. Thus a paradoxical situation developed: while realising the necessity of reforming the existing social benefits system, the public was at the same time suspicious of government actions and doubted that monetary compensations would match the actual monetary value of in-kind social benefits. Many people worried that the compensations would be eaten up by inflation or plundered by the bureaucracy, or they feared that the receipt of the money would be associated with significant difficulties.\(^77\)

In part such negative public views of the reform resulted from a very short and ineffective media campaign, but they also indicate the difficulty of communicating the essence of changes brought on by something as complex as the reform law. Even some Duma deputies complained about the difficulty of understanding the law in all its details.\(^78\) Indeed, the law made changes to 155 legislative acts and annulled 41 others.\(^79\) It is thus no wonder that reporters had difficulty explaining the essence of the reform and that few citizens actually understood all aspects of the law and thus worried about how it would really affect them.

The situation was further aggravated by the fact that the government decided to reform the social benefits system while keeping the generous system of benefits for public employees unchanged. The public viewed this decision as a social injustice, believing the bureaucracy would enrich itself at the expense of the poor.\(^80\) Public dissatisfaction with government actions resulted in massive public protests, the first of them already in May 2004. They continued well

\(^77\) Klimov, “Reforma sistemy sotsial’nykh l’got kak sotsial’naia problema.”


\(^80\) Klimov, “Reforma sistemy sotsial’nykh l’got rak sotsial’naia problema.”
into the summer of 2005, with some of the largest public manifestations of discontent occurring in the wake of the New Year’s celebrations for 2005. According to some estimates, between January and July 2005, more than 420 protest actions took place.\(^8^1\)

But it was not just an ineffective information campaign that caused such an outburst of public anger. The problem was also related to how the idea of reform was “packaged” and presented to the public. To understand how, let us turn back to the first public protest against the reform that occurred on May 10, 2004, when thousands of people demonstrated outside the White House government headquarters following Putin’s announcement of the reform. According to various publications, between a few tens of thousands (as reported by \textit{Vremia Novostei}) and up to a million Russians (as \textit{Vedomosti} newspaper learned from Mikhail Shmakov, the leader of the Federation of Independent Trade Unions of Russia, FITU) took part in the nationwide protest that day.\(^8^2\) The protests led to an agreement between the trade unions, representing the people, and the government to have a meeting to discuss all social issues related to the social benefits reform. The date for the meeting was set for June 25.\(^8^3\)

Yet the meeting never took place, primarily because the government issued statements soon after the agreement, in which it indicated that it did not intend to give in to popular demands to review the reform. In the words of Boris Gryzlov, then leader of the parliamentary majority: even though \textit{United Russia} shared the popular concern about the situation, it “upheld


\(^{83}\) Ibid.
the general concept of the governmental bill.”<sup>84</sup> Other government statements appeared even more confrontational, including the one that labeled the protests a mere viewpoint, rather than a wave of people’s anger. Therefore the authorities were not ready to go beyond “courteous gestures.”<sup>85</sup> In response to such government reactions, the protests continued.

From the beginning of the reform process, the government thus failed to create an effective and mutually respectful dialogue with the public, thereby undermining the possibility to build a broad-based policy coalition supporting the proposed changes. The quality of the information campaign, but also the communicative methods used with the public convinced the population that the government was not listening to them. Some experts described the government’s information strategy as, “we know what to do, and you need to wait and believe that everything ends well,” thus reminding people of the methods used by the Soviet leaders to communicate their policy initiatives. As the newspaper Novoe Vremia wrote, “guiding the people the proper way without explaining why,” seemed to be close to how the president and his colleagues were shaping their welfare policy.<sup>86</sup> The successful parliamentary and presidential elections of 2003 and 2004 had offered them an opportunity to quickly move forward, without looking back onto old impediments. This unique opportunity to change the entire social structure of the Russian state made authorities believe that the people should be modernised “without consent being asked, without intervening in weary public arguments and not explaining (hardly explaining) why. Anyhow, not delving into details.”<sup>87</sup>

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84. Ibid.
85. Ibid.
86. Ibid.
87. Ibid.
With such an attitude, it was unsurprising that the president and his government failed to establish proper and effective lines of communication with the people, a vital step in the reform process that might have ensured that people understood the goals of the reform and its impact on their well-being. The government was not interested in hearing the opposing side, with protests and various kinds of civic activism allowed only as long as they did not endanger the general reform course. Indeed, as the first wave of protests swept across the country in the summer of 2004, the authorities initially reacted with disinterest and even ignorance: “Let them have gathering,” they might have said, “throw out negative emotions, then calm down and go home.” Later protests were similarly neglected by the authorities, with members of United Russia claiming that they had been instigated by the opposition: “Using populist slogans, [they] try to get the sick and elderly people to the streets.” There were even attempts on the part of the authorities to hold the protest organisers administratively liable in court.

The effectiveness of the information campaign was also weakened by the poor timing of the reform. In particular, the monetisation reform coincided with significant increases in the costs of public transportation, housing, and utilities (these price hikes are usually introduced in Russia on January 1 of each year). Two major financial changes on the same date thus alarmed the majority of the population.

88. Ibid.


Finally, the reform process was further undermined as a result of the hasty preparation and passage of the new law, which was not accompanied by proper analysis or any real consultation with the public and the regions. In an ideal scenario, the preparation of the reform would have required a detailed analysis of its costs and benefits according to different welfare categories and regional situations. Yet such a scrupulous analysis was never initiated, and the government limited itself to expert assessment of the reform costs. Experts evaluated the total expenses for all social benefits recipients at all levels at 500 billion rubles per year. It was estimated that following the implementation of the social benefits reform, the total expenses on social benefits paid from the federal budget would decrease to 170 billion rubles, whereas the regions would have to pay 100 billion rubles. The government thus believed that its real welfare expenditures would contract twofold, that is, by approximately 230 billion rubles. The government also confirmed that not all social benefits would be compensated: certain benefits would disappear with the system’s streamlining and be replaced by targeted assistance for those in real need.

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92. L. A. Dolgopolova, Head of the Department of Social Assistance at the Kuibyshev Department of Social Protection, interview with the author, Novokuznetsk, Russia, June 10, 2008; and N. K. Nechaeva, Novoil’insky Branch of the Department of Social Protection, interview with the author, Novokuznetsk, Russia, June 5, 2008. Also interviews with L. A. Trubitsyna, Head of the Committee of Social Protection of the Kuibyshev District, Novokuznetsk, Russia, June 6, 2008; and with N. L. Evdokimova, former deputy of the Legislative Assembly of Saint Petersburg, Chair of the Committee on Social Issues, Saint Petersburg, Russia, July 10, 2008. Finally, interview with G. V. Kolosova, Deputy Head of the Committee of Social Protection of Saint Petersburg, Saint Petersburg, Russia, July 11, 2008.


94. G. V. Kharkovenko, Monetizatsiia l’got v sisteme sotsial’noi zashchity naseleniia Rossii: sotsiologicheskii analiz, 31; and M. Deliagin, “Zamenâ l’got na kompensatsii vygodna biudzhetu, a ne liudiam” [The Replacement of In-kind Social Benefits with Monetary Compensations Is of Advantage for the Budget, but Not for the People], Chelovek i trud, no. 7 (2004): 3.
According to government estimates, 32 million people, or one-fifth of the population, would lose access to some or all of the subsidies they had previously enjoyed as a result of the reform.\textsuperscript{95}

This said, the government actually neglected analyses and criticisms of the proposal submitted to the Duma by many regional parliaments and governors in the summer of 2004. Officially, the State Duma received reviews of the legislative draft from 67 federal subjects of the Russian Federation, whereas 25 regions submitted their reviews from both the executive and legislative branches of regional power. Thirteen regions had openly negative views of the legislative draft, and only 5 regions evaluated the draft positively.\textsuperscript{96} Nine regions offered the parliament a detailed analysis of the draft, supporting some and criticising other legislative initiatives.\textsuperscript{97} Despite such controversial feedback and obvious signs that the draft required further modifications, as well as closer collaboration with the regions and the public, parliament passed the law at the beginning of August 2004, one month after receiving the official feedback from the regions.\textsuperscript{98}

The framework for the new reform encompassed the amendments to the law “On General Principles of the Organisation of the Legislative (Representative) and Executive Bodies of Government in the Russian Federation,” passed in 2003; a new law “On General Principles of the Organisation of Local Self-Government in the Russian Federation,” adopted in October 2003; and the adoption of a legislative act (FZ-122, the “Benefits Monetisation” law) in August


\textsuperscript{96} Skvortsov, \textit{Sotsial’naia politika regiona: teoriia i praktika}, 205.

\textsuperscript{97} Ibid.

\textsuperscript{98} Ibid.
2004 that brought multiple federal laws into accordance with the two laws mentioned above.\(^9^9\)

The final step was made at the beginning of August 2004, when both chambers of the parliament passed the monetisation law and the president signed the law on August 20, notwithstanding massive protests and a letter signed by 80,000 Russian citizens asking the president to veto the law on the monetisation of social benefits and to launch a further discussion of the reform.\(^1^0^0\)

As a result of its hasty preparation and a lack of in-depth analysis of the reform proposal, the text of the law contained numerous inconsistencies and gaps in legislation. Moreover, because of the speed of preparation, the legislative basis on a regional level was not yet developed, at least not by the time the FZ-122 law entered into force. Regions had almost no time to estimate the costs associated with various reform implementation options, to choose the most acceptable ones, and to prepare themselves for the big change. In addition, as was pointed out at parliamentary hearings preceding the signing into force of law FZ-122, the majority of the regions had no budget resources for conducting the monetisation of benefits: based on the results of the 2003 budget execution, 60 subjects out of 89 (the total at the time) of the Russian Federation ran budget deficits amounting to about 70 billion rubles.\(^1^0^1\)

The speed with which the reform was implemented also resulted in the fact that only a few regions, such as the Perm oblast, had conducted surveys of regional beneficiaries prior to developing social support measures for regional recipients. The survey in Perm estimated actual benefit needs, predicted their total scope, assessed possible social risks, identified public

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99. Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia.”


attitudes toward in-kind versus cash benefits, and evaluated associated problems. In most other cases, however, the decisions on cashing out benefits (or on the preservation of in-kind privileges) were made on the basis of the loose and inaccurate information at the disposal of the social protection bodies, without any forecasting of the financial or social effects of monetisation.102

In conclusion, the process of the social benefits reform was complicated already at the stage of policy formulation as a result of the government’s failure to scrupulously study the problem in close collaboration with the regions, effectively frame the problem, and reach out to the public, addressing its concerns and taking the time to consider and respond to comments and proposals from the wider population. The Russian government’s handling of the issue illustrated how a seemingly sound idea can be undermined by government actions already at an early stage. Indeed, given the numerous flaws that had plagued the old Soviet welfare system, both government officials and the public understood the need for reform. It was also clear to everyone involved that the reform would require significant financial inflows to replace in-kind benefits with monetary compensations. Yet the government neglected the ideational dimension of the reform process and failed to establish a proper dialogue with the population. Promises of a bright and socially just future did not satisfy many veterans and pensioners who were worried that the monetary compensations would be eaten away by inflation. And even Putin’s vague assurances that “[a]ll decisions in this sphere . . . [will] improve the situation of this group of citizens and

make the system more socially weighted, more socially fair,” did not convince the population that the change was for the better.\textsuperscript{103}

### 8.4.4. Monetisation Law No. 122: The Essence of the Reform and Expected Policy Outcomes

Turning back to the nuts and bolts of the law itself, the monetisation of the benefits system was supposed to mark the first stage of a comprehensive reform of the system of social support in Russia, with the following goals: the elimination of unfunded social mandates; improved transparency between federal and regional budgets and service providers; greater fairness toward beneficiaries who did not make use of subsidised services; the reduction of poverty levels in rural areas; and more rights and freedoms for beneficiaries in using their social assistance. According to the preamble of the federal law No. 122, the social benefits reform would raise the material well-being of the Russian population (especially in rural areas), ensure the economic security of the Russian state, bring Russia’s system of social protection in line with the principles of a market economy, and improve the fiscal structure of the Russian state.\textsuperscript{104}

The law introduced the following changes: it delineated federal and regional budgets’ powers for financing social protection mandates, redistributed the responsibility for the provision of social benefits between the regional and federal budgets, eliminated non-financed social protection mandates, reduced expenditure obligations laid out in federal legislation, transferred in-kind privileges into cash payments for federal social protection mandates, introduced the so-

\textsuperscript{103} Kosichkina, “Issues for Vladimir Putin’s Second Term.”

called Monthly Cash Payment for various eligible groups (500 to 2,000 rubles) and a social package (450 rubles) for federal beneficiaries, and placed the responsibility for cashing out regional social protection mandates and for balancing revenue opportunities with new expenditure powers on regional and local authorities.105

The reshuffling of financial responsibilities for the provision of social benefits between the federal government and the regions resulted in the establishment of two groups of benefits recipients, federal and regional. The federal group included, for example, war veterans, the disabled, residents of the Leningrad blockade during World War II, relatives of war veterans in the case of their death, survivors of Nazi camps, individuals exposed to radiation. The social protection of these groups remained the responsibility of the federal government. It thus provided for these people monthly cash payments, replacing the old social benefits and the remaining in-kind assistance to which they had been entitled.106 To ensure that the monthly payments were sufficient to cover the costs of services, the government promised to index them regularly.107 The second group of recipients, meanwhile, included veterans of labor, victims of political repression, home front workers during World War II, and many others. This group, whose size


amounted to more than 16.7 million people, was to be financed entirely by the regions, the size of social assistance depending solely on the availability of resources in regional budgets.\textsuperscript{108}

To manage the system, the government planned to create a federal database (\textit{federal’nyi registru}) that would contain information about all citizens eligible for any type of social assistance (Resolution No. 195 of the Ministry of Health Care and Social Development of the Russian Federation, Nov. 16, 2004).\textsuperscript{109} The proposed database would include the following information: a personal insurance number, which would be linked to the individual’s pension account; all last names ever held by an individual; date of birth, gender, and place of residence; passport number and other personal information; date of registry in the federal database; the category to which the welfare recipient belonged and the date when his or her welfare eligibility was established.\textsuperscript{110} The management of the federal database was granted to the Pension Fund of the Russian Federation.\textsuperscript{111} The structure of the federal database was such that all information was collected at the regional level by the regional Departments of Social Protection, which then passed it to the regional department of the Pension Fund. The Pension Fund, before entering the information received into the database, was expected to check its accuracy based on the already available information in its database. Discrepancies in information needed to be re-checked by the Pension Fund and the regional Departments of Social Protection, to be ultimately eliminated. Once the information was accepted by the regional departments of the Pension Fund, it was to be included

\begin{footnotes}

\textsuperscript{109} Sokolova, \textit{Vse o l’gotakh: monetizatsiia i mery sotsial’noi podderzhki}, 18.

\textsuperscript{110} Ibid., 17–18.

\textsuperscript{111} Ibid., 18.
\end{footnotes}
in the Pension Fund’s federal database.\textsuperscript{112} The government thus made the regional Department of Social Protection responsible for carrying out the reform and for collecting all the necessary information, whereas the regional departments of the Pension Fund monitored the accuracy of this information, correcting it if necessary. Monetary compensations were distributed to the public either directly via monthly deposits to individual bank accounts, or indirectly at the local postal office.\textsuperscript{113}

To somewhat soften the pain associated with the reform, the government promised a gradual transition from one social welfare system to the other. According to the original plan, during the first year, some benefits such as subsidised housing would remain unchanged for certain categories of people. Other social services such as free health care and prescription drugs, visits to sanatoria, and transport privileges were also included in the social package. They could be provided either as in-kind social services or be replaced with monetary compensation.\textsuperscript{114} The second stage in the reform process entailed a complete shift from a dual-track to a fully monetised social welfare system. Yet because of the vigorous public protests against this reform at the beginning of 2005, the implementation of the second stage was postponed.\textsuperscript{115}

\textsuperscript{112} Ibid.


\textsuperscript{114} Sokolova, \textit{Vse o l’gotakh: monetizatsii i mery sotsial’noi podderzhki}, 16.

8.5. Description of the Implementation Process: Reorganising the Process of Welfare Provision at the Federal and Regional Levels

Russia’s welfare system has two tiers: at the federal level, the Ministry of Health Care and Social Protection directs and oversees the process of welfare and health-care provision, while at the regional level, the system is organised into regional and municipal departments of social protection.\(^{116}\) The Ministry of Health Care and Social Protection was created on March 9, 2004, in accordance with Presidential Decree No. 314 and the government resolution No. 321, passed on June 30, 2004.\(^{117}\) At the federal level, the ministry is organised into departments (up to ten) that formulate state welfare policy and oversee the various aspects of health-care and welfare provision, that is, it manages the federal agency overseeing health care and social development, the federal agency in charge of labor and employment, the federal agency concerned with sports and tourism, and so on.\(^{118}\) Following the monetisation reform of 2005, the federal Department of Social Protection is responsible for the provision of social assistance to federal categories of welfare recipients.

The responsibilities of the regional departments encompass, for example, the implementation of the federal social programs and control over the effective use of state resources; the formulation and implementation of regional social programs based on the analysis of regional social and economic indicators; monitoring the quality of social services in the


regions. Among other responsibilities are the training and retraining of state employees working in the field of social protection.\textsuperscript{119} Figures 8.4. and 8.5. offer an overview of Russia’s welfare system at the regional and municipal levels.\textsuperscript{120}

The reform required from the government, the ministry, and the regional departments of social protection large-scale changes to the existing organisation of welfare provision, although the heaviest burden rested with the regional and municipal departments of social protection, which were required to work under a lot of pressure and to coordinate their implementation efforts with the Pension Fund. For one, the reform could not be launched without the existence of a reliable database of all eligible welfare recipients at the federal and regional levels. Paradoxically, although the old Soviet welfare system documented the magnitude of various benefits, by the time the monetisation reform was launched, the country lacked a unified database of all welfare recipients.\textsuperscript{121} Therefore, to ensure the smooth implementation of the law in an ideal scenario, the authorities first had to collect the necessary data and create a comprehensive database before the actual launch of the reform. The federal government had been warned about the possible administrative difficulties of implementation as early as


\textsuperscript{120} The structure of the Social Protection Departments in other regions of the Russian Federation does not fundamentally differ from the example of the Krasnodar region.

November 2004. As William Smirnov, the director of the Center of Political Research at the Russian Academy of Sciences, noted, “There were numerous reports, appeals, and complaints, as well as expert opinions and articles. [...] But the authorities did not want to hear them.”122

Figure 8.4. Organisation of the System of Social Protection at the Regional Level (Using the Example of the Krasnodar Region)

Source: Skvortsov, Sotsial’naia politika regiona, 406.

The regions drew to the government’s attention that the database still awaited completion and that the exact number of eligible welfare recipients remained unknown; they therefore demanded a postponement of the implementation process.\(^\text{123}\) Despite these warnings, implementation began right away, creating additional challenges for the regional authorities and becoming one of the major obstacles to the reform’s successful implementation.\(^\text{124}\) Suffice it to mention that in January 2005 alone, the Departments of Social Protection added to the federal


\(^{124}\) Interviews with L. A. Dolgopolova, Head of the Department of Social Assistance at the Kuibyshev Department of Social Protection, Novokuznetsk, June 10, 2008; and with N. K. Nechaeva, Novoil’insk Branch of the Department of Social Protection, Novokuznetsk, June 5, 2008. This point was also made in Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 21–2.
database 95,000 people eligible for social assistance. Despite their eligibility, however, various factors, such as living in remote parts of Russia, kept them from receiving their benefits.\textsuperscript{125}

The absence of an up-to-date database of welfare recipients made it extremely difficult for the federal and regional authorities to ensure the transparency of the system and the accuracy of the information during the active phase of reform implementation, as well as to calculate the exact financial needs at the federal and regional levels.\textsuperscript{126} These struggles resulted in significant discrepancies between the realities and the original assumptions concerning the number of welfare recipients and the costs of maintaining the system. For example, at the beginning of the reform, the number of persons entitled to privileges was estimated at between 12 and 19 million people (8 to 13 percent of the total population).\textsuperscript{127} Yet at the end of 2006, the Pension Fund register revealed that the number of beneficiaries (receiving cash benefits) amounted to 16.8 million federally and 11.1 million regionally, that is, 12 and 8 percent of the population, respectively.\textsuperscript{128} As Alexander Auzan, the director of an Organisation “Public Verdict” noted about the monetisation reform:

There is nothing inherently bad about the monetisation reform, but the way it was developed is appalling: too fast, too radical, and without taking into account public opinion. The government and the parliament revealed their incapacity. They were warned that the regions would not have the required financial resources, and even if they would find some resources, they still would not be able to complete all calculations within such a short period of time. [The authorities] also hoped that, as time passed, people would get used to it. But in my view, one cannot simply justify [the reform] by

\begin{itemize}
\item \textsuperscript{126} Grigorieva, “Politika ratsionalizatsii sotsial’nykh obiazatel’stv v otnoshении pozhilykh,” 437-9.
\item \textsuperscript{127} Chernyak, “Gotova li strana k monetizatsii l’got?”
\end{itemize}
arguing that social reforms are by definition always painful. Why was [the reform] performed without anesthesia and using a rusty knife?  

The implementation of the new law was thus greatly hampered both by the inadequate preparation of the reform prior to its implementation and by several administrative difficulties related to the redistribution of functions between the regional Departments of Social Protection and the Pension Fund. Given that the regional departments were not given any time or financial resources to prepare for what was coming, they faced extreme difficulties as soon as the implementation process officially started on January 1, 2005.

This is not to say that all regions went into the implementation stage of the reform unprepared. Some, for example, the Kemerovo region, had created the kind of regional databases needed long before the launch of the reform, thus facilitating policy implementation. In the majority of regions, however, the databases still had to be created, making the work of public employees extremely stressful, as they not only had to implement the reform and inform the masses about the upcoming changes but also had to collect all the necessary information for the database.

Given the hastiness with which the reform law was passed, and the lack of adequate preparation and training before the reform entered into implementation, the majority of public employees responsible for the reform process at the regional and local levels worked under a lot of stress and without a full understanding of the law because of its complexity. They had to

129. Shenberg, “Gor’kie ‘uroki’ monetizatsii l’got: ulichshitsia li polozhenie rossiian?”

130. In the Kemerovo region, the creation of the database was initiated by Stepanishina, the head of the Department of Social Protection, in 1998. Interview with L. V. Vlasenkova, Kuibyshev Department of Social Protection, Novokuznetsk, Russia, June 10, 2008.

register the welfare recipients, collect the required documentation on each of them, and deliver the information for the federal recipients to the Pension Fund and the bank branches responsible for payments. They also had to integrate the collected data with existing regional data to make uniform the administration of social assistance provision to regional groups. This administrative work was accompanied by dealings with often angry and distressed members of the population.\textsuperscript{132} According to the information provided by the Kuibyshev municipal Department of Social Protection in Novokuznetsk, the number of people visiting the department increased noticeably in 2004 and 2005: if in 2003 this municipal branch was visited by 29,872 thousand people, in the second half of 2004 alone the number rose to 33,406 thousand people. When the active stage of the reform had passed, the number again went down to 33,751 thousand people in 2005 and 29,177 thousand people in 2006.\textsuperscript{133}

The situation was further complicated because many regions reported budget deficits, which essentially meant that most regions had no budget resources for conducting the reform to begin with.\textsuperscript{134} The problem of financing the monetisation reform also partially resulted from a salary raise of 20 percent for federal employees on January 1, 2005. This implied an identical increase in the salaries of regional employees. Yet some regions lacked the resources to raise the employee salaries appropriately, so they took money from their budgets to do so, and then lacked the resources to cover their social obligations. Overall, only a few relatively rich regions with sufficient financial resources were able to provide for their social benefits recipients, either in the

\footnotesize{132. Ibid.; Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 21–22.}

\footnotesize{133. Interview with L. A. Dolgopolova, Head of the Department of Social Assistance, Kuibyshev Branch of Social Protection, Novokuznetsk, Russia, June 10, 2008.}

\footnotesize{134. Chernyak, “Gotova li strana k monetizatsii l’got?”}
form of monetary payments or non-monetary social benefits. These included, for example, Kemerovo region, Moscow, Tiumen’ region, and Yamalo-Nenetsk okrug.\textsuperscript{135}

In the second half of 2004 and at the beginning of 2005, regional and local Social Protection Departments were literally engaged in guesswork, because the Ministry of Health and Social Development did not provide the regions with any timely methodical assistance in interpreting the complex and ambiguous provisions of the law, in the most effective ways to disseminate information among beneficiaries, in methods of dealing with marginalised recipients (e.g., disabled people, handicapped or aged persons), or, conversely, the most socially active and organised groups of beneficiaries, in the organisation of recipients’ recurring registration, or in the assessment of the social and fiscal consequences of the legislation.\textsuperscript{136} Many regional departments thus complained that they were expected to quickly fix the problems created by the federal authorities, while simultaneously struggling with a shortage of funding, time, methodical assistance and adequate training. In the first six months of the reform, regional Departments of Social Protection operated without any implementation manual or adequate training.\textsuperscript{137} As many employees of regional departments in the Kemerovo and Leningrad regions pointed out, many of

\textsuperscript{135} Osadchaia, “L’goty v kontekste reformirovaniiia sotsial’noi politiki,” 39.

\textsuperscript{136} Interviews with L. A. Dolgopolova, Head of the Department of Social Assistance at the Kuibyshev Branch of Social Protection, Novokuznetsk, June 10, 2008; and with N. K. Nechaeva, Novoil’insky Branch of the Department of Social Protection, Novokuznetsk, June 5, 2008. Also interviews with N. L. Evdokimova, former deputy of the Legislative Assembly of Saint Petersburg, Chair of the Committee on Social Issues, Saint Petersburg, Russia, July 10, 2008; and with G. V. Kolosova, Deputy Head of the Committee of Social Protection of Saint Petersburg, Saint Petersburg, Russia, July 11, 2008. Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 21.

\textsuperscript{137} Interview with L. A. Dolgopolova, Head of the Department of Social Assistance at the Kuibyshev Branch of Social Protection, Novokuznetsk, June 10, 2008.
their difficulties could have been avoided had the reform been more fully developed, implemented in several stages, and better organised.\textsuperscript{138}

8.5.1. The First Results of the Reform and the Government Response to Problems of Implementation at the Federal and Regional Levels

Shortly after the reform’s launch, some serious flaws in its design that required urgent fine-tuning became apparent. Failure to properly discuss the reform with the regions and the general population resulted in massive public protests, raising the issues of public trust and the government’s declining political legitimacy. Most of the protesters’ claims concerned the low monetary compensations, which barely sufficed to cover half of the monthly expenses for social services. The protesters also complained about the inadequate indexation of monetary compensations, long lines at the local Departments of Social Protection, and delays in the provision of prescription drugs.

The greatest difficulties occurred with regard to the timely provision of prescription drugs and the replacement of transport privileges with monetary compensations. Because of the lack of coordination between various institutions, many regions faced significant shortages of medicine, primarily due to the disturbances in the supply schedule. Doctors and recipients of prescription drugs also complained about long wait lines to receive the prescriptions, because doctors now spent more time filling out long prescriptions, often taking 40 minutes per prescription, as opposed to official 12 minutes.\textsuperscript{139}

\textsuperscript{138} Ibid.

\textsuperscript{139} Shenberg, “Gor’kie ‘uroki’ monetizatsii l’got: ulichshitsia li polozhenie rossiian?”
Cashing out the benefits for urban transport services was another controversial issue. According to the monetisation law, about 26 million pensioners lost their right to use public transport free of charge as of January 1, 2005. Instead, the government paid the welfare recipients a monthly monetary compensation of 200–350 rubles, but this sum did not cover the actual transportation expenses, which in some regions reached as much as 700 rubles. Only some regions decided not to monetise transport benefits right away, including the Sverdlovsk, Tiumen, Rostov, and Kaliningrad oblasts, and Krasnoiarskii krai.\textsuperscript{140}

Other issues concerned some of the most vulnerable population groups, which seemed to suffer the most as a result of the reform. Among these groups, one could name single mothers with many children, who had now lost their right to use public transport free of charge. Children also lost their meal subsidies, and wheelchair users lost their right to especially equipped cars and their regular maintenance. Because Russian public transport is not wheelchair friendly, to say the least, these people were faced with the grim reality of being mostly confined to their apartments, with limited options for movement around cities. The government offered them a monthly compensation of 950 rubles and suggested they save this money to buy a car. As Elena Leont’eva, the leader of the public organisation \textit{Free Movement}, correctly noted:

[H]ow are these people supposed to live? Public transportation is inaccessible to them, the taxi is too expensive. Wheelchair users used their special cars for traveling to work, hospitals, etc. Now they are deprived of this option. Where can a disabled person find 90 thousand rubles to buy an “Oka”? And the existence of the social taxi does not solve the problem. Their waiting list for traveling to hospitals and Departments of Social Protection are weeks long, because there are too many who need such taxis. [. . .] I believe that this law violates our constitutional right to free movement, the right to education and employment.\textsuperscript{141}

\textsuperscript{140} Ibid.

\textsuperscript{141} Ibid.

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Similarly, victims of political repression criticised the government’s actions and questioned the morality of the new law, which had dropped the reference to the moral costs of political repression from an earlier law entitled “On the Rehabilitation of the Victims of Political Repression.”142 The government’s attempt to shift responsibility for past political crimes onto the regional governments was appalling: “We, those who survived and went through tremendous suffering, death of our relatives, demand justice,” four thousand members of the Perm human rights organisation called Memorial stated in their appeal to the president of the Russian Federation.143

Similarly appalled were mothers of soldiers killed during the Chechen wars. The government offered them a monthly monetary compensation of 150 rubles (an equivalent of about 5 dollars), which many mothers refused to even receive, viewing it as an insult.144 The list of complaints can go on, with several groups of welfare recipients claiming the worsening of their material lot after the reform.

To coordinate their protest actions, many groups organised into regional movements. For example, regional branches of 12 political parties in Novosibirsk set up the Committee of Protest Action. Various law firms offered welfare recipients voluntary help free of charge to file official complaints to courts against federal and regional authorities.145

Instead of introducing more social justice into Russia’s welfare system, the monetisation reform and the division of welfare recipients into federal and regional categories contributed to a

142. Ibid.
143. Ibid.
144. Ibid.
145. Ibid.
further stratification of the population and, in fact, increased public dissatisfaction with the reform. In terms of differences between federal and regional beneficiaries, on average the former gained more from the reform than the latter. But even federal recipients protested against the monetisation of transport benefits, so that as soon as a wave of protests engulfed the country, the federal government responded by offering federal beneficiaries the right to the free use of municipal transport.\(^{146}\)

Regional welfare recipients were even more dissatisfied with the reform. Most important, the reform resulted in a growing stratification of regional welfare recipients into more and less fortunate depending on the region in which they lived. Since the Russian regions differ greatly in terms of economic and social development, the reform saw some regions struggling immensely to implement the reform and fulfill their social responsibilities because of a shortage of funds. This is why the poorer regions often preferred to not implement the reform at all, or to introduce only some minor changes to the old system. They nominally had the right to make such alterations, since the FZ-122 law gave regional authorities full freedom in defining social protection measures for labour veterans, families with children, the victims of political oppression, and home-front workers.\(^{147}\) As a result, many regions kept housing and utility privileges, as well as the provision of solid fuel in the form of in-kind benefits; others also retained in-kind dental services for all regional categories and the privileges for medical drugs for home-front veterans and the victims of political repressions.

The reform also proved very unpopular among the regional elites. As I mentioned earlier, many regional leaders had openly criticised the monetisation reform already at the stage of

\(^{146}\) Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 25.

\(^{147}\) Ibid.
policy formulation, suggesting improvements to the federal government. Regional elites’ major concern was a lack of changes in Russia’s fiscal relations concomitant with the reform, changes that would have ensured that the regions had sufficient financial resources to implement the reform. The elites also feared the reform would threaten their official position in the regions.\textsuperscript{148} Therefore, many regional leaders tried to distance themselves from the federal government and from United Russia. For example, as one Member of Parliament from Khabarovsk krai stated in 2004: “The federal center handed over to us the duty, whose sum of monetisation would be 2 billion 80 million rubles, without guaranteeing the revenue. Where can we find the money? [. . .] However, we will not worsen the living standard in the krai. We, Khabarovsk krai, will pay for that.”\textsuperscript{149} In the end, however, many regional leaders faced a grim reality and decided to monetize at least some in-kind benefits. Yet since the official compensations were negligible, they were met with significant protest.

Of all regions, only the oblasts of Tatarstan, Tver’, and Tiumen demonstrated a high level of monetisation, while 30 regions conducted some monetisation, and 46 regions showed a low level of monetisation. In the case of Tatarstan and Tiumen, the rapid monetisation resulted from these regions’ good financial standing, which allowed the regional authorities to provide their welfare recipients with adequate monetary compensation. As for those regions with low rates of monetisation, the most common factor slowing down the process was the regions’ insufficient capacities to finance the monetary compensations. Another factor was the irregular “load” of regional beneficiaries, which varied greatly across regions. In Ingushetia, for example, victims of political repressions and their family members accounted for 45 percent of the total population;


\textsuperscript{149} Ibid.
in other regions, such as Bashkortostan, Kaluga, Vladimir, and Samara oblasts, almost all pensioners had obtained the status of labour veterans and thus were entitled to benefits. Such differences in socioeconomic and financial situations greatly influenced regional authorities’ decisions on the kind of welfare provision chosen.

At the regional level, the choice between carrying out monetisation and rejecting it thus depended on any individual region’s financial standing and on its ability to come to terms with the federal center. Many regions found the Ministry of Finance’s recommendation to establish the compensation amount at a meager 300 rubles for home-front workers and at 200 rubles for veterans of labour absolutely unacceptable and preferred to keep the benefits in-kind. In the regions where benefits were cashed out, both the amounts of compensation and the sets of monetised privileges differ widely. For example, compensation levels varied from 1,500 rubles in the Nenets Autonomous District and 500 rubles in the Vologda oblast to 100–120 rubles in Bashkortostan. In the poorer regions, compensation usually did not exceed 200 rubles, insufficient to purchase even a monthly transport pass.150

Faced with continued social protests and growing dissatisfaction on the part of the regional authorities, the Russian government was forced to make compromises and engage in reversals, which in the end watered down the reform’s original intentions. The government increased the size of the budget allocated for the reform’s implementation from the initially planned 170 trillion rubles to 300 trillion rubles, and it announced the transfer of additional funds to the most desperate regions.151 Thanks to these additional funds, the regions were able to offer monthly

150. Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia,” 27.

transportation tickets at preferential prices to those categories of recipients that actively used municipal transport. On the whole, however, this cashing out of municipal transportation service privileges provided a clear example of underfinancing in respect to regional beneficiaries. Providing beneficiaries with “single transportation tickets” was in fact an ad hoc way out of monetisation implementation at the regional level: sums envisaged in exchange for the right to free services (which differed greatly among regions and municipal entities) were not nearly enough to cover the real needs of those beneficiaries who regularly used transport services. On average, these sums ranged from 20 to 40 trips a month (which, for example, does not suffice for a working beneficiary who must get to and from his or her workplace every working day).  

The government also promised significant increases in pensions and wages, hoping that this would partially compensate for the mistakes made in the process of the social benefits reform. Next, the government agreed to index the monetary compensation in accordance with the average inflation rate. Finally, afraid of antagonising the masses even further, the government decided to delay the enactment of the new retirement age requirements and to postpone the monetisation of housing and communal services benefits. As the director of the Human Rights Center, Valentin Gefter, commented, with these measures, the federal government tried to correct its mistakes committed earlier at the stages of policy formulation and implementation. The only problem was, of course, that, in the words of the director of a foundation called The Public Verdict, Natal’ia Taubina, “the [government] react[ed] only to


155. Ibid.
public protests, without really understanding the situation and not realising that the pension size is far below the minimum subsistence level."156 In addition, these attempts to fix the problem constituted—once again—ad hoc measures, which (once again) stalled the reform process and left the social benefits sector muddled and even less transparent than before.

In September 2005, as if to counterbalance the failure of the monetisation reform, the government announced the creation of the Russian Federation’s National Priority Projects. At a press conference, Putin explained that the government viewed the projects as a “necessary and logical development of our economic course, which we have carried out for the previous five years and will carry out further. [. . .] This is a course of investment into the people—into the future of Russia.”157 Critics of the president’s regime argued that the national projects were launched in an effort to improve the damaged image of Putin’s administration following the disastrous results of the monetisation reform. Quickly labeled by journalists “Putin’s New Deal,” the National Priority Projects became the objects of close attention.

The projects promised to improve the situation in Russia’s housing, health care, education, and agriculture sectors. In health care, the government planned to enhance the training of family doctors, general practitioners, and pediatricians, to increase the wages of medical personnel, and to build several national hi-tech medical centers throughout Russia. In an effort to raise birthrates, the government offered families 250,000 rubles (ca. 10,000 USD) for each baby born after their first child, but with spending restrictions.158 In the education sector, the main goal of

156. Ibid.


the National Priority Project for Quality Education was announced to provide all students with quality education regardless of their place of residence. The government promised to provide all schools across Russia with libraries, computers, and Internet access. A system of grants was introduced to reward schools for innovative teaching methods. Grants were also made available to the most talented students.\textsuperscript{159} In the housing sector, the government announced that it would promote market measures, such as developing the mortgage lending industry, to make apartment and home ownership more affordable. It also promised to provide direct support to certain population groups, so that they could buy and maintain their own homes. Special state subsidies were to assist young families in buying a new home. Finally, in agriculture, the government offered cheap loans for agricultural producers and schemes to import livestock and equipment and cheap housing for young agricultural specialists and their families.

By the end of 2005, it looked as though the National Projects had become a genuine national priority, whereas the progress of the monetisation reform was barely discussed. The projects’ de facto coordinator, the then deputy prime minister, Dmitrii Medvedev, led the government in trying to cultivate an image of a caring and benevolent Russian state, using the media as its main tool: stories of ordinary people assisted in some way by the National Projects became the focus of daily news. The political importance of the National Projects became especially evident during the 2008 presidential election, when the projects and their coordinator, Medvedev, became the primary focus of attention for the Russian media. Images of Medvedev visiting farms, schools, hospitals, and housing projects helped raise his public profile and ultimately ensured the successful transition of power from Putin to Medvedev.

After the presidential election the situation changed. Although the government continued to emphasise the importance of the National Projects, the media lost its interest. One would no longer hear happy stories of ordinary Russians benefiting from the Russian state’s caring policies. Furthermore, by the end of 2008, the government had started introducing the possibility of reclassifying the projects into “government programs,” which have a longer timeline and follow more relaxed standards. Many Russians feared that the past several years’ focus on education, health care, and housing construction had been little more than a short-term plan to raise the level of public trust in the government following the unsuccessful monetisation reform and to garner public support before the 2008 presidential election.

In conclusion, the immediate results of the social benefits reform were controversial and contributed to growing public dissatisfaction with the reform process. Realising the shortcomings of the reform and the dangers of further social destabilisation, the government responded to public protests by almost doubling the size of the budget allocated for the implementation of the reform and by subsidising the regions for some of its costs, such as the provision of monthly transportation tickets to eligible welfare recipients. It also raised average pensions and postponed the second step of the reform, which foresaw the monetisation of housing and communal services. In addition, it tried to shift public attention away from the monetisation reform to other projects, such as the grandiose National Projects announced in September 2005.

8.6. Evaluating the Social Benefits Reform: Main Gains and Failures

Any analysis of the social benefits reform, of its main gains and failures, should start with a reminder of what the reform aimed to achieve. The monetisation of social benefits meant to fulfill the following goals: decrease the costs of maintaining the existing welfare system; change
the eligibility criteria for receiving social assistance and eliminate unfunded social mandates; improve the transparency of relations between the federal and regional budgets and service providers; achieve greater social justice in the provision of social assistance; and reduce poverty levels.\textsuperscript{160}

On the positive side, the reform did manage to eliminate some unfunded social mandates and to somewhat reduce the number of benefits offered to various groups, as well as to replace some in-kind benefits with monthly cash payments. These compensation payments mostly improved the financial situation of the majority of federal beneficiaries. The reform also helped in the development of individualised lists of welfare recipients at the federal and regional levels. Furthermore, by launching the reform, the authorities sent the message that the government no longer viewed the provision of social benefits as a right or a privilege, but rather as a “measure of state support.”\textsuperscript{161} By doing so, it laid the groundwork for further changes in Russia’s welfare system (even if hypothetically).

On the negative side, the reform failed to decrease state welfare expenditures. The government also failed to effectively change the eligibility criteria for receiving social assistance and to eliminate all unfunded social mandates. Furthermore, instead of improving federal-regional relations, the reform further complicated them and made many regions financially ever more dependent on the federal center. Most important, however, it failed to significantly reduce


\textsuperscript{161} “O vnesenii izmenenii v zakonodatel’nye akty Rossiiskoi Federatsii i priznanii utrativshimi silu nekotorykh zakonodatel’nykh aktov Rossiiskoi Federatsii v sviazi s priniatiem 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 sub’tektov Rossiiskoi Federatsii’ i ‘Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii’,” \textit{Rossiiskaia Gazeta}, Aug. 31, 2004, articles 3 (p. 1) 6 (p. 2) and 44 (pp. 8-9).
poverty levels, and, not least, the government failed to gain the support of the people, which undermined the level of public trust in the regime and slowed down further reform initiatives in the welfare sector.

In terms of costs, the reform’s implementation turned out to be nearly twice as expensive as anticipated. Yet this financial drain did not significantly reduce poverty levels, and in some cases, people were worse off after the reform than before. According to the research conducted by the Russian Independent Institute of Social Politics, the reduction in poverty levels across all welfare recipient groups as a result of the reform was no more than 1.5 percent. More specifically, the reform failed to improve the situation of single-parent families and families with many children, which had the maximum risk of poverty. This reality occurred although the government had originally proclaimed these families the key targets of social protection programs.

In addition, the reform failed to significantly lower the level of social inequality in Russia (see table 8.3.). Some progress in the redistribution of real disposable income indeed occurred. Yet this progress largely resulted from the fact that the majority of “losers” were the non-poor, while the poorest families (with the exception of single pensioners) slightly gained from


164. “Reformy v sfere sotsial’noi podderzhki naseleniia” [Social assistance reforms], in Obzor sotsial’noi politiki v Rossii: nachalo 2000-kh, 342.
Therefore, it is possible to argue that the reform had minimal impact on social inequality and poverty reduction.

Table 8.3. Levels of Social Inequality in Russia

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient of income differences</td>
<td>14.9</td>
<td>15.3</td>
<td>15.1</td>
<td>14.9</td>
<td>14.7</td>
<td>14.5</td>
</tr>
<tr>
<td>Correlation between the average wage of the 10 percent of the highest paid and the 10 percent of the least paid employees</td>
<td>25</td>
<td>24</td>
<td>22</td>
<td>20</td>
<td>18</td>
<td>16</td>
</tr>
</tbody>
</table>


The government also failed to radically decrease the number of social benefits, to streamline the structure of the existing welfare system, and to increase its transparency. The great majority of benefits were retained, and their structure was additionally complicated by the division of beneficiaries by sources of funding into federal and regional categories. In particular, the government eliminated only certain narrowly defined categories, such as housing privileges offered to family members of welfare recipients, or one annual right to free transport to the place of medical treatment available to students studying in the regions of the far North. Free transport was also abolished for policemen. On the whole, however, the government failed to move away from the categorical principle of welfare provision and to change the structure of Russia’s social assistance. The government still offered social support to large groups of beneficiaries and


166. Sinitsina, “Experience in Implementing Social Benefits Monetization Reform in Russia”; Alexandrova and Struyk, “Reform of In-Kind Benefits in Russia: High Cost for Small Gain”; see also Maleva, Zubarevich, and Ibragimova, Obzor sotsial’noi politiki v Rossii: nachalo 2000-kh, 336.
maintained a highly centralised financial system. Thus the reform failed to produce a considerable impact on Russia’s welfare system and did not become a sizable event in the social and economic life of the country. A somewhat improved system of accounting, modest results in the transition toward cash benefits, and minimal progress with the targeting of beneficiaries do not appear to have been worth the implementation difficulties and high political price paid to calm public protests. 

The reform illustrated an obvious tension between the government-proclaimed goal of decreasing poverty and social inequality and its failure to replace its categorical system with the targeting mechanism of welfare provision. It became evident that it was almost impossible to develop both social programs simultaneously, that is, to aim for poverty reduction by expanding social programs, on the one hand, and to preserve the system of benefits almost unchanged, on the other.

Likewise, the redistribution of welfare recipients into federal and regional categories resulted in a number of problems. Originally, the government had argued that the establishment of two groups of beneficiaries and the reshuffling of financial responsibilities between the federal and regional governments would make the operation of the social protection system more transparent, more efficient, and better focused on the poor. The law postulated that henceforth the regions had full freedom in making changes to the old system of social protection to reflect regional realities. The only clause they had to adhere to in their reforms was that the protection of eligible people had to be maintained by the new welfare plan. In other words, since the amount and causes of poverty differed from region to region, the government argued that the proposed changes would better address the needs of the poor. To respond to regional differences,

the government also offered regional authorities some freedom in determining the pace and scope of social benefits monetisation at the regional level.

In practice, however, since this delineation was not accompanied by important changes in Russia’s fiscal structure, and given that the regions had to assume responsibility for larger population groups such as veterans of labor, they experienced great difficulties matching their obligations with adequate resources.\(^{168}\) Moreover, the monetisation law coincided with a new tax law, which changed the responsibility for tax collection and made the center responsible for the collection and distribution of several taxes, tasks that had earlier been under the jurisdiction of regional authorities. Paradoxically, this meant that although regional authorities now held greater welfare responsibilities, they lacked the financial resources to address them and depended essentially on the federal center.

This has led to the stratification of social welfare recipients into more and less fortunate groups. This distinction occurs not only between the recipients of federal and regional social welfare services but also between the recipients of social benefits at the regional level in richer and poorer federal subjects. Recipients of social benefits at the federal level could be more or less certain of their compensation on a regular basis, but the same could not be said of recipients at the regional level. These included such groups as veterans of labor and victims of political repressions, who faced great uncertainty regarding the size and regularity of their compensations, primarily because their monetary social assistance depended on the availability of resources in regional budgets.\(^ {169}\) Since many regions were unable to implement the reform due to a lack of

\(^ {168}\) Alexandrova, Kuznetsova, and Grishina, “Reforming In-Kind Privileges at the Regional Level in Russia: Political Decisions and Their Determinants,” 122.

\(^ {169}\) Sokolova, “Vse o l’gotakh: monetizatsiia i mery sotsial’noi podderzhki,” 17.
resources, they preferred to keep at least some in-kind privileges. All this undermined the reform process in an important way.

In the end, the division into federal and regional categories contributed to the growing sense of injustice on the part of the regional authorities, but also of regional beneficiaries, especially labor veterans and victims of political repression. Regional authorities felt very uncomfortable with the new legislation, under which World War II veterans, combat veterans, and veterans of labor (all covered by the same federal law “On Veterans”) now held unequal positions: veterans of labor would be put at a disadvantage, only to in turn demand from the regional authorities the same privileges as provided to World War II veterans by the federal authorities. 170 The allocation of rehabilitated political prisoners under the regional jurisdiction was seen by many regional authorities as incorrect, and even morally unfair, in relation to the rehabilitated victims of political terror. 171 And even federal recipients were dissatisfied, as the amount of their monetary compensation was uniform across the country, regardless of their place of residence. Given that life expenses differed greatly from region to region, monetary compensations that proved adequate in the European part of Russia were insufficient in the Far North or in the Far East.

The division of welfare recipients into federal and regional thus resulted in a mismatch between regional obligations and financial capabilities. As numerous experts noted, on the whole, the reform of in-kind privileges in Russia has made very limited progress compared to


171. Interview with Golubeva Liudmila Nikolaevna, Chair of the Gatchina Social Protection Committee, Leningrad region, Russia, Aug. 8, 2008.
what it could have achieved and what other CIS countries have accomplished. In the words of Alexandrova and Struyk: “Russia represents one of the most outstanding examples of social policies and practices to be avoided by countries seeking to build an efficient social safety net that can function sustainably in a market economy.”

The reform’s implementation was also undermined because of the ill preparation of the regional Departments of Social Protection, which lacked the funds and training necessary to implement the reform and to consult the distressed population on the peculiarities of the new law.

Finally, the implementation process illustrated the growing tension between the authorities and the public. According to public opinion polls conducted by the Public Opinion Foundation in June 2005, the actions of the protestors were supported by 41 percent of the respondents, and only 16 percent expressed negative views of the protests. According to another poll, conducted by the All-Union Center for the Study of Public Opinion (VTsIOM), 84 percent of the respondents complained that their monetary compensations did not cover their medical and transport expenses.

To recapitulate, the social benefits reform in Russia had variegated results. It reduced the number of benefits offered to various groups and replaced some in-kind benefits with monthly cash payments. The reform has also helped establish a comprehensive list of welfare recipients, thus improving the transparency of the system. At the same time, the reform failed to downsize the existing welfare state and make it financially more sustainable. It also failed to replace the old system of categorical in-kind privileges with an effective welfare state and targeting mechanism that would target the poor and the most disadvantaged. The delineation of welfare

172. Alexandrova and Struyk, “Reform of In-Kind Benefits in Russia: High Cost for Small Gain.”
recipients according to the source of funding into federal and regional groups contributed to a growing stratification between regional and federal recipients, as well as to the division of regional beneficiaries into more and less fortunate groups depending on their place of residence. Moreover, since the decentralisation of welfare recipients into federal and regional groups was not accompanied by appropriate changes in Russia’s fiscal system, it made the regions, especially the poorer ones, more dependent on the federal center. Finally, the reform did not significantly improve the overall system of welfare administration, and it failed to significantly influence Russia’s levels of poverty and inequality.

8.7. Analysing the Reform: What Went Wrong?—Lessons from the Russian Social Benefits Reform

The failure of the social benefits reform to accomplish its original goals led to numerous studies of what specifically went awry during the processes of reform formulation and implementation. While no one questioned the necessity of reforming the Soviet welfare system, the majority of scholars and experts pointed to numerous governmental shortcomings in the practice of reform.

(1) Errors committed by the government at the stage of policy formulation

The government approached the social benefits reform in a context conducive to policy change: economic growth had resulted in the Russian state’s better financial situation, and the general population’s improved well-being, social stability, and political centralisation promised a less protracted and more efficient process of public policy. Public opinion was also supportive of the reform, with many people criticising the ineffectiveness of the old social welfare system in addressing the needs of the poor and the most disadvantaged. Furthermore, increased governmental control of the media and the passing of a critical presidential election created an
environment in which the government had fulfilled all the necessary conditions required for the successful policy change. In addition, the government showed a political willingness to launch the reform and was under no time constraints.

Yet problems began already at the stage of policy formulation. The government had underestimated the importance of ideational factors and policy framing, viewing the public awareness campaign and collaboration with the regions as nothing more than a chore of formality. The consequences of such detachment from public concerns proved severe, ranging from open criticism of government actions to a dramatic decline in government approval ratings and massive public protests. In fact, with more than 1.2 million people protesting the reform in 2005, the situation could be interpreted as a legitimacy crisis and a signal of a dangerously collapsing public trust in government.

In addition, the hastiness with which the reform was implemented did not contribute to the establishment of an effective dialogue with the regions or with oppositional groups, further undermining the reform process. Thus, to ensure the successful implementation of the reform, the government should have allocated more time for framing the problem, establishing a constructive dialogue with the regional elites and with various opposition groups, evaluating the reform’s costs and practicability before its actual launch.

Indeed, as some scholars and policy actors pointed out, the failure to evaluate the costs and consequences of the reform and to test its effectiveness and practicability in a number of pilot projects constituted one of the current regime’s major mistakes. The government should have better examined the opinions and concerns of welfare recipients, for example, with the help of public surveys. This was not done. The government could have also temporarily implemented the reform in a number of strategic regions and then evaluated its costs, shortcomings, and any
challenges for implementation. This would have helped with determining some basic social obligations and standards for all major welfare groups across the regions, especially as related to the costs of public transportation, medicine costs, phone use, and housing and communal services. The government thus neglected the preliminary stage in the public policy process and failed to build an effective policy frame and establish dialogue with welfare recipients.173

(2) **Errors committed by the government at the stage of policy implementation**

At the stage of policy implementation, the government failed to pace out the reform, making sure that the administrative and organisational conditions were satisfactory before actually implementing the reform. The government failed to provide regional authorities and local agencies responsible for the reform with all necessary methodological recommendations, information, and legislative acts in due time. The government also did not ensure that employees at the regional Departments of Social Protection were properly trained to deal with the complexity of the law and the situation.174

(3) **Lessons to be learnt from Russia’s social benefits reform**

The poor results of the Russian social benefits reform suggest that governments that want to achieve better results when implementing their welfare reforms should address the following essential issues at the stages of policy formulation and implementation.

First, they should better situate the reform within the existing sociocultural framework and provide its welfare recipients with a convincing and legitimate policy frame. Governments should establish a continuous and effective dialogue with major groups of welfare recipients and with the regions; they should rely extensively on experts’ research and on feedback from the


174. Ibid.
population; and they should implement pilot projects before launching the actual reform process. At this preliminary stage, various reform options should be discussed and examined for their feasibility and resource availability.

Second, governments should ensure that they possess up-to-date information on all welfare recipients before the actual launch of the reform to avoid chaos and disorganisation during the process of reform implementation. Governments should also ensure close coordination between different state ministries and agencies at the federal and regional levels.

Third, post-Soviet governments should do everything possible to move away from the categorical principle of welfare provision and introduce a better targeting mechanism. At the same time, given the symbolic importance of in-kind social privileges for some categories of beneficiaries (such as war veterans, home-front workers, and victims of political repressions), it probably makes sense to maintain (or maybe marginally modify) these privileges. Yet it is equally important not to enlarge this category by extending their privileges to other population groups. Rather, for all other population groups, the provision of monetary social assistance should be based on the maximum personalisation of cash benefits, the size of which should be determined by an appropriate means testing system that includes the following components: age, the beneficiary’s real income, his or her housing conditions; his or her state of health, the number of dependents, and an adjusted regional cost of living. Formally assigning equal cash benefits solely on the basis of belonging to a certain category does not make much sense.

Fourth, given the complexity of social issues, the decentralisation of social protection responsibilities seems to be a justified and an appropriate decision. It should, however, be accompanied by the allocation of sufficient funds to ensure the reform’s maximum effectiveness. Both fiscal and administrative decentralisation is essential, since the level of local self-
governance provides the best opportunity for targeting social assistance and, as a result, the simplest and most effective way to eradicate poverty and social exclusion.

Fifth, governments should time the reform implementation process carefully and ensure that the reform process is well planned and coordinated among various agencies and ministries at both the federal/national and regional levels. When implementing the reform, governments should strive to preserve a social dialogue with the public and the regions, listening to feedback from the population and from civil society institutions. This will allow for the elimination of unexpected negative consequences and processes. 175

175. Ibid.
CHAPTER 9

WELFARE REFORMS IN POST-SOVIET COUNTRIES:
THE RUSSIAN AND KAZAKHSTANI EXPERIENCE REVISITED

9.1. Introduction

As I have illustrated in this thesis, the process of reforming post-Soviet welfare regimes has turned out to be much more difficult and has taken much longer than most experts anticipated. Responding to a wealth of socioeconomic challenges, the governments of many post-Soviet countries launched ambitious education, health care, welfare, and housing reforms; yet these, in turn, produced mixed results. Whereas some countries showed remarkably positive transformation records, others severely lagged or lacked in terms of socioeconomic restructuring.

Through an analysis of the social benefits reforms in Russia and Kazakhstan, this thesis has suggested that political liberalisation and economic progress do not necessarily translate into successful social reforms. In particular, I have illustrated how a kind of soft authoritarianism in Kazakhstan proved more successful in implementing important social policy reforms than the more democratic leadership of Boris Yeltsin in neighboring Russia. Yet I have also shown that emulating the experience of Kazakhstan in other non-democratic regimes turned out to be relatively difficult, even under conditions of greater political centralisation and economic stabilisation, as was the case in Russia under Vladimir Putin.

My central finding here is thus that various historical, institutional, and political factors only partially help in understanding differences in policy outcomes. Rather, I suggest that beyond such determinants, the reform success also depends in large part on a government’s
capacity to persuade the people and to “socially construct” the need for reform by using already extant social and cultural frames to legitimise the reform in the eyes of the public and so building an effective pro-reform coalition consisting of various state and non-state actors. This dissertation has emphasised the important role of ideas, policy frames, and institutions, as well as that of policy actors’ ability to recognise both these pre-existing sociocultural frames and institutional challenges, to build on them and thus legitimise the implementation of new welfare structures.

In this final chapter, I will return to the central question posed in my thesis: Why do some governments succeed in implementing welfare reforms while others fail? In revisiting this inquiry, I will distill the central themes and main conclusions drawn throughout this comparative analysis of social benefits reform in Kazakhstan and Russia. Further, looking beyond the parameters of this particular study, I will consider the broader lessons that can be learned from the Russian and Kazakhstani experiences in reforming their welfare systems. Finally, I will address some of this study’s limitations and sketch out some avenues for future research.

9.2. Revisiting the Thesis’s Main Research Framework and Argument

My curiosity about post-Soviet states’ public policy records began with research on failed social policy initiatives in developed democracies. As I went through numerous studies of failed welfare and education reforms in the West, I became interested in analysing post-Soviet public policy records, wanting specifically to focus on welfare reforms. The research that followed led me to two cases of identical social benefits reform, implemented in two post-Soviet countries with comparable historical and political legacies—Kazakhstan and Russia. Yet their reform processes produced markedly different outcomes. In trying to understand the causes of such
divergent reform experiences, I turned to literature that analysed post-Soviet policy records, looking for variables that might help explain this puzzle.

It turns out the puzzle’s solution was relatively straightforward. Following the collapse of the Soviet Union, Kazakhstan and Russia inherited identical welfare systems, which offered their populations nearly universal welfare coverage, as well as numerous social privileges for select groups of people as a reward for loyalty, hard work, and/or military service. Yet the principles on which the Soviet welfare system rested, as well as the costs of maintaining it during times of economic crisis and liberal economic reforms, made it unsustainable both economically and ideologically. The complexity of the situation was compounded by the fact that the economic reforms were accompanied by radical changes in the two countries’ political systems. As a result, the governments in many post-Soviet countries found themselves trapped between the necessity of downsizing and restructuring their expensive and ineffective welfare states, on the one hand, and their citizens’ expectations, on the other: much of the population believed that the new governments would, and should, continue to take on far-reaching welfare responsibilities. Forced to govern under conditions of deep economic crisis, the leaders of post-Soviet countries had to find ways to navigate this complex environment to minimise the risk of social instability and achieve the desired results.

Kazakhstan was the first to reform its welfare system. After a short period of hesitancy, the government announced that under the existing economic conditions, the state lacked the financial resources to assume responsibility for the provision of welfare assistance to all eligible welfare groups, and that only the neediest population groups would be assisted. The government could support its statements with hard evidence: by the mid-1990s, the Kazakhstani economy had reached its lowest point, and all government expenditures on education, public health services,
and social protection collapsed. Realising that the painful retrenchment and the deep economic crisis would affect the overall well-being of the Kazakhstani population, and could potentially lead to social and political destabilisation, the president and the government launched an active information campaign about the nature of the ongoing transformation, the challenges faced by the current regime, and the future direction of Kazakhstan’s development. In keeping with the arguments forwarded by Paul Pierson, the Kazakhstani government justified its suggested welfare retrenchment with the existing economic crisis. By doing so, it opened a window of opportunity for launching a successful change in policy, despite the enduring weight of Soviet welfare legacies and powerful groups of welfare recipients. The government developed a framing strategy that built on pre-Soviet sociocultural frames, evoking the strong cultural and family traditions of the Kazakhstani population. The retrenchment initiative was followed by the development of a targeted social assistance program, which focused on the poor and the most disadvantaged. The program resulted in significant drop in poverty levels and contributed to the development of a liberal welfare state. By the early 2000s, the Kazakhstani government had achieved its policy objectives: it had reformed its old system of social assistance and had greatly improved its targeting mechanisms.

In contrast to that of Kazakhstan, the Russian government showed remarkably less efficiency or success in changing the existing welfare system and alleviating poverty. The first two attempts to reform the Soviet welfare system were launched during the Yeltsin presidency, but both of them failed to achieve the desired objectives. Yegor Gaidar’s liberal economic and welfare reforms implemented in the early 1990s had a dramatic effect on the Russian population and were soon challenged in parliament, resulting in the expansion of the old welfare system, not its contraction. This state of limbo continued well into the late 1990s, when the president made
further attempts at reforming the barely functioning welfare system following the presidential election of 1996. Yet these attempts also failed, primarily because of the political uncertainty and economic instability that plagued Yeltsin’s second term in office. The situation seemed to have changed with Putin’s coming to power, as he showed the political will to reform the existing welfare system. Yet again, even though the Russian welfare reform was conducted in a relatively stable political, socioeconomic, and institutional context under Putin, the government failed to achieve the desired reform objectives and faced wide-scale public protests. In particular, the government did not manage to cut its public expenditures and to restructure the existing welfare system so that it would target the poor and correspond with the demands of a liberal market economy. My thesis thus focused on explaining why an identical social benefits reform implemented in two post-Soviet states produced such different policy outcomes.

I was particularly interested in understanding the factors that helped the Kazakhstani government launch and effectively carry out the reform, on the one hand, and, on the other, those that prevented the Russian government from achieving comparable successes. How was Kazakhstan, amid a deep economic recession and in institutional disarray, able to launch a successful restructuring of its social benefits system, when the Russian government under Putin failed to do so, even with the luxuries of economic stability, increasing political centralisation, and strong political leadership on its side?

I began my research by reviewing extant scholarly literature on the topic of social and economic reforms by experts such as Linda Cook, Andrea Chandler, Kathryn Stoner-Weiss, and others. The majority of these scholars linked post-Soviet public policy performance to such factors as the state’s (in)capacity to carry out the necessary reforms and the role of political and institutional factors in either inhibiting or facilitating the desired policy change. Cook, for
example, argued that “in the authoritarian cases, the strength of state-based stakeholders and their place in the executive’s power base were key to welfare state maintenance or dismantling.”\(^1\)

As she suggests, the speed and effectiveness of welfare reforms in Kazakhstan were partially the result of Kazakhstan’s post-Soviet authoritarian system and centralised policy style, which allowed the government to avoid disputes among different ministries and government agencies and to ignore criticism from pensioners’ organisations, trade unions, and similar stakeholders.\(^2\)

Operating in a highly centralised authoritarian system, the Kazakhstani policy actors were insulated from public protests and could thus implement radical welfare reforms without fearing any possible political backlash.

In the Russian case, many scholars suggested that the state’s weak capacity, political instability, and Soviet legacies prevented various Russian governments from successfully carrying out the country’s social benefits, pension, and tax reforms. As several authors have indicated, the greatest challenges to the successful implementation of Russia’s welfare and pension reforms were a combination of various political and institutional factors, as well as the legacy of old Soviet social norms, such as public expectations that the state would continue to provide for their basic needs, including employment, housing, health care, and social protection.

While I agreed with others on the importance of these variables in explaining the problems faced by the Russian authorities, I nevertheless wondered how the Kazakhstani government was able to overcome these challenges more successfully and without major social upheavals. In the end, both countries shared a similar Soviet past and suffered from similar institutional and ideological legacies. These parallels made me wonder whether there existed other important differences

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2. Ibid., 218–9.
between Russian and Kazakhstani cultures, histories, and institutions, differences that could help explain these countries’ divergent outcomes in the reform process. Or was it variations in their policy processes that could explain the disparate results? With these questions in mind, I focused on finding those variables that contributed to a successful change in policy in Kazakhstan and whose absence helped explain the protracted policy record in Russia.

I began by identifying all major variables that somehow influenced the process of public policy in the two countries (see figure 2.3). In terms of context, both countries inherited from the Soviet Union an identical welfare system, one that was both extensive and highly inefficient in targeting the poor for social benefits. The political context in Nursultan Nazarbaev’s Kazakhstan and Yeltsin’s and Putin’s Russia differed more during the Yeltsin presidency, though, as some scholars have suggested, one should exercise some caution when classifying Yeltsin’s Russia as democratic and Nazarbaev’s Kazakhstan during the 1990s as straightforward authoritarian. Economically, both countries were doing badly in the 1990s but showed marked economic growth starting early in 2000. To account for both these differences and similarities, I offered readers an overview of the political and economic developments in Kazakhstan and Russia since the early 1990s.

What I noticed during my research was that the major differences in fact related to the Russian and Kazakhstani population’s varying cultural traditions and social experiences in the period preceding the Soviet Union, as well as to some nuances in political and institutional dynamics during the post-Soviet period, such as the strength of pro-reform coalitions and major political opposition groups and the effectiveness of the political elite in managing this highly complex environment. I concluded that understanding the diverging policy outcomes in Russia and Kazakhstan would be impossible without paying due attention to policy frames and the
strategies used by major policy actors when promoting their solutions to policy problems. Therefore, my research focused primarily on the states’ pre-Soviet social and cultural differences, the dynamics of institutional and political processes in the post-Soviet period, and the strategies various political actors used to promote their ideas and policy alternatives.

In chapter 3 of this thesis I set out to illustrate the differences in the Russian and Kazakh sociocultural backgrounds, and to describe the evolution of the Soviet welfare state. I began the chapter with a discussion of the historical origins of Russian and Kazakh social and cultural traditions, the role of the state in the provision of social care in pre-Soviet Russia, and the importance of clan structure for the provision of some kind of social protection to the Kazakhs. Then I illustrated how the imperatives of industrial growth under Soviet leadership transformed the existing relations between state and society, contributing to the development of a highly hierarchical welfare state, in which most social benefits were granted based on merit rather than social need.

I found that social welfare in pre-revolutionary Russia was never more than a palliative and that all attempts to formalise the provision of welfare assistance failed due to a lack of adequate and systematic state policies. Poverty was not recognised as a social phenomenon affecting all of society, and it was thus treated as the result of parasitism and laziness. Although the development of voluntary charitable organisations in the nineteenth century improved the situation somewhat, it did not affect the overall situation of most of the Russian poor. Importantly, the Russian population did not develop alternative forms of social assistance. As I pointed out, the numerous references to Russian village communes (mirs) as an example of Russian collectivism and spiritualism do not correspond with historical evidence, which suggests that the internal relations within these organisations were highly rationalised and individualistic,
even atomised. Family relations were equally rationalised and determined by socioeconomic realities. Based on this analysis, I concluded that the state had a marginal role in the provision of social protection to the Russian population in pre-Soviet Russia, as its task was limited to facilitating such provision by various voluntary and religious organisations. The situation was complicated by the fact that social and blood connections between people in Russia also appeared weak and underdeveloped.

In the next section, I illustrated the way in which social relations in Central Asia differed from the Russian case. Given Kazakhs’ nomadic way of life and the absence of state institutions, it was the responsibility of the clan and the family to provide its members with some kind of social protection. In fact, the very survival of the Kazakh clans depended on how successfully they managed to protect and assist their clan members. Therefore the clans developed a kind of social safety net, which protected every clan member in exchange for compliance with communal and family norms. In such a system, elders held the most privileged position, enjoying the greatest respect and being provided for by their children. This sense of mutual assistance, rooted deeply in Kazakh norms and traditions, differentiated them from Russians. These connections proved so strong that not even Soviet repression, collectivisation, and industrialisation policies managed to destroy the old traditions, which resulted in the formation of a peculiar Soviet clan-based Kazakh identity.

In the final section of that chapter, I illustrated how the logic of industrialisation and the necessity of increasing economic output contributed to the development of the Soviet welfare state, which, on the one hand, offered Soviet citizens a generous social welfare package and guaranteed full employment, social justice, and equal opportunity for all, while, on the other hand, it provided certain population groups with special privileges and personal pensions. Over
time, the Soviet welfare system started to resemble the system of social care extant in tsarist Russia, in which access to welfare goods and services, as well as the quality of one’s social protection, depended on one’s social status. This once again illustrated the weak humanitarian aspect of the existing welfare system. As a result of these pre-Soviet and Soviet legacies, following the collapse of the Soviet Union, the Russian population had nothing to rely on: the repressive tsarist and Soviet regimes had left Russian society highly atomised and disunited, and rather heavily dependent on the state for the provision of basic social assistance, because the absence of strong social and family connections made it difficult for people to seek alternative sources of social assistance. This situation revealed an important difference in the Russian and Kazakhstani experiences: in the face of collapsing Soviet realities, the Kazakhstani population sought refuge in its clan and family connections. Nazarbaev would later use this path of recourse as a sociocultural frame for his welfare reform.

Chapters 4 to 6 discussed the case of Kazakhstan. The analysis began with an overview of the political developments in the country following the collapse of the Soviet Union, offering readers an explanation for how the pre-existing distribution of power and the social fabric of Kazakhstani society, with its strong clan and family connections, influenced the country’s political developments during the post-Soviet period. Although it officially had a democratic government, Kazakhstan gradually developed into a soft authoritarian regime, one characterised by a liberal market economy, but also highly centralised political institutions, irregularities in elections, and restrictions on political freedoms. To reinforce his political authority and manage the country’s social and political relations, the president used the existing clan structure, co-opting some key clan representatives and appealing to the importance of social and interethnic harmony among all Kazakhs. As a result, by the end of the 1990s, the Nazarbaev had succeeded
in creating a highly centralised political system, with him presiding at the top of the hierarchy and controlling all branches of power, as well as regional authorities and members of all major clans. The verticality of power was further reinforced by the top-down appointment process at the national and regional levels and by a highly centralised fiscal system.

I concluded chapter 4 by suggesting that the dynamics of the political developments in post-Soviet Kazakhstan partially resulted from both pre-Soviet and Soviet legacies, which offered Nazarbaev an opportunity to consolidate all power in his hands and to create a highly centralised, soft authoritarian regime. At the same time, however, Nazarbaev’s style of leadership and his ability to act pre-emptively and persuade the public also played a role. I developed this point in chapter 5, suggesting that Kazakhstan’s successful post-Soviet transition and effective policy-making should be attributed not only to Nazarbaev’s authoritarianism but also to his ability to manage the country’s ethnic and territorial issues and to effectively address and frame Kazakhstan’s economic and social problems. It is noteworthy how effective the president was in building and maintaining his public relations and in developing appropriate framing strategies, which allowed him to justify even the most painful policy decisions, such as the dismantling of the Soviet welfare state. To illustrate the effectiveness of Nazarbaev’s leadership style, I offered readers an overview of the ethnic and economic problems faced by Kazakhstan during this period and the strategy used by the president to address them. I concluded this chapter stating that the harmonisation of interethnic relations in Kazakhstan resulted from Nazarbaev’s cautious policy approach and his successful framing strategies. These, alongside the administrative reform of 1997 and the relocation of the capital to Astana, resulted in the recentralisation of Kazakhstan’s territories and in a generally stable and peaceful coexistence of Kazakhstan’s various ethnic populations. Similarly, the success of Kazakhstan’s
economic reforms also derived from effective political persuasion and from the government’s ability to sell its ideas to the public. The liberalisation of prices, privatisation, and the decision to open the Kazakhstani economy to foreign investors all required incredible managerial and leadership skills from Nazarbaev.

Chapter 6 offered readers an overview of the developments in the Kazakhstani welfare sector since independence and proposed an explanation for its successful transformation. I argued that the welfare reform was aided by several factors. First, the thoroughness and speed of the country’s economic collapse made the government’s explanations for the need to retrench the existing welfare system ring true, while the increasingly centralised political structure eased the reform process and somewhat demobilised the population. The reform also benefited from similar or even more distractive processes occurring throughout the former Soviet Union (and especially in Russia) at the same time. The context mattered: by comparing the Kazakhstani situation with that in other post-Soviet republics, the government hoped to gain the support of the people and to justify its welfare reforms. Simultaneously, and for the same reasons, it also emphasised the importance of advice coming from the International Monetary Fund and the World Bank, which linked Kazakhstan’s socioeconomic stabilisation to further economic and social reforms. The reform also coincided with other economic and welfare initiatives, further helping justify the reform process and sending the message of near revolutionary change on various fronts.

Yet, as I argued, separately none of these factors could have determined the reform’s outcome. Rather, the success of the reform depended on the actions of the authorities and the media, who framed the problem in such a way that the population not only became convinced of the reform’s necessity but was also ready to accept accompanying hardships, thus allowing the
government to move forward. The Kazakhstani government had a clear and simple message: in this difficult economic situation and for the better future of our children, remember that you are a Kazakh, who used to live freely in the steppe and relied for survival on your close family ties. With this strategy the government hit the right button, enormously facilitating the reform process. Chapter 6 aimed to emphasise the important role of policy actors and suggested that the effectiveness of policy-making depends on their ability to navigate within the given social, economic, and institutional context and to persuade the public of the soundness and appropriate timing of the proposed policy initiative.

Chapters 7 and 8 focused on the Russian case discussing, the causes of Yeltsin’s inability to carry out the proposed welfare initiatives as planned and examining the reasons behind the protracted social benefits reform under Putin’s leadership. Yeltsin’s failure to reform the system thereby emerged as much easier to explain and understand than the rather obscure and confusing causes of the failed reform under Putin.

As I illustrated in chapter 7, the early period of Russia’s transition from communism was marked by far-reaching political liberalisation, and institutional and ideological changes, which transformed Russia into an asymmetrical federal state with a liberal market economy and decentralised intergovernmental fiscal relations. These changes resulted in increasing political instability and deepening economic difficulties, both of which weakened the government’s capacity to reform. Responding to parliament’s criticism of the government’s radical policy initiatives, the president and the team around Gaidar had no other choice but to slow the reform process.

However, as I argued, what mattered here was not that the liberal economic reforms in Russia were accompanied by greater political liberalisation, but rather that the president and his
government failed to effectively address public concerns associated with the reforms, thus not framing the problem appropriately and building a broad-based coalition in support of the proposed changes. The welfare reform’s failure is thus partially rooted in Yeltsin’s leadership qualities and in his inability to establish effective lines of communication. In that sense, the performance of the Russian president and his government fell behind that of the Kazakhstani authorities, who operated in an equally unstable political and social context.

Chapter 8 discussed the latest attempt to reform the Russian social benefits system. Implemented during the Putin presidency, the reform was conceived in a relatively stable and predictable context. Putin’s institutional and political reform initiatives resulted in the creation of a highly centralised political system, which somewhat resembled the political realities in Nazarbaev’s Kazakhstan. Economically, the Russian Federation at this point was doing much better than Yeltsin’s Russia and Kazakhstan in the 1990s. Moreover, as various public opinion polls suggested, the public was generally aware of the problems with the extant welfare system and thus understood the need for some fine-tuning to better address the needs of the poor. In light of this overall stabilisation of Russia’s situation, the government believed the time was right for a radical transformation of the outdated welfare system. Yet hasty and ineffective information and framing campaigns, as well as the government’s failure to consult the regions and the public on the proposed policy changes, undermined the reform process: a poorly formulated reform program led to numerous problems with policy implementation and to the reform’s subsequent stagnation.

In conclusion, Kazakhstan’s social benefits reform was conducted in the context of institutional change, economic crisis, a budget deficit, and an unstable social environment. Moreover, the reform was conducted simultaneously with other policy initiatives such as a
pension reform, an education reform, a judicial reform, a housing reform, an institutional reform, and the extremely expensive move of the capital from Almaty to Astana. From the perspective of the Kazakh authorities, this context offered the government a long-awaited chance to relieve the state of its costly social welfare system. They reasoned that it was much easier to sustain such a delicate reform under difficult economic conditions, because these would make it obvious to the public that the state’s financial resources were limited. The government thus skillfully framed the social benefits reform as a measure required for the newly established state to survive and thrive under the conditions of a free market economy. This tactic legitimised the reform in the eyes of the citizenry and gave the government a free hand in pursuing it.

The reform was also aided by the nature of Kazakhstan’s institutional structure, its soft authoritarian political system and the weak political opposition, which gave Nazarbaev full control over the country’s subnational units and left him free of the need to compromise. The implementation of social reforms thus, in fact, did not threaten him with a political backlash.

Nonetheless, one cannot but highlight the mastery with which the Kazakhstani authorities framed the social welfare debate so that it would fit Kazakhstan’s developmental model, on the one hand, and simultaneously find acceptance by the people, on the other. In this, the government relied on the Kazakh traditions of extensive clan and family structures, as well as on the transitional experiences of the so-called Asian Tigers countries, especially Singapore, which have successfully integrated their social welfare policy with broader political and developmental objectives. Specifically, the Kazakhstani government stressed that it placed greater importance on economic objectives than on issues of social protection. Welfare retrenchment was justified by the state’s financial difficulties and by the foremost importance for the country of radical economic reforms and political stability. These, if accomplished, would bring prosperity and a
better quality of life to all Kazakhstani citizens. Yet to allow this to happen, people needed to stop relying on the state for social protection and to seek help from their families. This strategy of appealing to Central Asian traditions instead of to Soviet or liberal “Western” values served two goals: to facilitate further socioeconomic restructuring and to protect the government from possible social instability. Given Kazakhstan’s social structure, with its large rural sector and strong familial affiliations, ethnic Kazakhs received the message well. The effectiveness of social welfare reform in Kazakhstan thus resulted from the bold actions of the Kazakhstani authorities, meticulously calculated and vigorously pursued.

In the Russian case, the delay in launching the social welfare reform originated with the political instability that accompanied Yeltsin’s entire rule, as well as with the lack of political will on the part of major political actors to implement the reform. When the reform was finally launched, institutional deficiencies, a poorly designed policy program, and a failed communication strategy for dealings with the public and with regional authorities led to the process’s subsequent stagnation.

This dissertation’s central message thus seems clear. Public policy-making is a highly contingent process that depends greatly on the abilities of policy actors to effectively navigate the existing environment and to construct the “need to reform” with the help of policy frames and persuasion strategies. This is not to say that institutions and politics do not matter. Rather, my findings simply emphasise the importance of agency and fall in line with John Kingdon’s claim that although “individuals do not control events or structures,” they are able to “bend [structures] to their purposes to some degree.”3 I argue that this holds especially true in transitional contexts, in which institutional structures are not yet fully consolidated.

At the same time, this thesis stresses the importance of ideas and of the construction of effective policy frames, because, in the words of Henry Robert Cox, “[i]n a political environment the advocates of reform need to employ strategies to overcome the skepticism of others and persuade them of the importance of reform. In other words, they must create a frame that changes the collective understanding of the welfare state, because doing so ‘shapes the path’ necessary to enact reform.”\textsuperscript{4} According to Deborah Stone, public policy-making is essentially about “the struggle over ideas.”\textsuperscript{5} As she states:

Ideas are a medium of exchange and a mode of influence even more powerful than money, votes and guns. Shared meanings motivate people to action and meld individual striving into collective action. Ideas are at the center of all political conflict. Policy making, in turn, is a constant struggle over the criteria for classification, the boundaries of categories, and the definition of ideals that guide the way people behave.\textsuperscript{6}

Yet the success of a policy idea depends a lot on how effective the packaging is, or, in other words, on whether a particular policy frame reasonably resonates with people’s historical experiences and sociocultural norms and traditions. I have thus illustrated in this thesis that the success of a particular policy initiative depends on how effective the political actors are in drawing on a society’s ideological and cultural repertoire and developing effective cultural and ideological frames.\textsuperscript{7}


\textsuperscript{5} Stone, Policy Paradox: The Art of Political Decision Making, 11.

\textsuperscript{6} Ibid.

From the beginning the Kazakhstani regime was doubtlessly more authoritarian than its Russian counterpart. The Nazarbaev regime rather quickly achieved maximum political centralisation, which arguably contributed to an accelerated process of economic market reforms. Because of the few political and institutional constraints, Nazarbaev enjoyed more freedom of action than did Yeltsin: he did not have to pay as much attention to public opinion as did his counterpart in Moscow. And that meant more consistent reform. The process is now bearing fruit: Kazakhstan has overtaken Russia in the rate of its economic and social development.

With time, the Russian political elite has equally come to believe that greater political and institutional centralisation equal successful economic and welfare reforms. When Putin took power in 2000, Russia quickly started to resemble the Kazakhstani model, so much so that Nazarbaev noted in 2004, “We [Russia and Kazakhstan] are on approximately the same level with respect to reforms in both the economy and politics. . . . I am not afraid to say that Kazakhstan [and Russia] have a managed development of democracy.” Despite this resemblance, Russia’s overall reform record is less impressive, suggesting the existence of other variables that prevent the successful implementation of the reforms. As I have argued, these variables are related to policy actors’ skills at recognising prevalent problems and in turn developing appropriate policy solutions, framing them to emphasise those aspects of the historical, social, and political realities that make them palatable to the citizenry.

In addition, my analysis of the Russian and Kazakhstani welfare reforms confirms that multiple ideas, frames, and policy actors are at the core of any policy process, as no single


9. Ibid., 242.

10. Ibid.
agency can manage the policy process alone. In most cases, policies require the concerted actions of multiple agencies and groups. The importance of agency—in our case, administrative and political actors—is further emphasised by the fact that no single institution is usually in charge of the entire policy process, especially in the case of domestic social welfare programs. Instead, responsibility for policy formulation and implementation is dispersed across various institutions, and it is individual actors who link together not only those institutions but also connect groups, conditions, and events with the help of various strategies of persuasion and framing. If major actors display a lack of commitment to the reform or do not have good managerial skills, the outcome of the policy initiative will be uncertain even in the most favorable political and socioeconomic environment. In other words, it is the ability of key policy actors to push the reform initiative through at the right moment, notwithstanding institutional obstacles or political and societal opposition, that plays the decisive role in determining final policy outcomes.

9.3. Limitations and Future Directions for Research

All research projects suffer from particular weaknesses, and this one is no exception. Yet these limitations help flesh out avenues of future research for a promising research agenda.

The analysis of policy framing in soft authoritarian regimes is an important research area that could provide some fascinating insights into how “soft” autocrats run their countries and what methods they use to stay in power, manage their state affairs, and avoid public dissatisfaction.¹¹ What I find interesting is that soft authoritarian regimes try to avoid the use of

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“naked coercion” for fear of international condemnation and subsequent isolation. International image and popular support at home matter a lot to soft authoritarian leaders, because they use these factors to legitimise their stay in power.\textsuperscript{12} Therefore, policy-making in soft authoritarian context is more than simply a top-down process, as it is the case in more hard-core authoritarian regimes. Instead, it is loaded with important ideational and political consequences related to such issues as regime legitimacy and social stability. If a soft authoritarian regime suffers continuous policy failures in a variety of policy arenas, even under highly favorable and stable conditions, it raises the question of how strong and sustainable such regime is in the long run. As Rico Isaacs notes, what differentiates Nazarbaev from other softly authoritarian leaders is not only his charisma and ability to persuade and effectively communicate with the public, but also his long-term record of delivering the promised results: “Nazarbayev’s leadership is [. . .] distinct from other post-Soviet leaders [. . .] due to the belief that he has been successful in meeting the demands of nation-building. This discourse of Nazarbayev’s success in nation-building, cultivated by a number of loyal elite officials and his political party Nur Otan [. . .], is accepted by many citizens and consequently underpins the legitimation of his leadership.”\textsuperscript{13} And as the recent Russian experience with mass demonstrations across the country following the 2011 parliamentary election illustrated, public dissatisfaction with government performance and poor


Public policy records are important issues, ones that could further undermine the legitimacy and sustainability of Putin’s regime in the near future.14

Studying the processes of public policy in soft authoritarian regimes is therefore not only interesting and useful from the perspective of comparative public policy research but also makes for an important research direction in terms of analysing the political sustainability of such regimes in the long run. A logical continuation of the research presented here is thus a further analysis of the Russian and Kazakhstani policy records in other areas, such as health care, education, and administrative reforms. This would allow scholars to draw more persuasive conclusions about the factors that facilitate effective policy-making and the long-term sustainability of soft authoritarian regimes, or, conversely, that cause their subsequent collapse.

Exploring the role of ideas and policy frames in policy-making in soft authoritarian regimes doubtlessly makes for a difficult task that requires from a researcher, in addition to detailed knowledge of the subject and the political realities, the skills and time to access the necessary information. In my comparative analysis of the social benefits reforms, I did not have sufficient resources to better examine the impact of various framing tools, such as personal communication or the media, on their addressees. Further research is thus needed to draw more conclusive insights about the effectiveness of framing in policy making and the relative

importance of various framing tools and techniques in steering the reform in the desired direction.

My research has also illustrated that following the collapse of the Soviet Union, the old Soviet welfare state came under tremendous pressure, which forced many post-Soviet governments to greatly liberalise their welfare systems. Like many Western European and East Asian countries, the post-Soviet regimes faced internal and external challenges, including demographic pressures, the liberalisation of markets characterised by the free movement of capital and labor, the formation of new trading agreements, and rapid innovations in technology. In light of these global challenges, some scholars have argued that globalisation, demographic pressures, and fiscal problems will soon reverse the model of comprehensive welfare provision, with many governments trying to further downsize and restructure their welfare obligations, shifting responsibility for them to various private and non-state actors.15

As the Kazakhstani example has illustrated, Nazarbaev succeeded in reframing the problem of social provision as a family responsibility, pushing some social responsibilities into the hands of families and business actors.16 Similar trends can be found in many countries, including some Eurasian and East Asian states, where governments have shifted social responsibilities onto families, private actors, and various non-state actors. In Uzbekistan, for example, the government of Islam Karimov has relayed the task of providing social assistance


programs to local community groups.\textsuperscript{17} And in Kyrgyzstan, the government allows civil society and non-governmental organisations to participate in welfare provision.\textsuperscript{18} What such arrangements might mean for the survival of soft authoritarian regimes makes for a complex question. In the end, granting non-state actors some—even if symbolic—powers is a trend that could potentially destabilise such regimes, as it will likely result in the formation of alternative sources of power and authority. An analysis of the roles of state and non-state actors in the provision of welfare services, as well as of what these new welfare arrangements mean for socioeconomic and political prospects in the region, would undoubtedly be a fruitful path to take.

\textbf{9.4. Conclusion}

This thesis has offered an attempt to understand the causes for the divergent reform outcomes in two post-Soviet countries that share many historical, political, institutional, and economic realities. In attempting to solve this puzzle, I tried to go beyond merely political and institutional explanations and to look at the process of policy framing and the construction of an ideational context, in which the majority of political and societal actors accepts a policy proposal. I illustrated that soft authoritarian regimes are as vulnerable to slow and protracted policy-making as their democratic counterparts, thereby refuting the autocrats’ claims that greater political and institutional centralisation equals improved policy-making. Rather, I suggested that precisely in


\textsuperscript{18} Johnson, “Post-Soviet Welfare Provision: State or Society?”
soft authoritarian regimes, political actors have to pay greater attention to establishing proper
lines of communication with the public, developing an inclusive dialogue with peripheral policy
actors and spending considerable time on developing persuasive policy frames.
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ostavshikhia bez popecheniia roditel’i” [On Immediate Measures of Social Protection of

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det’mi i drugim kategoriam grazhdan” [On the Size of Social Assistance and Monetary
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rabotnikov obrazovaniia” [On Additional Measures of Social Protection and Work Benefits

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Assistance and Monetary Compensations to Families with Children and Other Categories].

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Order Nr. 106. “O merakh po realizatsii ukaza prezidenta respubliki Kazakhstan ot 10 aprelia 1997 goda No. 3446 ‘O pervoocherednykh merakh po obespecheniiu svoevremennosti


Resolution No. 203. “O dopolnitel’nykh merakh po stimulirovaniiu truda rabotnikov zdravookhraneniia, ne imeiuchshikh spetisal’nykh zvanii riadovogo i nachal’stvuiuchshego sostava, uchrezhdeniia i organizatsii sistemy MVD Rossii” [On Additional Measures of


Resolution Nr. 437. “O l’gotakh (denezhnykh kompensatsiiakh) sotsial’no zashchishchaemykh kategoriam naseleniia (s izmeneniiami, vnesennymi postanovleniem Kabineta Ministrov RK ot 03.08.94 g. # 873)” [On Social Benefits (Monetary Compensations) for Welfare Recipients (with Changes Introduced Following the Passage of the Resolution of the Government of Kazakhstan of 3 August 1994 Nr. 873)]. In *Zakonodatel’stvo: pensii i posobiia* [The Legislation: Pensions and Social Assistance]. Almaty: Iurist 2008, CD-ROM.


Table 4.1. Kazakhstani Presidential Elections, 1991-2011

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<td>Votes</td>
<td>%</td>
<td>Party</td>
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Source: Assembly of People of Kazakhstan.
### Table 4.2. Kazakhstani Parliamentary Elections, 1990-2011

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<td>Federation of Trade Unions of Kazakhstan</td>
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<td>People's Congress of Kazakhstan</td>
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<td>Union of Kazakhstan's Youth</td>
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<tr>
<td>Fatherland (Nur Otan)</td>
<td>60.6</td>
<td>42</td>
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<td>1</td>
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<tr>
<td>All Together (Asar)</td>
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Total

Kazakhstani Parliamentary Election 2004
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**Kazakhstani Parliamentary Election 2007**

Source: The Central Election Commission of the Republic of Kazakhstan at http://election.kz/portal/page?_pageid=73,1&_dad=portal&_schema=PORTAL.
Table 7.8. Overview of parliamentary election results in Russia between 1993 and 2007

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<td>Total Votes (% of electorate)</td>
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<td>22.3/12.6</td>
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<td>12.61%</td>
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<td>37.57%</td>
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<tr>
<td>LDPR</td>
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<td>11.2/5.4</td>
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<td>6.0/1.5</td>
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<td>11.45%</td>
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<td>50/1/11.3%</td>
<td></td>
<td>17/0/3.8%</td>
<td></td>
<td>36/0/8.0%</td>
<td></td>
<td>40/8.9%</td>
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</table>

¹ The seats in the 2007 parliamentary election were assigned exclusively from party-list proportional representation under a law adopted in 2005 on the initiative of President Vladimir Putin. The threshold was raised from 5 to 7%. Also, the “against all” option was not on the ballot, and there was no provision for the minimum number of voters that must be achieved for the elections to be considered valid. See “Election Profile: Russia,” Election Guide, http://www.electionguide.org/election.php?ID=1163.
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<th>% in 1995</th>
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<th>% in 1999</th>
<th>Seats</th>
<th>% in 2003</th>
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<th>% in 2011</th>
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<td>--/--/--</td>
<td>9.02%</td>
<td>29/8/8.2%</td>
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<td>40/30/15.6</td>
<td>3.9/2.6</td>
<td>0/9/20%</td>
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<td>2.0/0.5</td>
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<tr>
<td>Yabloko</td>
<td>7.3/3.2</td>
<td>20/3/5.1%</td>
<td>6.9/3.2</td>
<td>31/14/10.0%</td>
<td>5.9/5.0</td>
<td>16/4/4.4%</td>
<td>4.30%</td>
<td>0/4/0.9%</td>
<td>1.59%</td>
<td>0/0</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Agrarian Party of Russia</td>
<td>7.4/5.0</td>
<td>21/12/7.3%</td>
<td>3.8/5.9</td>
<td>0/20/4.4%</td>
<td>--/--</td>
<td>--/--/--</td>
<td>3.64%</td>
<td>0/2/0.4%</td>
<td>2.30%</td>
<td>0/0</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>NDR (Our Home is Russia)</td>
<td>--/--</td>
<td>--/--/--</td>
<td>10.1/5.5</td>
<td>45/10/12/2%</td>
<td>1.2/2.6</td>
<td>0/7/1.6%</td>
<td>--</td>
<td>--/--/--</td>
<td>--</td>
<td>--/--</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Fatherland-All Russia</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>13.3/8.6</td>
<td>37/31/15.1%</td>
<td>--</td>
<td>--/--/--</td>
<td>--</td>
<td>--/--</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Union of Rightist Forces (SPS)</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>8.5/3.0</td>
<td>24/5/6.4%</td>
<td>3.97%</td>
<td>0/3/0.7%</td>
<td>0.96%</td>
<td>0/0</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Just Russia</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>7.74%</td>
<td>38/8.4%</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Patriots of Russia</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>0.89%</td>
<td>0/0</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Party of Social Justice</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>0.22%</td>
<td>0/0</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Democratic Party of Russia</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>--/--</td>
<td>--/--/--</td>
<td>0.13%</td>
<td>0/0</td>
<td>--</td>
<td>--/--</td>
</tr>
<tr>
<td>Independents</td>
<td>--/45.2</td>
<td>--/146/32.5%</td>
<td>--/31.2</td>
<td>--/77/17.1%</td>
<td>--/41.7</td>
<td>--/114/25.3%</td>
<td>--</td>
<td>--/68/15.1%</td>
<td>--</td>
<td>--/--/--</td>
<td>--</td>
<td>--/--/--</td>
</tr>
<tr>
<td>Against All</td>
<td>3.9/14.8</td>
<td>--/--</td>
<td>2.8/9.6</td>
<td>--/--</td>
<td>3.3/11.6</td>
<td>--/--</td>
<td>--</td>
<td>--</td>
<td>--/--</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100/100</td>
<td>225/224*100%</td>
<td>100/100</td>
<td>225/225/100%</td>
<td>100/100</td>
<td>225/225/100%</td>
<td>100</td>
<td>225/225/100%</td>
<td>100</td>
<td>450/100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* One seat left vacant in Chechnya due to political situation.