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STUDIES IN CONTEMPORARY RUSSIA

# Authoritarian Modernization in Russia

Ideas, institutions, and policies

Edited by  
Vladimir Gel'man



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“While many authoritarian governments attempt ambitious economic modernization projects, fewer – indeed, far fewer than we realize – actually succeed. This timely book deftly explores the fate of the authoritarian modernization project in Russia, from its promising historical roots through its post-Soviet failures. It stands out for its comprehensive examination of efforts to modernize Russia in realms as diverse as education, high technology, labor, and pension policies. While leaving a glimmer of hope for future progress, the authors convincingly demonstrate that significant structural, political, and institutional barriers stand in the way of Russia’s authoritarian modernization project. An important book on a crucial topic for Russia and the international community, *Authoritarian Modernization in Russia* deserves to be read widely by policy makers and scholars around the world.”

Juliet Johnson, Professor of Political Science, McGill University

“*Authoritarian Modernization in Russia* is a stimulating analysis of post-Soviet economic, political and policy-making dynamics. An excellent team of Finnish and Russian scholars highlights trajectories of top-down reforms that prioritize economic advancements over political liberties. The book offers a thorough examination of challenges and constraints that affected the project of authoritarian modernization in Russia and adds sophistication to the debates on how Russia really works and whether it can modernize.”

Alena Ledeneva, Professor of Politics and Society, School of Slavonic and East European Studies, University College, London

# Authoritarian Modernization in Russia

Post-Communist Russia is an instance of the phenomenon of authoritarian modernization project, which is perceived as a set of policies intended to achieve a high level of economic development, while political freedoms remain beyond the current modernization agenda or are postponed to a distant future. Why did Russia (unlike many countries of post-Communist Europe) pursue authoritarian modernization after the Soviet collapse? What is the ideational agenda behind this project and why does it dominate Russia's post-Communist political landscape? What are the mechanisms of political governance, which maintain this project and how have they adopted and absorbed various democratic institutions and practices? Why has this project brought such diverse results in various policy arenas, and why have the consequences of certain policies become so controversial? Why, despite so many controversies, shortcomings and flaws, has this project remained attractive in the eyes of a large proportion of the Russian elite and ordinary citizens? This volume intended to place some of these questions on the research agenda and propose several answers, encouraging further discussions about the logic and mechanisms of the authoritarian modernization project in post-Communist Russia and its effects on Russia's politics, economy, and society.

**Vladimir Gel'man** is Professor at the Department of Political Science and Sociology, European University at St. Petersburg, and Finland Distinguished Professor at the Aleksanteri Institute, University of Helsinki.

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## Ideas, institutions, and policies

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## 10 Choosing between bureaucracy and the reformers

### The Russian pension reform of 2001 as a compromise squared

*Anna A. Dekalchuk*

Is compromise always a good thing for policymaking? Conventional wisdom suggests that it is: it allows for the moderation of radically opposing positions and attempts to reconcile conflicting preferences in a way that best satisfies all parties. But faced with such a question when it comes to socio-economic reforms and policy changes in certain areas, it is quite natural to find oneself puzzled and without a ready-made answer.

It is hardly surprising that large-scale policy reforms which alter the ballgame and redistribute resources among target groups will often run into heavy opposition from those who are likely to lose from the proposed policy changes (Geddes, 1994: 2–4; Hellman, 1998: 203). In order to get the disadvantaged party on board and to ensure that reforms happen despite opposition, a democratic government almost always has to make sacrifices to the potential losers. This often includes watering down initial reform proposals. Therefore, these halfway reforms, which essentially end up as policy compromises among the government, interest groups and voters, can bear serious deficiencies. At best, the policy outcome will not meet the goals that the reformers had initially expected to achieve. At worst, the new policy will not last for very long and eventually break down, making everyone in the policy subsystem worse off.

Authoritarian modernization seems to be a cure for policy reformers. Possessing a high degree of both despotic and autonomous power, and devoid of the need to take into account either the electorate or pressure groups (Mann, 1984; Skocpol, 1985), the autocrat has every chance of achieving the policy outcomes which she considers best. The moment the autocrat conceives of a policy reform, it just takes place, for there is no one to resist it. Yet, this promising reasoning finds little evidence in reality, for at least three reasons.

First, how often do we see benevolent dictators who, having no need to gain electoral support to stay in office, carry out policy reforms in their people's best interest? It is now widely accepted that most autocrats are simply rent-seekers and their only goal is to make themselves better off. To use Przeworski's language, they aim only at "private appropriation of the fiscal residuum" (Przeworski & Limongi, 1993: 53). To put it more broadly, powerful self-interested politicians almost always make policy decisions which reflect their own preferences, be it rent-seeking or maximization of career chances (Geddes, 1994: 7–13).

At the same time, it is not only the autocrat who benefits from the regime's institutional configuration. Despite the fact that the autocrat needs no support from citizens, there is still a need to satisfy her real electorate and especially those who make up the winning coalition that helps the autocrat to remain in power. To secure the safest possible position, the autocrat has to distribute private goods among her winning coalition and some real electorate members (Bueno de Mesquita, Smith, Siverson & Morrow, 2004). Therefore, policy reforms which could potentially hinder the trouble-free gaining of private goods by the autocrat's inner circle will be effectively blocked by the would-be losers from the electorate. To proceed with such reforms, the autocrat has no choice but to make concessions.

Finally, once the decision to introduce a new policy reform has been made, the autocrat is faced with implementing the new policy. Borrowing from Geddes' (1999) classification of authoritarian regimes, Gel'man and Starodubtsev (2016) distinguish between the three basic implementation tools at the disposal of the autocrat. In order to carry out reforms, the autocrat has the option to rely on bureaucracy, the military apparatus or the dominant party, for these three provide her with state capacity, or infrastructural power (Mann, 1984; Skocpol, 1985). Whatever the regime type, either of the three would possess some leverage with the autocrat, who depends upon actors involved in the implementation of policy reforms. The autocrat, therefore, has to take into account the policy preferences articulated by the state apparatus before engaging in the policy reform and during all stages of the policymaking process.

Hence, compromise is a typical outcome of the reform process in both democracies and autocracies. The major challenge here is that by virtue of their compound and technical nature, some policy changes (such as pension reforms, which I examine in this chapter) have to be adopted in a manner best described as "take it or leave it". These policy reforms cannot afford to take compromises because compromise (as well as mistakes made by decision makers at the drafting stage) often results in unsustainable policies – it is simply a matter of time until the adopted policy breaks down. Does this mean, then, that such policy changes are doomed to be halfway reforms producing suboptimal outcomes whatever the regime?

In fact, the answer seems to be negative. Both stable democracies and hegemonic non-electoral autocracies have proven successful in carrying out complex structural reforms, while policy failure has been indicative of those regimes which lie somewhere in-between, such as competitive and electoral autocracies (Levitsky & Way, 2002; Schedler, 2006). Absorbing the worst of both worlds, the new authoritarianisms seem to be prone to double-sized compromises due to both democratic traits of these regimes, such as election-driven political business cycles (Nordhaus, 1975), and their authoritarian features (for more details, see Gel'man & Starodubtsev, 2016). Whereas some post-Communist democracies and some post-Soviet hegemonic autocratic regimes – with Kazakhstan being an oft-cited success story – managed well while carrying out pension reforms, Russia, Ukraine (under Kuchma) and some other post-Communist states failed to construct sustainable pension systems (OECD, 2001; Cook, 2007). By analyzing the adoption of the Russian pension reform of 2001, I aim to explain why it produced a suboptimal policy outcome.

I argue that the combination of three sets of factors led to this outcome. Indeed, the political conjuncture and the need for the newly elected president Vladimir Putin to sustain popular support and bolster loyalties, combined with the state's institutional features<sup>1</sup> and policy traits,<sup>2</sup> made the Russian political elite in the early 2000s focus more on choosing sides, finding loyal supporters and staging compromises, than on the actual content of policy reforms. The decision to favour state bureaucracy, which was made at the early stages of Putin's regime, is also illustrative of how the subsequent process of authoritarian modernization in Russia has been compromised. Indeed, this decision favoured what Herbert Simon calls the *satisficing* mode of decision making (Simon, 1947; March & Simon, 1958) as the default approach to policymaking under Vladimir Putin, which is in fact incompatible with full-fledged reforms.

### **Where it all began: “young reformers” and the first policy window**

The beginning of the first Putin presidential term can be labeled “the reformist years” of the Russian state. In his presidential addresses to the Federal Assembly in 2000–2003, Putin persistently articulated the urgent and pressing nature of structural reforms to adjust social policies to new economic conditions (Poslanie Prezidenta, 2000, 2001, 2002, 2003). The desired outcome of those policy reforms was also clearly defined:

The sixth goal is realistic social policies. . . . The politics of the universalistic state paternalism is neither economically possible nor politically rational. To use financial resources effectively and efficiently and to excite and stimulate growth, to set the human potential free and to make people responsible for themselves and for the well-being of their families dictate the need to abandon such an approach. Social policies are not only about helping the needy, but also about investing in a person's future, in his health, as well as his professional, cultural and personal growth.

(Poslanie Prezidenta, 2000)

This market-oriented view of structural reforms proclaimed by Putin was proposed to the president as a solution to the country's long-standing problems by a group of liberal-minded experts who had spent several months at the turn of the century elaborating a comprehensive policy reform program for the future Russian president. This program had been prepared under the auspices of the newly established Centre for Strategic Research (*Tsentr strategicheskikh razrabotok* [CSR]) since December 1999. The group of liberal economists was headed by German Gref. As soon as the document was ready in late May 2000, it was presented as a ten-year plan for socio-economic development. Subsequently, Gref was appointed the head of the Ministry of Economic Development and Trade (*Ministerstvo ekonomicheskogo razvitiya i torgovli*, or MERT) in order to implement it. The plan itself, known as the Gref Strategy or the Strategy-2010, was soon approved by

the government as comprising “the main directions of the socio-economic policy of the Russian government for the long-term perspective” (Dmitriev & Yurtaev, 2010).

Yet, this was not the first attempt to conduct a comprehensive set of social reforms in Russia. Neither the measures proposed in Strategy-2010 nor their authors were new to the policy subsystems that they intended to alter. The first policy window for pushing these reforms through opened in 1997 when the group of “young reformers” entered the Chernomyrdin government (Shleifer & Treisman, 2000).

In his annual address to the Federal Assembly in March 1997, President Boris Yeltsin commissioned the government to work out new programs and concepts of reform in a number of policy areas<sup>3</sup> (Poslanie Prezidenta, 1997), despite the fact that the government had just approved another program of social reforms for the period of 1996–2000. In his memoirs, Yeltsin recalled “the inability of the government to work without presidential bidding” in 1996 and the fact that “the majority of promises made to the citizens . . . in the social sphere, had not been fulfilled”, stating that these were the reasons that prompted him to call for a policy change and, to that end, to reshuffle the cabinet (Yel'tsin, 2008: 77).

Anatoly Chubais, who was the head of the presidential administration at that time, had no small share in editing the final version of the 1997 presidential address (Petrov, 1997a). While editing this document, Chubais was in fact drafting the agenda for his own vice-premiership. At that time, both Chubais and Prime Minister Chernomyrdin already knew about Yeltsin's decision to reshuffle the government and place Chubais and some other young politicians in key ministerial positions (Petrov, 1997b; Yel'tsin, 2008: 80). Soon, Boris Nemtsov and Oleg Sisyuev entered the government along with Chubais.

Pension reform was heavily emphasized in the 1997 presidential address. For the first time in Russian post-Soviet history, the executive openly talked about the need to introduce an obligatory accumulative element into the pension system in order to supplement the distributive mechanism. Moreover, the document also stated a clear deadline for the pension reform program to be proposed. The draft was due on 1 November 1997 at the latest. As a matter of fact, it was Chubais himself who added the specific date to the later version of the address, whereas initially nothing had been said about deadlines (Petrov, 1997a). This precision and urgency should not come as a surprise. The need for reform became particularly acute during 1996, when deficits in the state treasury urged the government to ask for international assistance. Already in June 1997, the Russian government was granted the World Bank's Social Protection Adjustment Loan of 800 million USD and an Implementation Loan of 28.6 million USD. As always, these loans were conditional and depended upon Russia's progress on the path to policy reforms, and pension reform was on the World Bank's to-do list (Babaeva, 1997b; Ul'yanova, 1997).

But even without this conditionality (see, e.g., Chandler, 2001; Williamson, Howling & Maroto, 2006), the need for reform was clear: the state pension fund (*Pensionnyi fond Rossii* [PFR]) was unable to withstand its overload and ran huge

deficits by the mid-1990s. By the end of 1996, the PFR's debt to Russian pensioners amounted to 12 percent of its budget. Pensions went unpaid for many months, with no transfers from the federal budget available due to its own heavy deficit (Dmitriev & Travin, 1998: 51–52; Sinyavskaya, 2011: 162–166).

In April 1997, Chubais invited the energetic young economist Mikhail Dmitriev to join the Ministry of Labor and Social Protection. Chubais needed Dmitriev to prepare and launch the reform from within the ministry, which landed him in the position of first deputy minister. Interestingly, with Dmitriev's appointment there actually appeared two first deputy ministers of labor simultaneously: both were in charge of the pension reform (the other one – the “incumbent” – was Yuri Lublin), and both developed their own proposals separately (Degtyarev, 2001). This approach, of placing an outsider within the ministry – or using “cuckoo tactics”<sup>4</sup> – seemed to be the default reform tactic of the “young reformers”, who had limited chances of en masse replacement of entrenched ministerial bureaucrats and a limited pool of capable reform-minded policymakers (Shleifer & Treisman, 2000).<sup>5</sup> This tactic was intended to sideline what one of our interviewees calls the “old bureaucracy”, because they were “too conservative”, had a “Soviet *Sobes*<sup>6</sup> background”, and would rather stick to a “parametric reform” – that is, a reform that simply adjusts some parameters of the existing system (i.e., the retirement age), rather than instigate structural changes aimed at a thorough overhaul of the entire system:

\*  
 “When the team of Chubais, Nemtsov and Sysuev joined the government . . . they were seeking for sources to bolster the economy, for investments, for “long-term” money. Reviewing foreign best practices (one thing that Lublin and Voronin were not able to appreciate, simply because they had a very different background, different perspective), Chubais focused his attention on the fact that, in other countries, pension systems were the source of investments. . . . And the Russian economy desperately needed long-term money, and here was a man who was devoid of the kind of past issues which could have narrowed his perspective. And this is appropriate because some reforms need to be conceived and launched “from the outside”. In this sense, inviting this man “from the outside” who specialized in finances, was absolutely justified. . . . It was certainly logical that Dmitriev became the first deputy minister of labor with enough power to propose a transition to the accumulative system.<sup>7</sup>

It is true that before the cabinet reshuffling in 1997 Lublin, his subordinate Yuri Voronin, and some other high-level ministerial bureaucrats were in charge of the overall management of the Russian pension system. Moreover, the sudden appointment of the newcomers to the Ministry of Labor occurred when the “old bureaucracy” was already halfway to finalizing the implementation of its own pension reform concept, which had been adopted by the government in 1995. Moderate, or perhaps even modest, this concept represented precisely what the interviewee called a “parametric reform”. It was based on the previously existing

distributive model and said nothing about obliging people to save and accumulate some part of their future pensions. Yet, the concept did imply the possibility of voluntarily using private pension funds to invest and accumulate some additional revenues (Cook, 2000: 367–371; Dmitriev & Travin, 1998: 59–69). Thus, the “old bureaucracy” both had the vision and was in a good position to implement its proposal by the time Dmitriev arrived at the ministry in April 1997. However, Dmitriev also had his own vision: he first presented his concept as early as April 1996, when he had been involved in the preparations for the World Bank’s loans at the Moscow Carnegie Centre. This concept called for the introduction of accumulatively funded pensions in Russia. If adopted, this would mean that some part of the pension insurance contributions would be invested in the stock markets to generate additional revenues to pay pensions in the future (Degtyarev, 2001; for more details, see Dmitriev & Travin, 1998: 162–169). It is not surprising that Dmitriev also pursued this idea while at the Ministry of Labor.

The *mise-en-scène* which played out at the ministry upon Dmitriev’s arrival clearly reflected an arising conflict between the two major advocacy coalitions (Sabatier & Jenkins-Smith, 1993) within the ministry – one, headed by Lublin, had been formed around preservation of the status quo, and the other, led by Dmitriev and backed by the “young reformers”, insisted on major policy changes. It was also indicative of the balance of power in the government at that time: the “young reformers” failed to persuade the ever-careful Chernomyrdin to push aside the “old bureaucracy” completely, and their political support by Yeltsin was also limited (Shleifer & Treisman, 2000). Indeed, no *carte blanche* was given to Dmitriev in the domain of the pension reform.

Despite the wholehearted support of the Chubais team, Dmitriev’s concept still received a rather cold welcome at the cabinet meeting on 30 October 1997. Chernomyrdin publicly attacked the minister of labor, Oleg Sysuev, who presented the concept to the cabinet,<sup>1</sup> and was said to have shown his personal disapproval of Chubais and Nemtsov for the proposed concept (Khoroshavina, 1997; Nevezhin, 1997; ‘S pensionnoy reformoy vse ne tak,’ 1997). This open disapproval of Dmitriev’s proposal transformed the conflict between the liberal reformers and the “old bureaucracy” from dormancy to direct confrontation. Going one step further than writing scurrilous comments about Dmitriev’s stance on the pension reform outlines (Lublin, 1997; Yakushev, 1998), Lublin and his team now moved to a position where Dmitriev had no choice but to accept their amendments to his concept. Vasily Barchuk, the head of the PFR at that time, who had been silent up until this point, also became more active in criticizing Dmitriev’s idea of the obligatory accumulative element (this is hardly surprising, as Barchuk feared that some part of the PFR’s revenues would be pulled aside as a result of the reform) (‘Minimal’naya pensiya nemnogo uvelichilas’, 1997; Naumov, 1997).

At last, Dmitriev’s team and its opponents were able to consolidate their visions. Approved at the college meeting in the Ministry of Labor, the compromise version of the concept was again sent to the cabinet to be reviewed, and the government finally supported the proposal (Babaeva, 1997a, 1997b). As a result, in May 1998, the Program of Pension Reform was officially adopted. The reform

should have started in January 1999, but because of the economic crisis and the default of August 1998, this never happened.

Three concluding remarks are worth making. First, the adopted program de facto resembled something of a Frankenstein, for there was no chance for Dmitriev to push his initial proposal through without taking into account the proposals of the "old bureaucracy". Describing the final version of the program, the liberal insiders admitted that the compromise included quite a few provisions from the 1995 concept designed by the "old bureaucracy" and that the program "lacked any weighted quantitative analysis of the major pension system indicators" (Dmitriev & Travin, 1998: 59). Nevertheless, the fact that the idea of the obligatory accumulative element remained in the final version of the text after the negotiations with the opponents was perceived by Dmitriev's team as a small but important victory (Dmitriev & Travin, 1998: 208).

Second, despite the failure of the 1997–1998 episode (which was due to the 1998 economic crisis), this experience contributed positively to Putin's attempt to reform pensions in 2000–2002. Indeed, it determined both major advocacy coalitions in the pension policy subsystem, as well as the major fault line between them.

Finally, it was not only the 1998 crisis that put on hold any further changes to the pension system – though its consequences were indeed disastrous for Russian pensioners. The approaching cycle of 1999–2000 federal elections also seemed to be in favour of keeping the status quo intact so as not to worsen the situation any further. The only measures adopted in 1998–1999 were the "extinguishing a fire" policy solutions which were intended to help the pensioners to survive the crisis.

### **Dilemmas under uncertainty: what to choose, whom to favour?**

After the State Duma elections of 1999 Boris Yeltsin announced his decision to step down, paving the way for Putin's leadership. Thus, the early 2000s were not only the "reformist" years, but also the decisive years for what would come to be known as the Putin regime. Putin's initial reformist zeal, establishment of the CSR and his invitation to the liberal reformers (led by Gref) to join the government have always been perceived by both the observers and the liberal reformers themselves as a window of opportunities (Cook, 2000: 375–376; *Ministerstvo ekonomicheskogo razvitiya i torgovli Rossiyskoy Federatsii*, 2000: 7; Piñera, 2000). Indeed, it seems that Dmitriev and his team received a second chance to reform the Russian state and its social policies. Naturally, they grabbed the opportunity with both hands and brought their vision to policy agenda. Most of the previously elaborated policy measures (which faced severe resistance in 1997–1998) were included in Strategy-2010. The text should have become the guiding policy document for the reform process under Putin. On closer examination, however, this policy window did not turn out to be quite as open as it first appeared, due to a number of structural and political constraints.

In 2000 Putin as a newly elected president faced several interrelated political and policy dilemmas. On the political front, Putin was in major need of maintaining his power by keeping the voters' support as high as possible and by bolstering

loyalties among the state apparatus (which, in turn, played a major role in building his "winning coalition"). Several challenges seemed particularly difficult to tackle: rent-seeking oligarchs provoking a de facto state capture (Hellman, 1998; Gel'man, 2010), extremely powerful and often wayward regional governors (Golosov, 2011), and the inefficiency and cronyism of the bureaucracy, which made the Russian state weak both in terms of its autonomy from special interest groups and in its capacity to conduct state policies (Tompson, 2002; Hashim, 2005; Taylor, 2011). Thus, it is not surprising that state-building became a top priority for the Russian president, who fiercely argued the point in his public speeches (Poslanie Prezidenta, 2000, 2001, 2002, 2003).

Social policy reforms were also high on the agenda. The 1998 economic crisis severely hit both Russian citizens and the Russian economy. Having no idea about the approaching rise in oil prices, it seemed that cuts in social spending and a more efficient use of scarce financial resources to support the most needy would be the only reasonable solution. The transition from the Soviet-style universalistic model to the privatization of the social sphere, however, could have damaged the popular support which Putin enjoyed. As far as the pension system is concerned, in the short run, the transition would have produced many losers among the working people, current pensioners and the ruling elite itself. Working people would have had to pay more taxes in order to sustain the current distributive system and simultaneously transfer additional money into their savings accounts. It was also possible that the PFR, in such a situation, might run out of money, thus causing negative consequences for the pensioners. This, in turn, would have resulted in a loss of popular support for the ruling clique. In a situation of high uncertainty, with the need to consolidate power and electoral support, a full-fledged market-oriented pension reform seemed like a risky endeavour for Putin, to say the least.

With regard to policy dilemmas, the consequences of the 1998 economic crisis did not favour such reform either, as they had completely changed the reasoning behind the pension reform. Whereas, during the pre-crisis years, the liberal reformers had argued for a reform aimed at making the pension system more sustainable in the long run, the major post-crisis goal was simply to maintain tolerable living standards for Russian pensioners, thus switching the reform goals from long-term to short-term ones. Specialists are of the unanimous opinion that the two goals are impossible to reconcile (Sinyavskaya, 2001; Maleva & Sinyavskaya, 2005; Maleva, 2007; Sinyavskaya, 2011). Any structural reform, especially with regard to pensions, is perceived as a more distant and less urgent goal vis-à-vis current needs. Thus, from both political and policy perspectives, pension reform could have become a rather costly venture with no immediate benefits for the Russian leadership and for society at large.

Yet another change to the pension policy arena, which seriously affected the outlines of the 2001 reform, was the replacement of the previous head of the Pension Fund, Barchuk, with the more cunning and energetic Mikhail Zurabov prior to the elections in 1999. Zurabov succeeded in ensuring the timely payment of old-age pensions, thus securing senior citizens' support for *Edinstvo* and Putin during the elections (Rabina, 1999). His arrival marked a significant change in the PFR's stance towards the reform and encouraged the Fund's more active

involvement in its discussion. Commenting on the role that Zurabov came to play in the reform process, one of our interviewees states:

Alexander Pochinok was the minister for social affairs and the PFR was headed by Zurabov. Pochinok played no active role, he was just following the lead. But Zurabov – that was interesting. Why so? Because he is from business circles, he is in fact an insurer. Mikhail Yur'evich [Zurabov] is, indeed, a man of experience, an experienced businessman and, no doubt, knows a lot about the insurance industry. That is why he agreed to head the Pension Fund, as it was expected to turn into an insurance body. And this is how the “third circle” came about – Zurabov in his personal capacity . . . I want to emphasize that Pochinok, Lublin and Voronin – they took a let's-wait-and-see attitude. The battlefield was now between Zurabov and Dmitriev. Dmitriev, after all, still badly wanted the obligatory accumulative element to be introduced into the pension system. . . . But Zurabov turned out not to like the idea, however surprising it may seem!<sup>9</sup>

Once Strategy-2010 was ready in May 2000, Gref took the position of minister of economic development, and Dmitriev became his first deputy, once again becoming the major driver behind the government's attempt to reform pensions. His stance on the pension reform remained largely the same, but support from his fellow liberals proved not to be enough, as both the government and the president still remained undecided. A fight with the “old bureaucracy” and the PFR lay ahead. This already became clear during the process of adopting the governmental policy program, which had been drafted by the CSR team. The early drafts of Strategy-2010 were critical of the Pension Fund's policies in the aftermath of the 1998 crisis, pointing out the inflationary nature of the PFR's effort to reduce its debt and scrape up a surplus in order to raise pensions before the elections – an achievement which Zurabov took personal pride in (Kuz'michev, 2000). Since inflation soared in late 1998, thus discounting pensions relative to the PFR's growing earnings, it therefore became “cheaper” to pay the pensions (Tsentrazrazrabotok, 2000: 21).

Using this argument as ammunition, Dmitriev intended to criticize Zurabov and to prove the unsustainability of the distributive model. Yet, after some bureaucratic infighting over the final text of the reform program, which would eventually be adopted by the government, the section on the pension reform was significantly reduced and Dmitriev had to retreat to a position which only allowed for the “minimal revision of the governmental reform program as adopted in 1998” and without going into too much detail (Ministerstvo ekonomicheskogo razvitiya i torgovli Rossiyskoy Federatsii, 2000: 69). This was the first sign that Dmitriev, again, was given no *carte blanche* and faced resistance from Zurabov, who had already managed to make a positive impression on Vladimir Putin.

The new pension reform project, which was prepared by the Ministry of Economic Development by mid-2000, was indeed very similar to the 1998 proposal. In order to ensure smooth and easy acceptance of the project, it was presented not

as a separate document, but rather as an implementation measure for Strategy-2010. Moreover, Dmitriev proposed to adopt the same pension reform – in its compromise form – which the “old bureaucracy” had seemed happy about in 1998. This could have helped to avoid resistance from Lublin’s status quo coalition and to carry the reform concept through the government more smoothly. Surprisingly, almost no one paid any attention to the proposal when it was published (Maleva & Sinyavskaya, 2005: 22–23), for there was no longer any consensus as to what the pension reform should look like. As our interviewee mentions, this was not in the last stance because of Zurabov, who formed an alliance with the “old bureaucracy” which capitalized on an opportunity to move the reform outcome closer to its initial ideal point of not having an obligatory accumulative mechanism in the pension system at all (see also Ohtsu & Tabata, 2005: 3–4). The following quote from Mikhail Dmitriev is revealing:

As for the ways to conduct the reform, Putin and the government fell victim to narrow expertise concerning [it]. By that time, several expert groups [had] participated in the development of the pension policy. . . . At the end of the day, the clash happened over the question of whether to introduce the accumulative element. . . . The choice Putin and his colleagues faced was limited by what the professional experts were able to propose to them.

(Dmitriev, 2011: 204)

Thus, the pension reform became stuck in its initial stage, mainly because the government remained unresolved on this issue and the uncertainty only increased. Yet, overlooking Dmitriev’s mid-2000 proposal, Zurabov was put in charge of presenting a report on the pension reform in September 2000 (Ban’ko, 2000). On its form and content, Zurabov’s report was rather close to Dmitriev’s earlier ideas. It called for the introduction of an accumulative element from 2002 – though this was less ambitious than Dmitriev’s proposal when it came to the amounts that a worker should have to transfer to his/her savings account (*‘Glavnoe – dozhit’*, 2000). As the head of the PFR, Zurabov had no interest in losing a share of the PFR’s revenues to the accumulative element of the pension scheme. Neither was it in the ruling elite’s interest because they wanted to keep citizens and, in particular, pensioners, satisfied. After that, a pension reform package of seven legislative proposals was expected to reach the government by the end of March 2001 (Kolesnikov, 2001).

Yet, in fact, the reform was far from being accomplished. This became evident in February 2001 when, commenting on the results of the closed cabinet session, the minister of labor Alexander Pochinok recognized that some serious discussions were needed to propose the legislative drafts. In its current shape, the reform was allegedly criticized for not being able to produce any immediate results, noticeable in the short run (Korop, 2001). In order to find a compromise solution and reconcile all the positions, the decision to convene the National Council on Pension Reform was taken by the president the very next day. The Council engaged all of the main stakeholders, including Gref (who represented the reformist wing

in the government), Pochinok and Zurabov. The Council also sought to preempt hearings in the State Duma labor committee, which was known to be problematic, as it was chaired by the Communist Valery Saykin (Sadchikov, 2001).

To give the semblance of having a broad public debate, representatives of all the Duma factions and some NGOs were invited to participate. This led to the invention of a useful form of anticipatory accommodation of interests that was soon labeled "zero reading" (*nulevoe chtenie*) and was used extensively with the most controversial bills and when adopting annual budgets (Tompson, 2002: 951; Lyubimov, 2005: 4). Such extra-parliamentary deliberation helped sidestep the State Duma politics: it allowed the government to negotiate a solution that the MPs could support without being caught red-handed by their constituencies.

Yet, the seemingly broad deliberations were only a minor decoration compared with the more important source of legitimacy, namely, Putin's personal involvement. Thus, the National Council on Pension Reform was a *presidential* council (*sovet pri prezidente*), and the decisions made were sanctified by Putin's arbitration and authority ('Interv'yu s E. Sh. Gontmakherom – sekretarem Natsional'nogo soveta po pensionnoy reforme,' 2001). This placed Putin in a position of choosing sides. In turn, Putin chose to side with the more conservative duo of the PFR and the Ministry of Labor. The constraints that he faced clearly favoured the more cautious and moderate position proposed by Zurabov and the "old bureaucracy". The need to keep voters' support high and to cement his power by bolstering loyalties within the state machinery left no choice but to stick with the "conservative" camp. Thus, it was the Ministry of Labor and the PFR that were put in charge of preparing the consolidated version of the reform to be considered at the National Council meetings ('Interv'yu s E.Sh. Gontmakherom – sekretarem Natsional'nogo soveta po pensionnoy reforme,' 2001). This also marked a departure from the previous approach to pension reform of 1997–1998: now, more radical ideas had to be included in more moderate reform packages, not vice versa. This combination helped to overcome bureaucratic resistance, but also made a reform package less comprehensive and more midway in its nature.

The proposed solution proved to be efficient enough, as it took only two Council meetings to adjust the proposal in a way that "side-stepped all the really controversial questions" (Tompson, 2002: 951), co-opted a sufficient number of supporters within the ruling elite and gained the support of the minimal winning coalition in the Duma. In April 2001 the reform program was adopted by the government, and by July several pieces of the pension reform legislation were approved by the Duma in the first reading. By the end of 2001, the package of the three major pension laws were signed by the president and entered into force in January 2002.

### **Satisficing as the mode of policymaking and compromised modernization in Russia**

Thus, the pension reform of 2001 was an endeavour to privatize the pension system. Unlike the first attempt in 1997–1998 (which failed due to the economic

crisis, even though a compromise had been reached by the two major advocacy coalitions in the Program of Pension Reform of 1998) the second try of 2001 was seemingly successful. However, it turned out to be a compromise squared for the liberal reformers engaged in the policy elaboration.

In the face of the "old bureaucracy" coalition which was reinforced by Zurabov's active involvement in 2001 and being constrained by the governing elite's political and policy preferences, liberal reformers had to settle on a double compromise regarding the pension policy changes. But could the outcome of the pension reform have been different had the actors in this policy arena been different, had Zurabov been absent from the playground, had Yeltsin chosen another successor than Vladimir Putin? The answer seems to be negative.

The political and policy dilemmas which Putin had to deal with favoured short-term and painless solutions. As the elections of 2000 showed, pensioners made up an important constituency for the president, who wanted to keep their loyalty and be able to pump it up when needed, because elections still matter in competitive autocracies. As a matter of fact, such political preferences struck privatization pension reform off the list, as it would have produced many short-term losers, increased the risks of disloyalty and paid for itself only in the long run. This coincided quite substantially with the policy preferences of the PFR and most other state bureaucrats, as introduction of the accumulative element always results in falling revenues for the Pension Fund, thus limiting the PFR head's control over pension money.

The position that the newly elected president found himself in in the early 2000s was surely that of an adverse selection. As a principal who needed to delegate the reform elaboration to his agents, Putin faced a well-theorized tradeoff between loyalty and competence (Moe, 1984: 754–758; Huber & McCarty, 2004). As shown earlier, both institutional and political features of Russia's governance clearly favoured the choice for those agents whose policy preferences were the closest to the president's political and policy agenda regardless of the agents' competence and their ability and desire to produce a long-term, sustainable policy. Thus, Putin's early decision not to resist the ministerial bureaucracy and the PFR's top management, but rather to stake on bureaucratic apparatus – thus making it the backbone of his regime – resulted in an unsustainable pension policy, yet one that can be easily manipulated, especially in the wake of election cycles. What implications did this approach have for the pension policy in the 2000s and for the process of modernization in Russia in general?

The attraction of concentrating the pension system's financial resources in the hands of the state led the PFR and state bureaucrats to strive to limit the right of private pension funds and asset management companies to invest their pension savings on the market. Another law from the pension reform package – "On the Investment of the Pension Savings" – was adopted in 2002 and gave almost exclusive privilege to the state owned *Vnesheconombank* over this business (Gontmakher, 2009; Dmitriev, 2011: 212–214).

The successful blocking of the fifth legislative proposal from the package – "On Professional Pension Systems" – was yet another move against private pension

funds, which was made by Zurabov while heading the Ministry of Health and Social Development since 2004. This, in turn, aggravated the business climate for the private section of the Russian pension system ever further. The reasoning behind the legislative proposal did in fact play into the PFR's hands because it shifted the burden of early retirement and concessionary pensions from the Pension Fund to big businesses. Still further, the reluctance to boost the private pension funds that had initially been intended to service these professional pension systems outweighed the necessity to lift the burden from the PFR's shoulders (Dmitriev, 2011: 206; Maleva, 2007: 199). Thus, the idea of an open market had never been welcome in the Russian pension system, despite early privatization discourse. Contrary to the argument<sup>10</sup> put forward by Sarah Wilson Sokhey (2015), Tatiana Maleva observes that "introduction of the accumulative component to the Russian pension system has not been accompanied by its privatization". During the 2000s, the state continued to play a central, and almost monopolistic, role in the pension system (Maleva, 2007: 185). Furthermore, it was not possible for other strong and independent players to enter the pension system playing field. Such private agents might have resisted later attempts by the government to draw the reform back and to manipulate the accumulated savings element opportunistically, following the changes in the economic environment.

Similar tactics of not fighting with the bureaucracy but relying upon it and turning the insider managers with vested interests in the respective policy area into the major providers of reforms is evident in a number of other structural policies that were also reformed in the early years of the first Putin presidency. In general, the way the pension reform was conducted in 2001 is symptomatic of Putin's broader strategy of policymaking, which includes a default choice for bureaucracy as agents of modernization, co-optation of opponents through ad hoc commissions, vague and short-term-oriented compromises and postponement of the most difficult reform issues, sometimes for good (for more examples, see Tompson, 2002).

As a result, once produced, the suboptimal policy was then reproduced in a self-sustaining manner. The events following the 2005 monetization of social benefits (Wengle & Rasell, 2008) crisis or more recent attempts to draw the 2001 reform back (Vavulin, 2013) further demonstrated this trend of policy persistence. Thus, the decision in favour of bureaucracy and partial reforms led to certain negative consequences, not only for the 2001 pension reform itself, but also for overall policymaking and modernization in Russia in general. Staking on loyalty instead of competence (Egorov & Sonin, 2011), the mode of policy reforms in Russia has switched from striving for an optimal policy solution to a *satisficing* mode (Simon, 1947; March & Simon, 1958), where the policy choice is made based on whichever decision is found reasonably sufficient and satisfactory at the given moment.

## Notes

- 1 One should point out the primary role of the excessive and overconfident ministerial bureaucracy as well as patron-client relations typical of the state apparatus (Tompson, 2002: 936–938; Gel'man, 2015).

- 2 Pension reforms often produce a large number of short-term losers and simultaneously have a deferred effect (OECD, 2003). Just like market reforms in the economic area, changes in pension policies that intend to introduce accumulative principles “demand . . . sacrifices [from both present workers and pensioners, as well as the state’s high-level managers from the Pension Fund] in the short run for the mere promise of future gains” (Hellman, 1998: 203).
- 3 The list was long, ranging from judicial, budget and tax reforms to housing and utilities and pension policies.
- 4 Cuckoos lay eggs in the nests of other types of birds and when born, the young cuckoo rolls the host bird’s eggs out of the nest in order to have full attention of the host bird.
- 5 Similar tactics were used in the preparation for the labor and education reforms in 1997 (see also Grigoriev, 2015)
- 6 *Sobes* is an abbreviation of the Soviet-era system of social protection and maintenance.
- 7 Interview with a former high-ranking government official, St. Petersburg, 12 December 2012.
- 8 Allegedly, Chernomyrdin’s discontent was mostly due to the fact that the minister presented the proposal despite the negative review of the government secretariat, which signaled that the concept was poorly prepared and too far-reaching for cabinet approval (in other words, served as the prime minister’s informal veto) (Golovachev, 1998).
- 9 Interview with a former high-ranking government official, St. Petersburg, 12 December 2012.
- 10 Sarah Wilson Sokhey (2015) argues that the major rationale behind the reform was Putin’s desire to weaken state bureaucracies, and especially the Pension Fund, by inviting private pension funds and investment companies to enter the pension market and play a significant role in dealing with pension savings. However, both the empirical data collected for this chapter and the expertise provided by such specialists as Maleva and Dmitriev show that this was not the case.

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