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Research Report

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SWP Comment

NO. 28 JULY 2018

Kremlin Launches Risky Pension Reform

Plan to Raise Retirement Age Undermines Confidence in Russian Leadership

Janis Kluge

On 14 June, Prime Minister Dmitry Medvedev announced proposals to gradually raise the retirement age in Russia from 2019. The Russian leadership wants to use this reform to tighten its budget and boost economic growth. Despite the media distraction caused by the Football World Cup, there is growing protest against the proposal. Trade unions, loyal opposition and Alexei Navalny are planning demonstrations. The Kremlin has framed the unpopular reform as a government project that President Putin has nothing to do with. Nevertheless, confidence in the President has been dented. A clear social response could lead to a weakening of the reform and although the Kremlin has many instruments at its disposal to stem the threat of protests, it lacks the means to regain the trust it has lost.

On the opening day of the Football World Cup, Prime Minister Dmitry Medvedev announced two unpopular bills. The retirement age for women was to rise from 55 to 63 years, and for men from 60 to 65 years. In a transitional phase, the retirement age would be increased by six months each year from 2019. In addition, Medvedev announced an increase in sales tax from 18 percent to 20 percent in early 2019. This was to finance an investment programme mandated by President Putin when he took office in May 2018. Medvedev said that future monthly pension payments would increase by around 1,000 rubles (14 euros) each year. The first reading of the bill in the Duma is expected on 19 July. The reform could be adopted in autumn 2018 and signed by Putin in the same year. Before the

presidential election, it was still taboo for the Russian government to publicly address raising the retirement age, although it had long been a topic of discussion among experts. Now Dmitry Medvedev is urging swift action, suggesting there is no more time for theoretical debates.

The reform does not affect all Russians equally. Already in 2017, the government began to raise the retirement age for civil servants to 63 for women and 65 for men. The police, security services and military have their own regulations: in most cases, staff are entitled to a pension after 20 years of service. This privilege remains unaffected by the reform plan.



Easing pressure on the budget and the economy

By raising the retirement age, the Kremlin hopes to stabilize the Russian pension system. In 2017, the Ministry of Finance had to spend almost a quarter of its federal budget (4 percent of GDP) on supporting the pension fund – and this figure is rising. In times of low oil prices, that is a major burden.

In the Russian pay-as-you-go system, there are increasingly fewer contributors paying in and increasingly more pensioners receiving payments. This is due to historical fluctuations in the birth rate. Since a particularly large retirement cohort has retired in recent years, the number of Russian pensioners has risen from 39.1 million to 43.5 million since 2010 (30 percent of the Russian population). At the same time, only a very small cohort is entering the labour market. As a result, the number of working-age Russians has fallen by around one million every year for the last three years. Raising the retirement age is intended to prevent the gap in the pension fund from continuing to widen in the 2020s.

The economy should also benefit from the reform thanks to a larger supply of labour. Businesses can only partially compensate for the shortage of young workers by increasing productivity. Although net immigration to Russia is over 200,000 people per year, migrants are mostly employed in unqualified jobs. Raising the retirement age will not solve the shortage of labour, but working longer could reduce the deficit by around one third by 2030 (from 3.8 million to 2.5 million). According to forecasts, Russian economic growth in the 2020s would be half a percentage point higher as a result of the pension reform.

However, the reform also harbours economic and social risks. In Russia, pensioners traditionally play a major role in child-care. If this support for young families were no longer available, fewer mothers would be able to participate in the labour market, resulting in an additional loss of young workers.

At the local level, the pension reform might even cause unemployment to rise. Older Russians are already having difficulty finding work or just keeping their jobs, even though official unemployment is very low at a national average of 5.2 percent. They cannot directly replace the lack of younger workers, but perform complementary tasks. The older Russians were trained in the Soviet Union, have more technical expertise and work more frequently in stagnating sectors, such as industry or agriculture. Among younger workers, there are more lawyers, economists and computer scientists working in the growing service sector.

Substantial majority against reform

According to a recent survey conducted by Russian pollsters, 92 percent of Russians are opposed to raising the retirement age.

Many Russians fear material losses. The reform will noticeably lower the standard of living of older workers and indirectly affect younger families as well. Given their low life expectancy, the issue of intergenerational fairness impacts Russian men, in particular. In Russia, only 57 out of 100 men will reach the new retirement age of 65. Overall, life expectancy has risen to 71.9 years of age, but in some regions the figure for men is still below 60.

Secondly, the retirement ages of 55 and 60 are still of great symbolic importance in Russia today as a social achievement of the Soviet Union. The low retirement age made Russians realize they were better off than their neighbours in the other successor states of the Soviet Union. Apart from Russia, only the demographically very young Uzbekistan has still retained the old pension formula.

Thirdly, the reform contradicts an old but firm promise made by the Kremlin. In 2005, President Vladimir Putin made it unmistakably clear that he would never raise the retirement age, and he has repeatedly affirmed this guarantee since. His

promise is captured in video clips currently circulating on the Internet in Russia. Through his spokesman, Vladimir Putin has said he was not involved in developing the bill on pension reform. Nonetheless, according to polls, confidence in the Russian President has fallen to its lowest level since December 2011.

Survey: Confidence in Vladimir Putin, 2006–2018 (% of respondents)



Source: Russian Public Opinion Research Center (VCIOM), https://wciom.ru/news/ratings/doverie_politikam/.

Competition for protesters

In the first few days after Medvedev's announcement, dozens of demonstrations against the pension reform were registered across Russia. Behind the planned protests are the Russian trade unions, mostly loyal opposition parties and opposition activist, Alexei Navalny. Since the reform plans were announced at the beginning of the Football World Cup, those living in the largest cities were not able to demonstrate immediately. The right of assembly was severely restricted in those regions with Football World Cup venues until 25 July 2018. However, on 1 July 2018, 45 mostly small Russian cities that were not World Cup venues held demonstrations; only a few attracted more than 1,000 participants.

It was initially surprising that Russian trade unions most actively opposed the reform immediately after its announcement. In the past, Russia's largest trade union federation, the Federation of Independent Trade Unions of Russia, has supported the United Russia party and

Vladimir Putin. It has never played an independent political role, despite claiming to have more than 25 million members. In this respect, it is hard to imagine that the unions will become a serious opponent to the Kremlin on pension reform. Rather, their protest gives the Russian leadership the chance to steer the displeasure of the people into controllable channels.

That actors close to the Kremlin are trying to seize the potential for protest, runs largely counter to the intentions of opposition activist, Alexei Navalny, who also wants to mobilize protest against the pension reform. In 2017, Navalny proved that he could organize nationwide protests through a large network of volunteers. The demonstrations attracted many young Russians. By organizing protests against the pension reform, Navalny can hope to become better known in other milieus as well. Last year, Navalny enriched his programme of anti-corruption policies with socio-populist demands. So far, however, he has had little success in trying to integrate social protests into his movement. On the one hand, any proximity to Navalny is dangerous for organizers of other protests because it results in greater state repression. On the other hand, many social protests are hoping for the Kremlin to step in rather than calling for political change.

Dealing with social protests

The number of social protests in Russia increased significantly after the economic crisis of 2015–2016. Policies that sparked protest included increasing fees for public utility services and businesses missing salary payments. Regional and federal authorities responded with a mixture of sabotage, discreditation and repression. In many cases, demonstration organizers were prosecuted and sent to prison. However, attempts at dialogue and individual concessions are some of the tactics the Russian government will also adopt, as long as the interests of the elite remain unaffected. Almost all social protests have remained local and

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short-lived. Only in very few cases have protests developed into lasting movements, e.g. against hazardous landfill sites or the introduction of a lorry toll.

The last major Russia-wide social protests took place in 2005 when concessions for pensioners – such as free use of local transport – were to be converted into cash payments. The Kremlin refused to back down on the unpopular reform plan but, as a result of the protests, avoided noticeable cuts in pensions for many years. If the increase in the retirement age produces a similar wave of protests, the Kremlin is likely to concede its position. Putin could present himself as the advocate of the people who defies government technocrats by demanding longer transition periods or a lower target age. It would also be possible to postpone the reform, although this would pose a risk to national finances. The Kremlin could finance the overspend from the National Welfare Fund until Putin's current term ends in 2024.

Outlook

No unpopular reforms have been implemented in Russia since the mid-2000s. However, a stagnant economy and demographic developments are putting the Kremlin under pressure. Its state paternalism can no longer be financed as it once was. Increasing the retirement age raises fears among many Russians that the government might withdraw even further from its social obligations. The Kremlin's silence on the reform, which is to come into force within the next few months, prior to the election has further fuelled these fears.

Only after the protest restrictions are lifted in late July will it become apparent how many people are prepared to take to the streets and protest the pension reform. Fewer Russians took part in the first protests in smaller cities than polls suggest. The next opportunity for Russians to express their displeasure at the ballot box

will be next autumn's Single Election Day: on 9 September 2018, new governors will be directly elected in 22 regions. At the federal level, the next Duma elections are not until 2021.

Until then, the Russian leadership can still make concessions and counter the remaining protests with the power of the state media and by repressing opposition. The stability of the Russian regime is not directly threatened by this current loss of confidence. Nevertheless, the reform is likely to cause mute dissatisfaction among the population. After a lost decade for the Russian economy, the Kremlin lacks the means to regain the confidence it has lost.

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