Reforming Welfare Regimes in Russia and China: The Case of Pensions
Thomas F. Remington
June 1, 2014
DRAFT

I. Rebuilding the Social Contract

Following the transition to a market economy, postcommunist states experienced sharp increases in aggregate income inequality and a breakdown in the former social welfare system.[1] These processes were closely connected. State enterprises in communist states served both as units of economic production and of social welfare. Since market reform requires that productive enterprises serve primarily economic purposes, postcommunist states must restructure the former comprehensive system of social protection and human capital investment. Achieving an enforceable balance in financing social provision among households, the state budget, and new social insurance mechanisms is a deeply political process in any society, since it requires making difficult decisions over the distribution and redistribution of resources. In postcommunist societies, no less than in established capitalist democracies, it is a central theme of politics.

In this paper I treat Russia and China as most-similar cases. Both are postcommunist (China's economy is postcommunist even if its polity is not); both are large and regionally heterogeneous; both combine a market-oriented economy with authoritarian rule. The comparison is all the more compelling in view of the fact that China adopted the Soviet economic model in the 1950s to industrialize its economy. Although it later shed many elements of the Soviet system, many still remain, and the legacy of the Soviet model continues to influence policy choices faced by China's leaders. The two countries have comparable levels of income inequality; in particular, cross-regional inequality is extremely high. They differ, however, with respect to the degree of institutional decentralization: China's governance is significantly more decentralized than Russia's. This paper addresses the question of the impact of this difference on social policy. It focuses particularly on pension reform, examining both the process by which pension policy is made as well as the outcomes of policy.

A crucial element of the old socialist economic model was the centrality of the workplace for nearly all social guarantees--employment, housing, pension entitlement, health care, child care, recreation, social insurance, and numerous other cash and in-kind benefits.[1] The reciprocal nature of workers' dependence on their enterprises and the state's dependence on workers' compliance with the demands of the planned economy amounted to an implicit contract, as many writers

---

[1] I am very grateful to the participants in a seminar at the Davis Center for Russian and Eurasian Studies for comments on an earlier draft of this paper, among them Linda Cook, Mark Kramer, Elena Korotkova, Joseph Fewsmith, Daniel Koss, Brendan McElroy, Alexandra Vacroux and Margarita Balmaceda. Sarah Sohkey also provided very helpful comments.

then and since have recognized. Although this social contract was neither voluntarily adopted nor enforceable, the concept aptly emphasizes the reciprocal nature of expectations governing the rights and obligations of state and society.[2] In return for contributing its labor to the state under conditions of limited political and economic freedom, the workforce was granted certain social guarantees, such as state housing, medical care, education, and disability and retirement income. In China, the equivalent "iron rice bowl" or *danwei* system (*danwei* refers to work unit) only operated in the urban industrial sector, whereas in Russia it extended to the entire populace (collective farm workers were brought under the pension system in 1964). In her seminal book on the Soviet social contract, Linda Cook defined the essence of the arrangement as an exchange of social security for worker quiescence.[3] The concept of the social contract is commonly used in China as well to describe the pre-reform arrangement. As a recent report by the Chinese Development Research Foundation put it, "a de facto contractual relationship existed among government, employers, and employees that ensured a lifetime job together with related pensions and medical benefits to employees."[4]

The breakdown of the old social contract began in the 1980s in China and the 1990s in Russia, and proceeded unevenly over time and across enterprises and regions. Since then, leaders have tinkered with new institutions to replace the old enterprise-based social entitlements. Both have created mandatory social insurance mechanisms to cover pensions, health care, unemployment, disability and maternity. Both have privatized most of the housing stock. Both have allowed a substantial element for private provision of education and health care, although in both, state financing of education remains fundamental. Both have struggled to finance the welfare commitments they have made. For both, therefore, pensions are the single largest social expense and, given the fact that the labor force is declining in both countries and the share of pensioners increasing, the pension system is the most challenging social policy issue.

From a theoretical standpoint, reconstructing the social contract under the conditions of market reform implies that much more than a new set of policies is required. A sustainable social contract should be seen as a set of equilibrium institutions that regulate the distribution of economic advantages, risks, and losses borne by members of society. These institutions must be generally accepted because they must command compliance; a system of entitlements that cannot be honored because of widespread evasion of required contributions is not sustainable.[5] Transition from state socialism to a market economy poses especially difficult distributional problems because the rapid differentiation of economic winners from losers of reform also alters the balance of political interests and resources. In both Russia and China, inequality grew in multiple dimensions after the launching of market reform. Some state enterprises entered the global market in a relatively advantageous position due to the tradable nature of their products, while others were uncompetitive. Within and across enterprises, wage differentiation soared. Incomes in regions that could benefit from natural resource endowments or advantageous locations outgrew those in regions lacking such assets.

Balancing the competing interests of transition's winners and losers was accomplished in different ways in different postcommunist countries.

Postcommunist democracies resolved these dilemmas through partisan competition and bargaining.[6] Some authoritarian postcommunist regimes, such as Belarus, preserved much of the old social contract system, continuing to exchange social security for political compliance. Russia and China, however, have combined far-reaching market reforms with authoritarian rule. Policy-making processes in Russia and China therefore exhibit some striking similarities, although they differ in their degree of decentralization of responsibility for social policy.

Analysis of social policy in the democratic world often builds on the Meltzer-Richard model, which predicts that the median voter prefers more redistributive policies as her income lags behind the mean income in society.[7] Therefore where majoritarian institutions prevail, equality of political voice is a check on income inequality.[8] To be sure, some writers have distinguished the politics of redistribution from the politics of social insurance.[9] To the extent that the distribution of social risk diverges from the distribution of income, then it is plausible that the political coalitions favoring social insurance may differ from those favoring directly redistributive programs. This helps to explain the so-called "middle class bias" in social policy (such as old age income security) in many countries.[10]

We lack, however, a strong theoretical basis for predicting the outcomes of social policy making in authoritarian settings. A recent body of political economy literature posits a decision-making calculus on the part of ruling elites that is driven by the anticipated effects of democratization on redistribution. In the Acemoglu-Robinson model, if the costs of redistribution are very high, as would be the case under conditions of high inequality, the ruling elite resists extending political rights to larger sections of the population. Where inequality is less pronounced, the costs of redistribution are lower and the benefit of social peace is relatively greater.[11] Democratization is more attractive to ruling elites and redistributive policies more likely to be adopted. Haggard and Kaufman offer a broad cross-regional analysis of the effects of democratization on shifts in the class coalitions favoring particular kinds of social policy.[12] However, our knowledge of how social interests are aggregated and weighed in the policy-making process under authoritarian rule tends to rest on case studies.

My general question is how an authoritarian post-communist state goes about constructing a new social contract. As noted above, by social contract, I posit that the institutions regulating the distribution of advantages, risks, and losses across classes, regions and generations enjoy general acceptance; social policy that is declared but cannot be enforced due to widespread evasion of obligations does not meet the standard. As Linda Cook shows, the late Soviet regime generally delivered on its implicit commitments under the Soviet social contract, but once it began to fail to provide job security, regular wages, and the basic goods and services that workers were accustomed to receiving, workers withdrew their consent to the arrangement and initiated massive strikes.[13] Therefore I am interested less in the particular terms of pension and other social policies than in how they are decided and the degree to which state and social actors comply with them.

I use the case of pension reform in Russia and China to test my argument. In dismantling the old social contract, both Russia and China replaced budget-funded welfare benefits, such as pensions and health care, with social insurance schemes. Note that whereas pensions were paid in cash, many other social benefits (health care, education, housing and the like) were provided in-kind or at discounted prices. With respect to pensions, Russia and China, like many other countries, adopted variants on the three-pillar system recommended by the World Bank.[14] Such plans envision a basic state-financed income guarantee for non-working individuals, a second component consisting of mandatory employment-based pension insurance funded by employer and employee contributions, and a third pillar of voluntary pension contributions. Russia since 2002 has divided the mandatory social insurance system into a common pool that finances current pension obligations and, for workers born after 1966, a mandatory funded retirement savings system using individual accounts.[15] The latter funds can be managed by a state bank or by private pension companies or pension funds. Russia has also adopted a state co-financing scheme for voluntary pension savings under which the state matches contributions of between two and twelve thousand rubles a year.

Social insurance schemes are used in Russia and China for other elements of the social welfare system as well, including health care, unemployment, disability, and maternity. However, adopting a new multi-pillar pension scheme imposes a different and much greater problem for pension insurance than arises with other types of social insurance. Adding a funded pillar, based on individual contributions to individual pension accounts to fund some or all of their future pensions on top of a pay-as-you-go system for current pensioners means that current employees must provide both for current pensioners and their own future pensions. This problem is known as the double burden. A number of the states that adopted some form of a three-tier scheme have already found the double burden too onerous, and have dismantled their contributory scheme (even to the extent of nationalizing the contributory accounts, as in Hungary).[16] The double burden creates a serious strain on a pension system. As a result, Russia and China, like many other states, are running deficits in their pension systems which must be made up from the state budget. Also, like many countries, Russia and China have raided or reversed the funded portions of their systems by diverting the contibutions going into individual savings accounts into current social insurance funds. Unfavorable demographic trends--ie the increasing share of the retired population relative to the working population--means that these moves shift the risk of income insecurity from the present generation to future generations. The basic problem for Russia and China is that the current pension system is not sustainable. Benefits are not keeping up with inflation, and future generations are likely to face much lower benefits unless the system is repaired.

II. The Theory: U-form and M-form Organizational Models

Policy-making in bureaucratic authoritarian regimes such as Russia and China is most commonly analyzed through bureaucratic and factional politics models.[17] As in other domains of policy, social policy choices in Russia and China are made through a process of bargaining and deliberation among government agencies, recognized social associations such as trade unions, and invited experts. Many experts on China use the term "fragmented authoritarianism," first proposed by Kenneth Lieberthal and Michel Oksenberg, to characterize the policy-making process in China. The "institutional pluralism" described by Jerry Hough in the Soviet era, is its Russian equivalent.[18] Under Putin, the constant tension between bureaucratic and factional competition and political centralization described by Hough and others continues today.[19] In the bureaucratically pluralistic political systems of Russia and China, there are multiple centers of initiative and (often informal) veto power, with the difference that China gives sub-central entities many more points of access to policy-making. In both systems there is some opportunity for non-state actors to act as policy entrepreneurs within regime-defined limits.[20] We can assume that each department seeks to expand its discretionary control over resources and competes with others in order to do so.[21] In both, the principle of centralization, with functionally defined, hierarchically organized administrative agencies, coexists and competes with a territorial principle by which regional and local authorities have substantial responsibility for coordinating the work of the vertical agencies. In China, however, as I shall argue, the element of decentralization is stronger relative to the degree of centralization than is the case in Russia.

Based on the literature, supplemented by interviews, I would sum up the similarities and differences in bureaucratic decision-making processes between the two countries with the following, somewhat schematic, observations.

In both countries, an important characteristic of the policy-making process is the drive for consensus among the bureaucratic actors with competing stakes in a policy decision.[22] In Russia the term for this process is *soglasovanie*. Policy decisions usually must be reviewed and cleared by (*soglasovany*) relevant bureaucratic entities before their final adoption. In the case of a new policy requiring enactment in legislative form, relevant government departments must first overcome their differences and report out an agreed-upon text for the approval of the government as a whole, which is then submitted to the Duma for passage. Typically the government forms working groups and working commissions to accomplish this task. The working groups normally include representatives of a number of relevant departments and may include experts from government-affiliated think tanks and social organizations (such as business associations and trade unions) as well. Working groups often comprise senior-level officials (such as ministers or deputy ministers), but the work of actually formulating compromise policy language often falls to their staff. The presidential administration normally works with government departments in hammering out agreement. If the policy is to be enacted in the form of legislation, staff from parliament may participate in the working group as well. In the case of a presidential decree, the *soglasovanie* goes on within the presidential administration and the government before being submitted to the president for his signature. The process is time-consuming but it is based on well-established informal rules. In both countries parliament's role is confined almost entirely to providing ex post facto approval of decisions made by the government (and, in China's case, the CCP).

The equivalent process in China is the use of "leading small groups" to reconcile diverging bureaucratic interests and produce policy consensus. A leading small group consists of a senior party official and representatives of affected departments as well as experts focused on developing policy in a particular area.[23] The party's participation helps to ensure that a policy decision will be supported by the party, and also allows the party to set priorities and guidelines. The party, through its General Office, also supplies the staff used by leading small groups.[24] The participation of a senior member of the party leadership, such as a member of the Politburo Standing Committee, in such a group signals that the top echelon considers it an important matter and lends weight to the product of its efforts.

In both countries the process of consensus-building often requires that the agency initiating a policy reform must make some concessions in order to win support for it on the part of other affected departments. In Russia, for decisions requiring legislation, parliament, particularly its dominant party United Russia, often contributes to the discussion after the broad outlines of a decision have been made. At that point the party may win minor concessions (for example, it may win exemptions from a new rule for favored constituencies). Almost never is the Duma or Federation Council given an opportunity to shape or block a major policy decision that the president and government have made.[25] In China the National People Congress and National People's Political Consultative Conference at the center and in each locality may have the ability to modify details of policy decisions, but do not set basic policy. That role is reserved for the party.[26]

As in other bureaucratic systems, impending deadlines often force closure on a pending decision. In Russia, an important impetus for policy decisions is the annual budget cycle; another is preparation for the president's annual message to parliament. Elections are another source of pressure to make or avoid a decision.[27] In China, a future party congress or Central Committee plenum similarly serves as an action-forcing deadline, pushing bureaucratic entities to overcome their differences and reach a consensus so that the decision can be announced publicly at the meeting.

The consensus-seeking impulse should not be exaggerated. Discretionary authority on the part of top leaders can upset or preempt a bureaucratic consensus. Skillful subordinates or outsiders may make an end-run around their nominal superiors and go directly to the top for a decision (some of Yeltsin's associates resorted to this practice, frustrating Yeltsin's designated gatekeepers[28]) and the practice has continued under Putin.[29] We know less about the decision-making process in China, but it is reasonable to infer that the successors of Mao and Deng sometimes also upset carefully constructed policy agreements.[30] Likewise, in both countries, a new leader's accession to power often results in abandonment of the predecessor's programs and the adoption of ambitious new projects. (The phenomenon occurs both at the central and lower levels.)

Two other similarities between Russia and China in their policy process can be noted. First, in both countries, the authorities fear the potential for social unrest. In Russia, for example, the furor created by the botched effort to replace in-kind benefits with cash made the authorities wary of other, similarly bold moves.[31] Officials both at the center and in the regions fear provoking popular protest. As an executive branch official in Perm' noted: "We have restless pensioners. They will bang on saucepans, block the tram lines. Here they went on strike, dragged a bus, turned it over, and blocked the road to a gas station."[32] Such manifestations are held against regional officials.[33]

Similarly, in China, an official who allows social dissatisfaction to spill out into disorder suffers a serious black mark on his record; maintaining social order is considered a "priority" goal for an official.[34] For example, in response to the public outcry over a trial balloon floated by Ministry of Human Resources and Social Security on June 5, 2012, proposing that the retirement age be raised, the *People's Daily* newspaper conducted an online survey of public opinion. 93.3% of the 450,000 respondents opposed raising the retirement age. A week later the ministry declared that it was putting the idea on hold.[35] In both countries, local officials fear for their careers if significant social unrest occurs on their watch.[36] Therefore officials are reluctant to rescind social entitlements that large segments of the population consider to be basic rights.

Second, bureaucratic actors act as proxies for latent social constituencies.[37] In both Russia and China, there is a tendency for recurrent competition on the part of two coalitions of bureaucratic agencies over the proper balance of economic development and social welfare objectives: a bloc consisting of the "social" departments (the ministries and agencies concerned with administering social benefits, such as the labor, health, social security, and pension bodies) and the "economic" departments (the ministries for finance and economic development). Each bloc cultivates alliances with outside partners, for example, the social blocs with trade unions, the financial-economic bloc with business associations (and, in Russia, the private pension funds). Interviews with experts and officials in the two countries suggest that these non-state entities are considerably weaker than the state bodies. Private pension funds in Russia, for example, are aware that they can be liquidated at any time, as recently occurred in Kazakhstan.[38]

The policy-making institutional framework in Russia and China differs in one crucial respect, however. In China, policy-making authority is much more decentralized than in Russia. Officials at the provincial and lower levels have substantially more autonomy to design policies so long as they adhere to the broad guidelines laid out by the center. This has had substantial consequences for policy-making and policy outcomes. For example, China has used its decentralization quite deliberately to test out policy reforms through local experiments. No major economic or social policy reform in China in the last thirty years has been adopted without first having been tried out and tested locally.[39] In Russia, few major reforms have been subjected to local experimentation before being adopted.[40] It also means that subnational units in China (particularly cities) compete with one another to achieve policy successes. In China, much more than in Russia, the policy process includes an important role for local authorities as initiators and advocates of policy reform. In China, particularly since the 1994 tax reform, local governments have substantial responsibilities for welfare spending without commensurate revenue powers. In Russia, regional and local governments also shoulder major obligations to fund social welfare but, in contrast to China, the pension system is nationalized.[2]

[2] Russian regional and local governments can establish their own systems of social pensions, ie pensions awarded to individuals on the basis of services to the state.

The political economy literature in recent years has characterized this basic difference between Russia and China by referring to the theory of "U-form" versus "M-form" organizational structures. The Soviet and post-Soviet Russian economy embodies many of the characteristics of an organizational hierarchy built around vertically structured, functional divisions, a type of organization known as U-form. China's is closer to the M-form type in which the divisions have similarly diverse production profiles. China's administration is organized around regional units, each with a high degree of autonomy over the management of economic and social policy. Russia's administrative structure is closer to that of the U-form type, where the principal administrative divisions follow functional lines. The U-form/ M-form concept arose from studies of changes in the way some American industrial corporations were organized, exemplified by the rise of General Motors' creation of separate multi-functional automotive divisions in the 1920s. GM was willing to tolerate some functional redundancy in order to encourage competition and innovation among its divisions as each brand focused on a particular market niche. GM's innovative organizational model contrasted sharply with the functionally-organized model of divisions at Ford.[41]

Economists argue that these organizational ideal types generate different sets of performance incentives for division managers. Competition among division managers in an M-form organization might produce more credible information about the relative performance of different managers: if two divisions with roughly similar production profiles had different performance records, the central leadership might be more confident in attributing the difference to the skill of their managers. A U-form organization encourages economies of scale, but makes competition among division managers a poor measure of their competence, and even destructive to the overall goals of the organization. What the U-form organization gains in central control and efficiencies from economies of scale, the M-form organization makes up for by encouraging initiative and innovation on the part of its competiting division managers.[42]

In series of works, Yingyi Qian and other economists have explored the implications of this theory for Russia and China.[43] Russia and China fit the model reasonably well. The Soviet Union's state socialist economic system was constructed around the principle of centralization and post-Soviet Russia has inherited much of the Soviet organizational legacy. Lenin's conception of the organizational form of socialist planning and administration borrowed heavily from Karl Kautsky, who was impressed by the efficiency with which German industrial trusts were organized. Lenin was more interested in political control than efficiency, to be sure, but his vision of the socialist economy as a giant machine, running smoothly and automatically with minimal administrative intervention and no political choice at all, was a utopian vision based on the predominant conception of large-scale industrial organization at the end of the 19th century and beginning of

---

The responsibility for basic old-age labor pensions, however, rests with the federal Pension Fund and the federal-level non-state pension funds. In China, there is almost no pooling of pension funds at the national level other than for state and party cadres.

the 20th century. The vision was further reinforced by the centralizing exigencies powerfully felt in all the warring countries engaged in World War I.[44] Lenin's conception of socialist economic administration was then further reinforced under Stalin. The result was that the Soviet economy operated with a number of huge industrial complexes administered by several dozen highly specialized ministries. The fact that the young Soviet regime immediately plunged into a devastating civil war upon exiting the world war further reinforced the lessons that it drew from observing the pre-war and wartime economies of Germany and Russia. Therefore when the revolutionary Bolshevik party turned into a ruling party, it knew only one model of industrial organization.

When China adopted the Soviet model for its industrialization drive in the 1950s, reflected most clearly in the first five-year plan (1953-58), it implemented the Soviet system of highly specialized industrial production divisions, minimal industrial diversification of regions, and central departments with specialized functional responsibilities. However, the effort to put China's economy on a U-form footing did not progress far. For one thing, China's economy was far more rural and agricultural in the early 1950s than Russia's had been in the 1920s. For another, China's state had been organized for two thousand years around the principle of territorial administration, so its knowledge of public administration was based much more on the management of large, diverse territorial units than of centralized functional divisions. Finally, Mao's ideology was antithetical to Stalin's in several respects. Mao had absorbed much of the localism, experimentalism, and pragmatism that permeated the nationalist movement in the 1920s (partly under the influence of John Dewey and his followers).[45] Mao's experience of the long period when the communist party administered rural base areas taught him to take advantage of local knowledge and pilot projects, as well as to distrust urban-based state bureaucratic power. For many reasons, therefore, by the late 1950s, Mao's China moved away from a Soviet-style U-form organizational model. The radical disaster of the Great Leap Forward was an extreme form of this tendency, as communes (today's townships) were urged to become self-sufficient in all branches of agricultural and industrial production. The share of central state spending dropped to a tiny percent of overall state spending. The Cultural Revolution contributed to a further breakdown of central planning and coordination, and a concomitant increase in regional autarky.

After the end of the Cultural Revolution period, Deng Xiaoping revived the early communist method of "point to surface" local experimentation and learning.[46] Doing so had multiple advantages from Deng's standpoint. For one thing, Deng could claim a direct ideological lineage from Mao's early support for "seeking truth from facts" and encouragement for local initiative. For another, he was able to reduce political opposition to market reform by testing it out locally and demonstrating its positive results. Finally, he could take advantage of the proximity of the southeastern coastal regions to Hong Kong, Taiwan, and Singapore, with their large populations of overseas Chinese.[47] Local experimentation with market reform was therefore far more politically expedient and administratively feasible for China than for Russia.

We should not exaggerate the degree to which Russia corresponds to the U-form model and China to the M-form model. Russia and China differ only modestly in the central government's share of tax revenues: Russia's central government receives 61% and China's 48% of the total tax take (Figure 1). Russia's regional officials have always had to play a powerful coordinating role in their economies, balancing the competing priorities of different branches of industry and reconciling the trade-off between maximizing economic production and maintaining social stability. This role, after all, formed the heart of the analysis of the "Soviet prefects" described by Jerry Hough almost sixty years ago, and studies of regional governors in Russia suggest that their role is very similar to that of the first secretaries of the party obkoms that Hough examined.[48] Moreover, China relies not only on political centralization to control the careers of local officials, it also assigns wide-ranging power to the National Development Reform Commission to plan economic development across sectoral lines. Its regional branches exercise the same powers at lower levels.[49] The NDRC is the successor of the old state planning committee and is characterized by some China policy-makers as a "state within a state."[50]

Nonetheless, it is the case that China is more decentralized along regional lines than is Russia and, therefore, that the M-form / U-form theory captures an important difference between the two countries. This difference in turn affects the process and outcomes of social policy reform. The U-form / M-form theory implies that in creating effective new social insurance systems, the two countries must overcome somewhat different sets of hurdles to pooling risks and benefits. China must overcome local resistance to the demand to pool social insurance funds across enterprises and localities, whereas Russia faces the problem of enforcing a uniform system of payroll taxes across its vast territory. Russia's social policies are the outcome of a lengthy process of consensus-building among its centralized government agencies; China's policy process reflects a constant interaction between broad centrally-established target goals and local discretion over their implementation. We would expect that Russia would experience difficulty reaching a consensus across the competing bureaucratic blocs in government and in enforcing a policy once reached. China would demonstrate greater variety across towns, counties and provinces, with some succeeding in meeting the financial demands of the system they created and others requiring infusions of subsidies from elsewhere. Therefore although China's decentralized system has undoubtedly fostered greater innovation, local autonomy in social welfare reform means that successful models are slow to spread because of resistance from those units that would lose out from a broader pooling of risk. Russia's top-down model of policy-making in social policy implies that resistance to policy initiatives will be concentrated at the center; in China's bottom-up system, different regions are likely to feature a variety of approaches to handling social welfare issues and resistance to the center's policy goals is likely to be concentrated at the regional level rather than at the center.

The wide cross-regional economic disparities in both Russia and China have somewhat different effects on social policy as a result of the difference between them in the level of administrative decentralization. In both countries, cross-regional inequality in incomes (and per capita outcome) has risen since the onset of reform (see Figures 2, 3 and 4).[51] This growing divergence is masked somewhat by the growing divergence in price levels. But even when adjusted for different rates of price inflation, regional levels of income diverge significantly in both countries.[52] As in the United States, both Russia and China have seen a sigificant concentration of incomes among the highest income earners.[53] However, Russia and China differ markedly from the United States in that a large share of aggregate inequality is associated with spatial differences, both rural-urban and cross-province.

Spatial inequality has implications for social policy both for subnational governments and for firms. By creating pressure on the central government to redress cross-regional differences in living standards in order to avert social discontent, regions are divided into net donors and net recipients of government spending. Likewise, as with interpersonal inequality, spatial inequality sets an upper bound to the effective social tax rate; the central government can set high payroll tax rates (a high base rate for mandatory social insurance contributions as well as a high ceiling on the earnings subject to the tax), but firms may avoid paying some or all of the tax due. Indeed, it is often the case that local governments explicitly forgive some or all of the payroll tax for local firms as a condition for their supplying other public services to the region.[54] To the extent that firms avoid paying into the social insurance funds, their equalizing effects are nullified.

III. The Case of Pension Policy

Both Russia and China face serious strains in financing their pension obligations. As former finance minister Aleksei Kudrin put it, Russia's pension system is effectively a pyramid scheme: each generation is receiving more in pension benefits than the previous generation, and paying in more.[55] At some point, benefits will need to be cut drastically or contributions raised drastically. China's situation differs only in that pension coverage has expanded dramatically following the 2010 social insurance law and now nominally covers all sections of the population, rural, urban resident, and urban employee at extremely modest benefits levels. Despite the expansion of the pool of contributors, experts warn that the current system is not sustainable.[56] Figures 5 and 6 show the rising deficit in the pension system (Figures 5 and 6).

Efforts at pension reform in the two countries demonstrate the difficulty faced by bureaucratic-authoritarian regimes at reforming the pension system in a setting of rising inequality. Above I noted that policy-making is characterized by a search for consensus on the part of bureaucratic blocs. In Russia, the social bloc is allied with the labor unions and and the Pension Fund in championing higher benefits, higher contributions rates, and greater control for the Pension Fund over collecting and administering pensions. The finance and economic development ministries tend to be allies in these battles, joined by business associations such as RSPP and Delovaia Rossiia, in favoring lower contributions rates and a greater role for private pension savings. Liberal intellectuals such as Aleksei Kudrin and experts from the Gaidar Institute and Higher School of Economics also warn that without raising the retirement age and relying more on personal savings accounts, the system is not sustainable. In China, similar bloc alignments are present, although they play out their competition less publicly.[57]

Russia began to reform its social benefits system even before the Soviet Union broke up. Russia's government created the Pension Fund in 1990, funding it by a 26% pension tax on the wage fund. Along with the other off-budget funds covering medical care and social insurance (disability, unemployment, maternity and so on), the Pension Fund was to operate as a social insurance pool that would alleviate the strain on the state budget of meeting current social obligations. Social policy was an extremely contentious area of policy in the 1990s. Inter-branch deadlock paralyzed adoption of of a more comprehensive pension reform, while actual benefits suffered from high inflation, the implosion of the state's capacity to deliver benefits, and high and mounting pension arrears.[58] By the late 1990s, the pension system was hemorrhaging money: by 1998, the Pension Fund was spending 16 billion rubles a month but collecting only 1.5 billion.[59] The reformers wanted to overhaul the pension and other benefits plans to make the system more redistributive but also more responsive to market incentives. Reformers envisioned a multi-tier system whereby the state would guarantee a minimum basic income to all pensioners, but require current employees to contribute to a defined-contributions pension scheme with individual accounts. A final tier would encourage individual contributions to private and company plans. Opposition in the Duma and bureaucracy made it impossible for Yeltsin's government to do more than draft the outlines of such a system.

Following the 1999-2000 elections, newly elected president Vladimir Putin had the leverage to enact these reforms. Putin formed consultative bodies to solicit the views of major affected interests. In the pension area, he created a National Council for Pension Reform that included representatives of all the parties represented in parliament, business associations, trade unions, NGOs, and experts, and was chaired by the prime minister. They drafted a plan based on the three-tier model advocated by the World Bank.[60] At the risk of oversimplifying the story, the liberal wing won a partial political victory in 2001 when it persuaded the government to adopt a mixed system incorporating mandatory personal retirement savings accounts along with a PAYG social insurance plan. The personal savings accounts were funded by a contribution from an employee's wages that went into an account managed either by a state bank or a private pension fund. The rest of the mandatory pension insurance contribution from went into a social insurance pool that was used to fund both the guaranteed minimum pension and the current pay-as-you-go system for individual pensions. Although the labor ministry and pension fund won some concessions, the reform did represent a major move toward a market-friendly, sustainable pension system. Nonetheless, by the time Putin signed the relevant legislation, in December 2001, some key details still remained unresolved.[61]

Accordingly, debate over the private pension funds and other significant issues of the new system continued. The absence of consensus within the government over the proper level of social insurance contributions is suggested by the fact that the payroll tax structure and rate constantly changed. The rate was set at 35.6% in 2000, then lowered to 26% in 2005, raised again 34% in 2011, and lowered to 30% as of 2012 with a 10% surtax for incomes above 512,000 rubles a year (about $17,000). Most of the current 30% social contributions tax goes into the pension system (22% of the wage is for pensions, 8% for social and medical insurance). The pension contributions were divided between the mandatory personal retirement account (6% for individuals born after 1966) and the general insurance pool (itself divided between an individual account and a common pool, both of which are used to fund current pensions). Individuals may contribute an additional sum into a personal pension savings account, which is matched by state co-financing up to a set limit. Companies may also create their own retirement savings plans.

Pressure to reform the pension system mounted throughout the decade. The financial crash of 2009 had prompted the government to raise pension benefits significantly (by one-off increases in benefits, accelerated inflation indexing, and a new formula for counting the value of labor in the Soviet period). Legislation in 2009 led to a near-doubling of pensions. However, inflation ate up most of the increases. In real terms, pensions rose only slightly. (Figure 7) The volatility of the markets, and particularly the 2008 crash, meant that the pensions invested in both the state bank (Vneshekonombank, or VEB) and the private pension funds had lost ground in real terms. [62] By 2012, the Pension Fund deficit was at about a trillion rubles (about $33 billion, or just under 2% of GDP). This is made up by transfers from the federal budget, which also contributes another 1.4 trillion to subsidize the voluntary pension savings co-financing scheme and other commitments.[63] As a major report by a team of experts concluded, Russia's spending on pensions is on a par with OECD countries, its payroll tax rates are comparable, but replacement rates are half to three quarters of OECD levels despite significantly lower wages.[64] Vladimir Putin aptly summed up the situation in early 2012 when he observed that "pension guarantees are probably the biggest achievement and biggest problem for our country." [65] He noted that the share of pension payments in GDP had reached 10% and was continuing to rise.

Meantime faith in the pension system is low. According to a survey in 2011, only 3% see savings in non-state pension funds as a realistic way to improve retirement income.[66] In any case, few people in Russia count on their pension as their main source of income in retirement — only 15% in a 2011 survey. Most expect to continue working, draw down their savings, or rely on their children.[67] The lack of confidence in the system helps to explain the widespread collusion between employers and employees in evading social insurance contributions. According to a survey by the state labor inspectorate, most employers pay social taxes only on part of the employee's wages, often with the consent of the employees.[68] Often, however, especially in the informal sector, workers have little power to demand that employers pay their payroll taxes.[69] A common arrangement in small business is for the employer to pay social insurance contributions on half of an employee's wage, and to pay the other half in unreported cash.[70]

By 2010, the partial consensus around the 2002 reform had largely broken down. The health minister called for replacing the mandatory pension savings system with voluntary contributions.[71] The big business association RSPP proposed switching to an all-savings system with only a minimum retirement income guarantee.[72] Although some finance ministry officials, non-government experts, and former finance minister Kudrin were openly calling for raising the retirement age, Putin flatly rejected the idea. With 2011-2012 election cycle approaching, United Russia threatened to expel any member of its Duma faction who breathed a word about raising the retirement age.[73] The government charged expert groups to come up with a new plan that would square the circle--to put the pension system on a sustainable basis without raising the retirement age or reducing benefits.

Some points were agreed. Because many state employees and many workers in hazardous enterprises have the right to early pensions, both right and left agreed that employers in enterprises with hazardous working conditions should be required to pay more into the pension fund. All sides could agree on raising the ceiling on earnings subject to payroll social contributions and on the desirability of encouraging people to work longer before collecting their pensions. Deep divisions remained over the mandatory pension savings system, however. The social bloc wanted to eliminate it or at least to cut it drastically. Seeing an opportunity to reduce the government's subsidies to the Pension Fund and therefore to allow them to increase funding for other social programs, such as the medical insurance fund, the health ministry proposed diverting the contributions into the personal retirement savings accounts managed by the VEB into the current pension insurance fund. [74] The ministry reasoned that only a minority of the population were sending their contributions into private pension funds, so had little concern whether their contributions went into the general pool or individual social insurance accounts. The Ministry of Economy was cool to the idea. Putin demanded that the government come up with a plan by October 1, 2012.[75]

This time the social bloc sponsored the reform, drafting the proposal that was eventually adopted, building alliances and making concessions as needed. The plan's basic idea was to make the contributory pension system voluntary and to put the social pension system onto a point basis.[76] By calculating benefits in points, the government could accomplish several things at once. It could adjust benefits to actual revenues and peg points to both wages earned and years worked. This would encourage people to accumulate points by working past the pension age. Beyond this, however, the government was deeply divided. [77] The economic development and finance ministries wanted to preserve the mandatory savings system and worried that otherwise, the pension insurance system would still be faced with the unpalatable choice between raising taxes and lowering benefits at some point in the future. Deadlocked, the government missed its own deadlines for reaching agreement. Putin refused to intervene, demanding that the competing wings of the government hammer out their differences.

In November, however, Putin sided with the social bloc and approved a compromise decision to lower the rate of the mandatory savings contributions from 6% to 2% of earnings and to allow individuals to choose whether to contribute the remaining 4% to a private pension fund or the pension insurance fund.[78] Meantime, through late 2012 and early 2013, government continued to develop its point scheme. The economic and social blocs agreed on keeping the same overall contributions rate (22%, with a 10% surtax on earnings above a certain threshold) and to divide those contributions between a base portion and an individual insurance account.[79] Divisions within the government over details of the proposal (such as how to convert points into ruble equivalents and how many points could be accumulated) delayed final agreement.[80] The government again missed the deadline Putin set for setting the issue.

Final agreement was prompted by the pressure of preparing a budget for 2014. Preparations began in 2013. Revenues were dropping and the government faced harsh pressure to meet its own goals (including the ambitious spending increases demanded by Putin in his May 2012 decrees). The finance ministry was proposing a 5% across-the-board cut in government spending. Ministers in the social bloc sought new resources to meet their own spending needs and to reduce the annual subsidy to the Pension Fund. Deputy prime minister Ol'ga Golodets finally persuaded her colleagues to make all of the mandatory savings plan voluntary, even dropping the remaining 2%, and using the contributions of those who did not opt to contribute 6% of pay into a private pension plan into the individual accounts through the social pension insurance system.[81] The new system would take effect on January 1, 2015. Thus for the large number of people who had not chosen a private pension fund for their required pension savings, allowing the VEB to manage the accounts, their money would go into the pension insurance system. Golodets argued that from their standpoint there would be no difference.

Meantime, the finance and economic ministries recognized the need for an audit of the private pension funds. Some had already gone bankrupt and the Pension Fund was finding it difficult to recover their assets and obtain the names of the contributors.[82] There was general agreement in the government on the need to guarantee private pension savings, and a recognition that the funds needed to undergo review. The economics and finance ministries proposed diverting the contributions that would have gone to the private funds into personal accounts at the VEB until the funds had been certified and placed under the guarantee system. The social bloc proposed that the diverted funds be used for other social programs. The respective vice-prime ministers, Shuvalov (representing the economics-finance bloc) and Golodets (the social bloc) thought that an agreement had been reached. Unexpectedly, however, the labor and finance ministers sought Putin's agreement to a different arrangement: all the savings contributions for 2014 that would have gone into the private pension funds would be diverted to the Pension Fund to reduce its deficit; they would not be used to fund other social programs. Many referred to the maneuver as a confiscation of the private savings contributions.[83]

In the competition between the finance-economic bloc and social bloc that had gone on throughout the Putin era, the finance-economic bloc had the upper hand at the beginning of the 2000s and the social bloc won out a decade later. Economic and political conditions had changed, and the Putin leadership was driven more by short-term considerations than by the objective of putting the pension system on a sustainable footing. The interests of the present generation won out over those of future generations, social stability and security over the interest in economic growth. The battle lines were relatively constant over the decade, but the calculus of political risk and opportunity for Putin shifted, changing the relative strength of the two coalitions. The result was policy instability.

In the course of this process, some actors outside the government did take part. The public was largely unaware of the issue and uninterested in the details, although there was strong latent opposition to raising the retirement age coupled with deep mistrust of the system.[84] (Nonetheless, the number of people putting their mandatory savings contributions into the private pension funds rose rapidly, to almost 27 million by the end of 2013; their collective pension savings amounted to one trillion rubles.) The trade union federation was largely a bystander.[85] However, parastatal think tanks were active. The Public Chamber weighed in with a report.[86] The Central Bank issued a report opposing the diversion of savings contributions.[87] Representatives of the social bloc met with the Tripartite Commission, expert panels convened by the "open government" ministry, and United Russia to present their proposals and build support. President Putin met with the "Popular Front Action Forum" to deflect criticism of the proposed point system and defend the need for action.[88] When the proposal went to the Duma, the government made further minor concessions.[89] United Russia loyally supported the legislation; as is usual when the government proposes politically painful legislation, United Russia's spokesmen urged the Duma to pass it in first reading so that all the flaws could be straightened out before the second reading. By then of course the essential details have been settled and the legislation passes. However, the government's eagerness to coopt supporters and deflect popular opposition to the pension reform, with its new and untested point system, is suggested by the unusual step of allowing several opposition parties not represented in the Duma to present their views in floor debate.[90] The legislation moved through the legislative process quickly: the government proposed it on October 17; the Duma passed it in first reading on November 19 and in third reading on December 23; the Council of the Federation passed it on December 25; and Putin signed it on December 28.[91] The fast pace of parliamentary deliberation shows that the major policy decisions had been worked out over the previous two years within the government.

All in all, the policy process followed a fairly typical sequence. Following a debate among government officials and experts close to the government, one ministry with a stake in the matter developed the proposal and circulated it among the other ministries. This framed the choices and opened the policy to trade-offs and modifications. Next, the circle of participants widened to include working groups and expert groups that sought to reconcile differences and settle specific details. As a consensus built within the government for the proposal, the government then solicited the comments of a still wider circle of participants, including parliament, the expert community, and public bodies such as business associations, trade unions, the Public Chamber, the Popular Front, the Trilateral Commission, and other quasi-state civic entities. During the process, many details were revealed to the press. Officials dissatisfied with a decision made at a government meeting made a calculatedly critical comment to the press or privately leaked information about the process. (For example, after the decision to divert the personal pension savings contributions into the Pension Fund, economy minister Uliukaev remarked to journalists that he hoped the decision was not irrevocable and that something "better thought through" would yet come along.[92])

Although I have focused on the decision to eliminate the mandatory savings contributions and to divert contributions into the current pension fund, we should remember that there were multiple other decisions affecting the pension system proceeding through the policy mill at the same time. These included a choice over whether the Tax Service or the Pension Fund should collect the contributions (the Pension Fund won out); how to certify the private pension funds; and what the time period should be for giving citizens a choice whether to continue making voluntary contributions or not; and others. Some less immediately related questions, such the budget allocations for each ministry, also had a bearing on pension policy. As options were framed, each was backed by a particular advocacy coalition. At times, coalitions joined forces and agreed to bundle issues by exchanging concessions. In the case of the maneuver to freeze contributions to the non-state pension funds for a year, an unexpected alliance arose between the finance minister, who sought to minimize government transfers to the the Pension Fund and to audit non-state pension funds, and the labor minister, who wanted to protect the Pension Fund. Their last-minute alliance circumvented a number of the other government bodies participating in the decision: the vice-prime minister for social policy who wanted to increase spending on medical insurance and other ministers sought to avoid spending cuts and to use pension savings for their own investment projects.[93] The labor ministry proposed raising social contributions rates, but the finance and economics ministries objected. The president wanted to avoid provoking a protest movement on the part of deceived contributors if pension funds failed, and to keep raising defense spending, so backed the proposal of the labor and finance ministers.

For all the care with which bureaucratic consensus has been built around each step of pension reform, Russia's pension policy has not been stable. Despite the limited number of direct participants in the process, all of them state actors at the federal level, policy decisions have constantly been upset as opponents mobilized and regrouped to overturn them. Policy instability in the area of pension insurance, as in other areas (such as taxes and market regulation), tends to shorten time horizons of participants and undermine confidence in the soundness of the pension system. It therefore exacerbates the problem of underfunded liabilities.

Pension reform has proceeded very differently in China. Not only has it been incremental rather than comprehensive, but every element of it has tried out through local experiments. In the early 1980s, some localities launched efforts to pool social insurance funds at the local level, so that enterprises (many of which financed their own pension funds) could be relieved of their pension obligations, which were proving to be a growing liability under conditions of market reform.[94] The central government encouraged and spread these initiatives.[95] Another line of experiments beginning in the 1980s tested methods for accumulating retirement savings in personal savings accounts, starting with Shanghai and Shenzhen. The State Council in 1991 declared that social pooling across enterprises, based on individual contributions, was to be a standard template throughout the country, and created the basic three-pillar system. At the same time, however, it allowed local governments to establish the contributions levels for local enterprises. The 1991 policy represented a codification of practices that had already developed in many localities rather than setting a fundamentally new policy, but it did lay out objectives for the development of future policy: calling for the pooling of pension insurance funds at the province level at some point in the future. It also envisioned that over time, individual contributions rates would rise and the enterprise contribution rate would fall.[96]

In 1995 the central government established a set of guidelines for social pooling and the management of individual funded accounts. The restructuring of state enterprises in the late 1990s, combined with the Asian financial crisis, brought a further impetus for pension reform. This began in 1997 when the State Council decided to create a unified urban employee pension system with funds pooled at the province level, allowing the local authorities to determine local contributions rates up to a national ceiling.[97] (This allows local governments to lower contributions rates for individual enterprises on an ad hoc basis.) In 2010 the National People's Congress adopted a law on social insurance that codified the experience of numerous local experiments. It established three parallel systems of pension coverage--for the rural population, for residents of urban areas, and for employees of urban enterprises. It called for pooling of funds at the county level or above. The law was highly general, however, providing guidelines rather than details.[98] For example, the centerpiece law of the 2013 pension reform in Russia, "on pension insurance," consisted of almost 20,000 words and specified in fine detail the formulas to be used to calculate pension benefits. The 2010 Chinese law (in English translation) ran a total of 6349 words, with only 720 words devoted to the pension insurance system. The difference reflects the centralization of the pension system in Russia and the decentralization of China's system.

The far greater decentralization of the pension system in China means that policy is driven much more by *local* coalitions than by coalitions of bureaucratic actors at the center. Therefore it is hard to draw general observations about patterns. Xian Huang has attempted to reconstruct the types of alignments of social interests shaping social insurance policy in China.[99] She distinguishes between groups employed in the state sector and those outside it, and between insiders, who are employed in the formal sector, and outsiders, who are in informal employment. She sees state sector insiders as the most influential force in policy-making, with a preference for higher contributions and benefits levels. However, this does not clarify the institutions and actors that drive policy decisions, particularly given the decentralized character of policy. Mark Frazier characterizes the political coalitions driving pension policy somewhat differently, emphasizing the common interests of "local cadres and crony capitalists" who prefer higher payroll tax contributions and local control over pension funds. He argues that these coalitions have successfully defeated efforts to pool pension funds at higher levels.[100] In each territorial unit, he finds, the local social insurance agency is a powerful player: they offer local authorities a large pool of social insurance funds that can be invested in local development projects. State-owned enterprises controlled by local governments work out their own arrangements with their workforce and government overseers, often colluding to shortchange the social insurance funds.[101] As in Russia, workers generally have little trust in the system.

As a result, although the central government has pressed to raise the administrative level at which social insurance funds are pooled, counties and cities have resisted doing so. In twenty years there has been little movement toward a national pooling of pension funds.[102] Nearly all pooling is still done at the city or county level.[103] Richer localities resist sharing their funds with poorer ones, so that provincial and central government subsidies are required to fill the gap. By 2010, central government subsidies to cover local pension fund deficits had reached about one trillion RMB, or just over a half of one percent of GDP. The drain is lower relatively speaking than in Russia but, as in Russia, the size of the pension system deficit is growing. As Figure 6 indicates, although fewer provinces carry deficits in their pension systems, the aggregate size of the deficit is rising.[104] Evasion and underpayment of payments are rising.[105]

Moreover, the funded portion of the system, that is, the individual retirement savings accounts element, has failed. The few provinces that experimented with them have abandoned them. Funds in the individual portions of the social insurance system are routinely used to pay current pensioners or to fund local investment projects.[106] Like Russia, China has been unable to support both a funded system of future benefits and a PAYG system meeting the needs of current pensioners. As in Russia, this situation is unsustainable, both because of the growing strain on the state budget and because pensions are lagging behind wages.

China's pension system is also more affected by problem of incorporating migrant laborers working in the cities into the pension insurance system than is the case in Russia. In China, the huge flow of migrant labor from rural areas in inland provinces to the rapidly-growing coastal provinces has led to a situation in which approximately a quarter of urban workers are migrants. In typical industrial cities the figure is 40-45%, and in some cities the share is as high as 70-80% of labor force.[3] Most of the migrant workers have been--at least until the 2008 Labor Contract Law (requiring that all workers have employment contracts)--employed on an informal basis, ie lacing contracts. Without urban residency registration status (*hukou*), and without formal contracts, migrants tended to be willing to work for lower wages and benefits than laid-off state enterprise workers.[4] Without an urban hukou, migrant laborers in most cities are not entitled either to urban employee or urban resident basic pension insurance but must settle for the relatively meager rural pension scheme. Often although they pay into the urban pension system, they are unable to move their pension insurance with them when they change jobs. Recently, some cities have been experimenting with new programs under which rural migrants pay into the social insurance system (often at a lower rate), which tends to increase the flow of revenues into the municipal and provincial pension funds. [107]

Simultaneously, China has begun experiencing a shrinking labor force. Its effects are felt much more acutely in southeastern coastal regions than inland. This

---

[3] Kam Wing Chan, "Introduction: Population, Migration, and the Lewis Turning Point," in Cai Feng and Du Yang, ed., *The China Population and Labor Yearbook, vol. 1: The Approaching Lewis Turning Point and Its Policy Implications* (Leiden, Boston: Brill, 2009), p. xviv.

[4] Luigi Tomba, *Paradoxes of Labour Reform: Chinese Labour Theory and Practice from Socialism to Market*. (Honolulu: University of Hawaii Press, 2002).

means that nationally, as more workers are enrolled in the urban employee pension system, more workers are also retiring and collecting benefits from the system. As a result, despite the active effort by trade unions and the government to expand pension insurance coverage, the ratio of retirees to total enrollment has remained at about 24% from the early 2000s to the early 2010's. However, this apparent stability at the nationally aggregated level masks enormous regional variation. Some regions (such as the industrial northeast) have aging populations and high shares of covered workers, so that their dependency ratio has been rising sharply. Other regions have sharply declining dependency ratios because the number of newly enrolled workers has greatly outpaced the number of workers who retire and collect pension benefits. Figure 8 illustrates the wide variation across regions.
[Figure 8 about here]

The diversity of local pension insurance systems also means that some localities offer far more generous benefits than others. Nearly all of the cities and provinces with pension fund surpluses are located in the rich southern coastal areas, but they account for only a third of the pensioners. Shanghai, a municipality with province status, is experimenting with a scheme to cover migrant workers under its urban residence system.[108] This has the advantage of increasing the stream of contributions from a relatively young population and thus increasing the size of its pension fund pool, but it is administratively taxing and may result in widespread evasion as local employers collude with workers to pay wages in cash.

In Russia's centralized system, pension savings provide the government a pool of long-term investment capital for large-scale infra-structure projects. The return on these is quite uncertain and the risk-reward ratio is not priced by the market. In China, pension funds are likewise often used for local development projects, many risky and corrupt.[109] The 2006 Shanghai pension fund corruption case is often cited as a case in point. The former Shanghai Labour and Social Security Bureau chief embezzled from the pension fund and lent the money to a group of developers.[110]

Thus there are some superficial similarities between Russia and China in their current pension policies. Both face serious difficulties in establishing sustainable financing, and have raided the individual contributory accounts to meet current obligations. Both have effectively failed to resolve the problem of the double burden, focusing on meeting the needs of current pensioners rather than on ensuring funded accounts for individual pensions in the future. More revealing are the differences in the way they have made policy. Russia's pension policies have been inconsistent and reversible. Policy was deadlocked in the 1990s, [111] but Putin's access to power shifted the political balance and enabled a major overhaul at the beginning of the 2000s. The political coalition supporting that policy eroded, however, resulting in frequent changes of the structure and level of the payroll tax (alternating between treatment as a tax and as an insurance contribution), before being fundamentally overhauled again in 2013. So far the government has not nationalized the private pension accumulations but it is not out of the question that it will do so if the fiscal situation worsens substantially. Russia's policies have not developed incrementally and have been subject to reversal. They are also vulnerable to widespread non-compliance; each time the contributions rate has risen, large-scale evasion has followed.

China's pattern is quite different. In China, policy-making has been incremental, and always based on local pilots and experiments. China's pension system was extremely limited when reforms began: effectively only the urban state-owned industrial enterprises were covered by the pension system. Some collectively-owned enterprises were covered, and of course government officials in the cities and countryside enjoyed their own separate pension system. China has slowly but steadily expanded basic coverage to include all urban residents (meaning individuals not employed in state industrial enterprises but holding urban *hukous*) and all rural residents. The overall direction of reform has been quite clear: first all sections of the population have been brought into a pension insurance scheme and, according to the 18th Party Congress, the three separate schemes--rural, urban employee and urban resident--are to be united into a single pool in the future. The problems for China are not only in finding sources of financing to meet pension obligations in poor provinces, but also in persuading rich local governments to share their funds with poor ones in the same provinces.

IV. Conclusions

A pension system is a "social contract across different generations, political forces, business and the state."[112] How well have Russia and China succeeded in rebuilding the social contract in the area of pensions?

Both have succeeded in broadening and deepening pension insurance coverage. Russian pensions surpass the subsistence minimum. In China, virtually the entire population is nominally covered by one of the three basic pension schemes. These are significant achievements. Both countries have limited the redistributive impact of pensions, however, by imposing a ceiling on earnings subject to the base payroll tax and by limiting benefits. In Russia, the new pension point system caps the number of points an individual can earn (points are earned through a combination of years of employment and wage levels), setting a ceiling on maximum benefits. In both, the nominal contributions rate is high, but evasion is extremely widespread. Consequently, both are experiencing revenue shortfalls in their pension systems, but in China, these are localized whereas in the centralized Russian system, they are felt in the growing deficit of the Russian Pension Fund. Although both countries have raised benefits, in both, average benefits lag significantly behind average earnings. Efforts to widen and deepen coverage are straining the budgets in both countries, requiring greater budget transfers. Both countries recognize the latent power of pensioners to mount protest, so both have (so far) refused to raise the pension ages as a way of easing the fiscal strain. Instead, both are seeking ways to encourage later retirement.

More revealing are the differences in the way pension reform has proceeded in the two countries. The types of political coalition driving pension policy differ significantly between them. In U-form Russia, the relevant decision-making bodies are all at the central level, where advocacy coalitions reflecting different preferences and interests compete for influence. A market-oriented alliance in 2001-2002 gained control of policy after a decade of impasse, but over the course of the next ten years it lost its dominance as the financial crash of 2008, Putin's turn away from an open, market-oriented policy, rising fears of social unrest, and acute budget strains led the government to change course again in 2012-2013. Although the manoeever alleviated some of the strain faced by the Pension Fund, it only postpones the day of reckoning. Adding Crimea's pensioners to the system will further deepen the strain. As before, Russia's pensioners will need to depend on their own earnings and family resources rather than on pensions for their subsistence. Russia's dilemma is the time inconsistency between current and future interests.

In China, policy has had a stable and consistent direction over time, but has been uneven across territory. The decentralization associated with the M-form model has allowed for extensive policy testing. This in turn has encouraged the authorities to accumulate knowledge gathered locally and to disseminate it nationally. It may also allow the advocates of a policy reform to build coalitions in support of a policy by encouraging local officials to try it out and realize benefits from it. The corollary of the M-form system, however, is that the central authority finds it difficult to enforce common rules on its territorially autonomous units if those rules require them to redistribute resources or suffer losses of rents. This dilemma may help explain the center's apparent inability to imposes losses on territorial governments (for example, by enforcing environment protection laws) compared with its apparent ease in encouraging them to realize gains from growth. Social policy in China is not cyclical or unstable, but it has been unable to pool the benefits and risks of market reform evenly across regions. It therefore deepens spatial inequality.

Resolving redistributive conflicts in democratic states is achieved by bargaining on the part of large organized actors, peak associations of business and labor, parliamentary parties of the left and right. As the literature on the varieties of capitalism demonstrates, the degree to which social policy is redistributive is linked to the level of coordination in investment in human and physical capital by business and labor. Economic, social and political institutions tend to be complementary.[113] If Russia and China are to rebuild a social contract corresponding to the market environment they are entering, the bureaucratic-authoritarian institutions they currently rely upon to set policy are unlikely to suffice. A reform of the policy-making institutional framework is likely to be necessary.

Figure 1: Russia and China: Central Government Shares of Total Revenues, 1998-2012

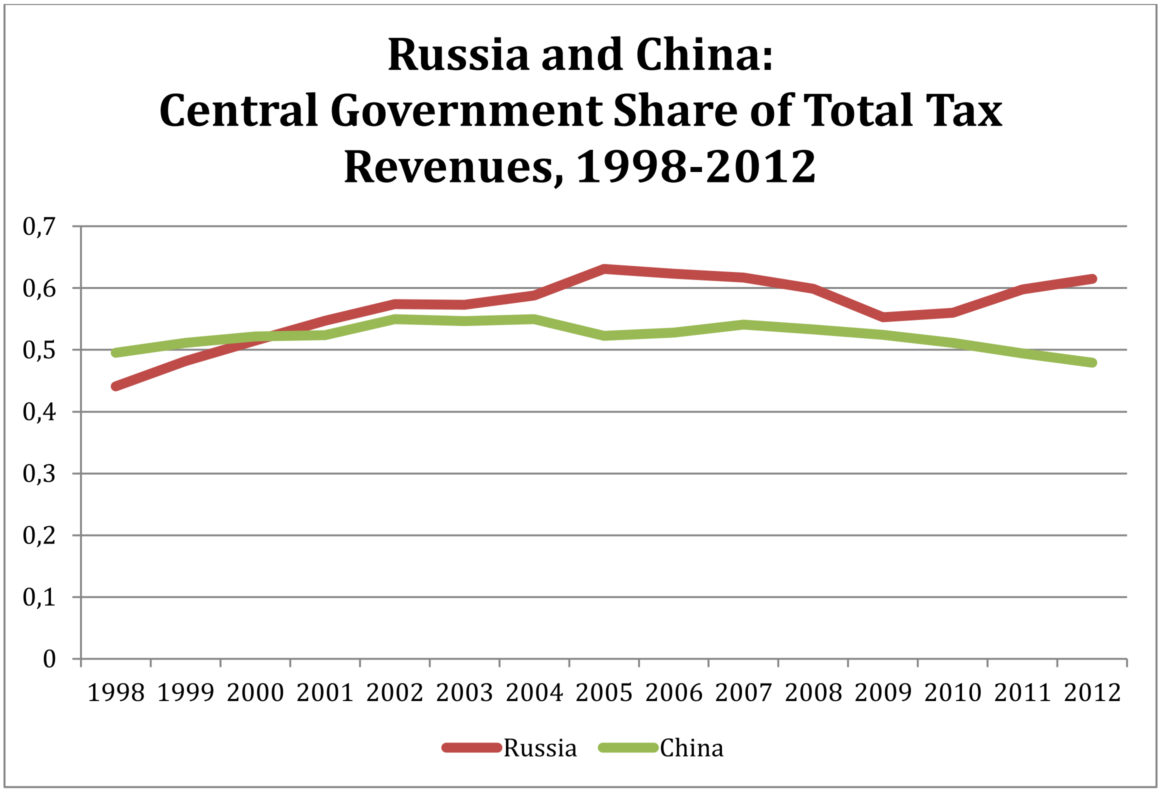


Figure 2: WIDER Estimates of Inequality Trends: US, Russia, China

Figure 3: Russia: Growth in Income Dispersion across Regions

Figure 4: China: Growth of Income Dispersion across Regions

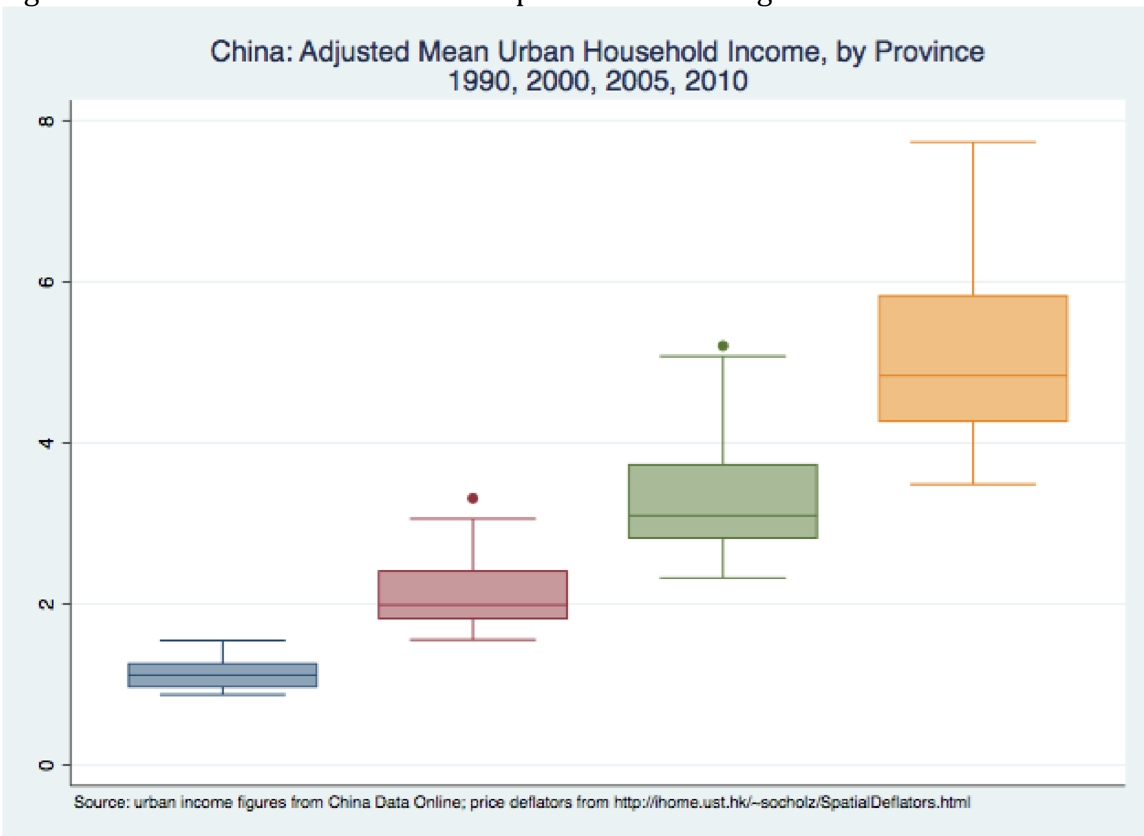


Figure 5: Russia: Pension Fund Deficit

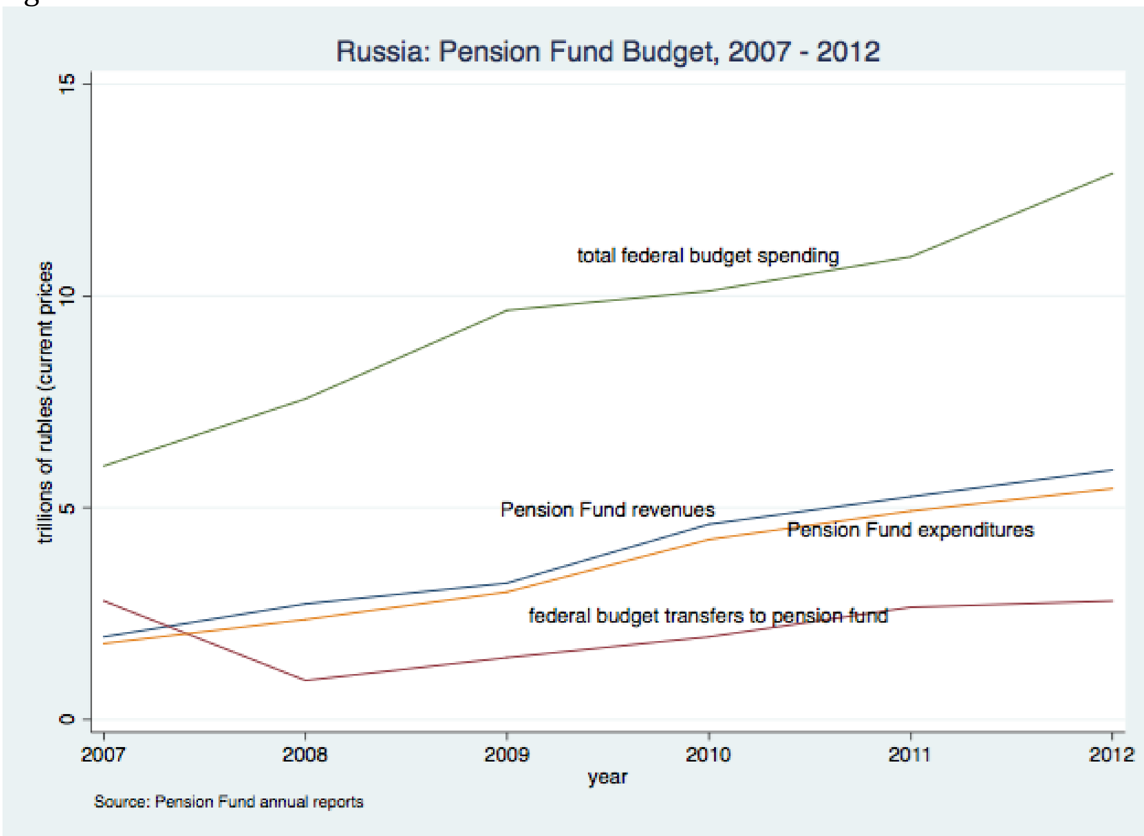


Figure 6: China: Pension Fund Deficits

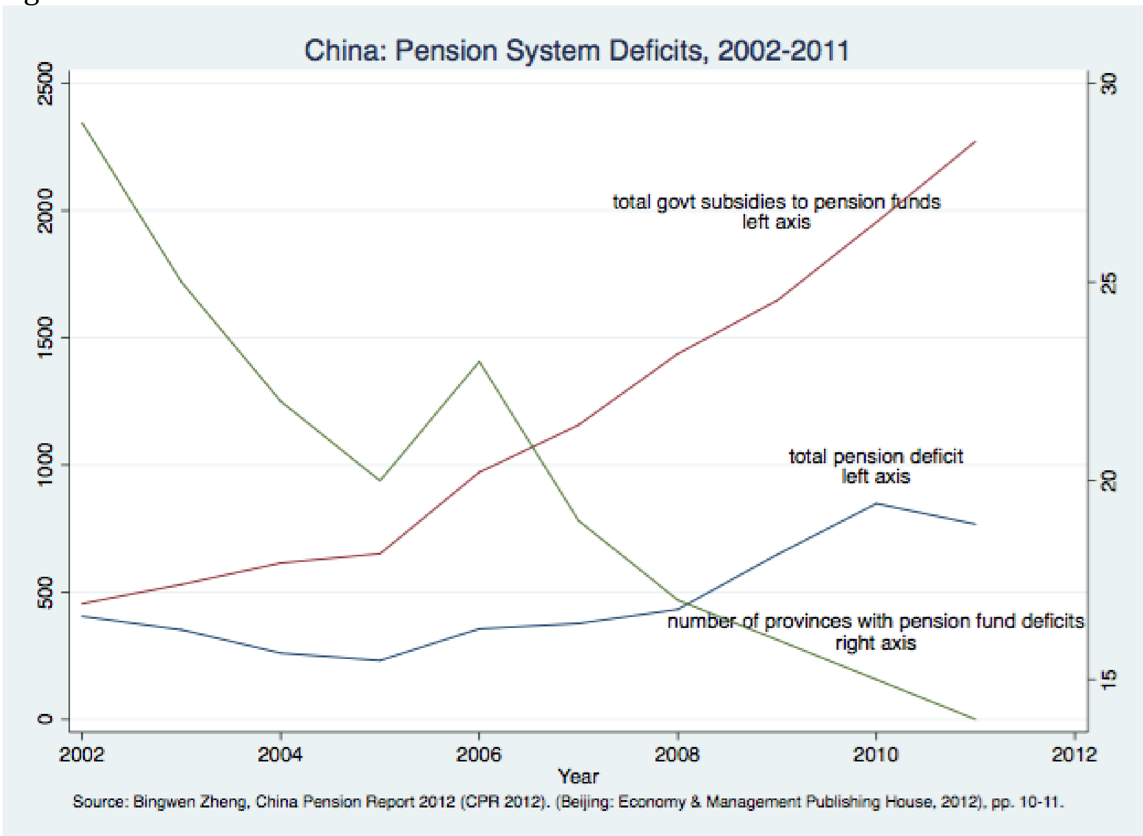


Figure 7: Russia: Trends in Wages, Incomes, and Pensions

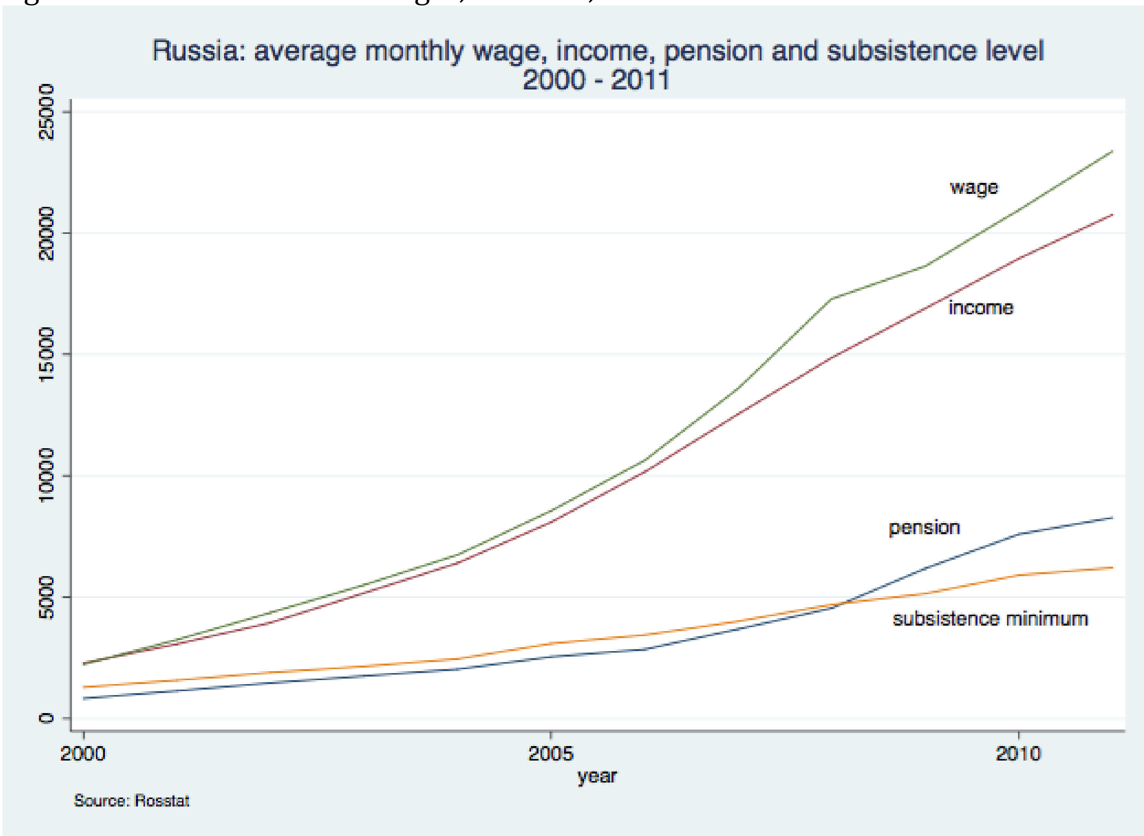
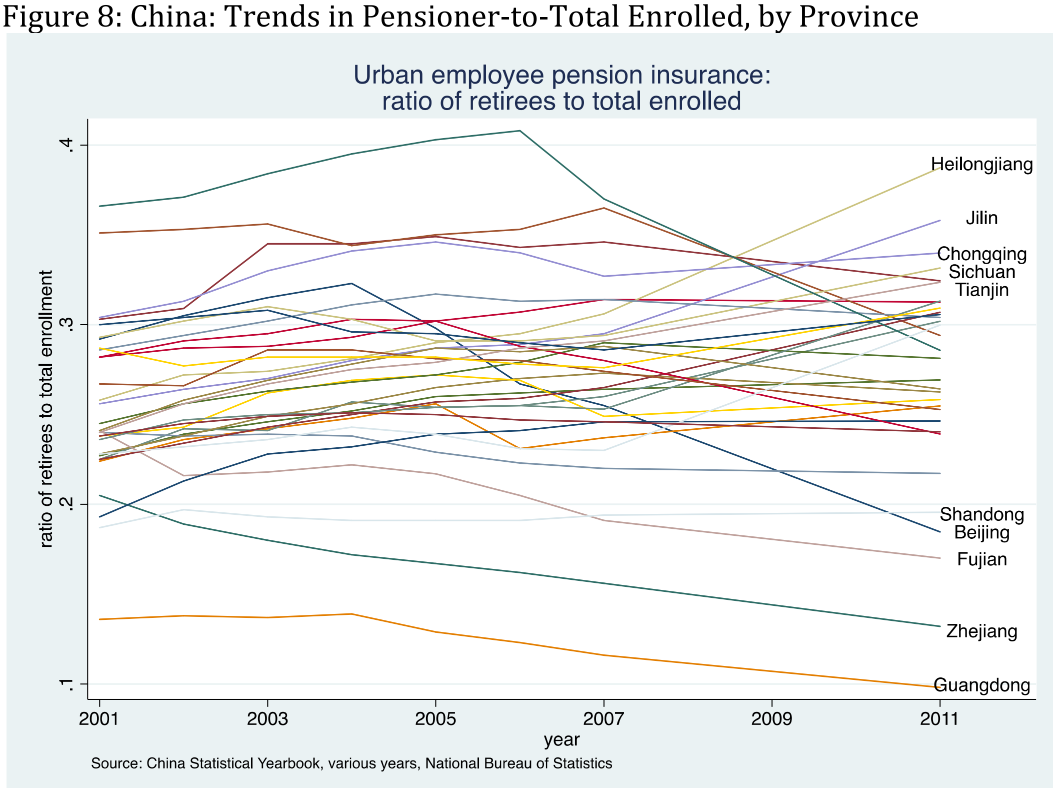


Figure 8: China: Trends in Pensioner-to-Total Enrolled, by Province



[1] Edward X. Gu, "Beyond the Property Rights Approach: Welfare Policy and the Reform of State-Owned Enterprises in China," *Development and Change* 32 (2001), pp. 129-150; Andrew G. Walder, *Communist Neo-Traditionalism: Work and Authority in Chinese Industry*. (Berkeley: University of California Press, 1986); Xiaobo Lü and Elizabeth J. Perry, Eds. (1997). *Danwei: The Changing Chinese Workplace in Historical and Comparative Perspective*. Armonk, NY, M. E. Sharpe; David Bray, *Social Space and Governance in Urban China: The Danwei System from Origins to Reform*. (Stanford, CA: Stanford University Press, 2005).

On the equivalent system in Russia, see Simon Clarke, Ed. (1995). *Management and Industry in Russia: Formal and Informal Relations in the Period of Transition*. Brookfield, VT, Edward Elgar; Simon Clarke, Ed. (1996). *Labour Relations in Transition: Wages, Employment and Industrial Conflict in Russia*. Cheltanham, UK, Edward Elgar; Simon Clarke, Ed. (1996). *Conflict and Change in the Russian Industrial Enterprise*. Cheltanham, UK, Edward Elgar; Linda J. Cook, "Brezhnev's 'Social Contract' and Gorbachev's Reforms," *Soviet Studies* 44(1) (1992): 37-56; Cook, *The Soviet 'Social Contract'*; Gregory Schwartz, "Employment Restructuring in Russian Industrial Enterprises: Confronting a 'Paradox'," *Work, Employment, and Society* 17(1) (2003): 49-72.

[2] In this respect the model is analogous to the notion of the social contract advanced by John Locke and other philosophers, for whom it was an idealized conception of the right and obligations of members of society toward one another and between them and the sovereign. Ernest Barker, Ed. (1978). *Social Contract: Essays by Locke, Hume, and Rousseau*. Oxford, Oxford University Press.

[3] Linda J. Cook, *The Soviet 'Social Contract' and Why It Failed: Welfare Policy and Workers' Politics from Brezhnev to Yeltsin*. (Cambridge: Harvard University Press, 1993), p. 1.

[4] China Development Research Foundation, *Constructing a Social Welfare System for All in China*. (New York: Routledge, 2012), p. 8.

[5] This premise is similar to the notion the "contingent consent" to tax obligations proposed by Margaret Levi, *Of Rule and Revenue*. (Berkeley: University of California Press, 1988).

[6] Andrew L. Roberts, *The Quality of Democracy in Eastern Europe: Public Preferences and Policy Reforms*. (Cambridge: Cambridge University Press, 2010).

[7] Allan H. Meltzer and Scott F. Richard, "A Rational Theory of the Size of Government," *Journal of Political Economy* 89(5) (1981): 914-927.

[8] Robert A. Dahl, *On Political Equality*. (New Haven, CT: Yale University Press, 2006).

[9] Philipp Rehm, "Social Policy by Popular Demand," World Politics 63:2 (April 2011), pp. 271-99; Isabela Mares, "The Sources of Business Interest in Social Insurance: Sectoral versus National Differences," *World Politics* (January 2003) 55:2, pp. 229-258; Karl Ove Moene and Michael Wallerstein, "Inequality, Social Insurance, and Redistribution," *American Political Science Review* 95(4) (2001): 859-874; Karl Ove Moene and Michael Wallerstein, "Earnings Inequality and Welfare Spending: A Disaggregated Analysis," *World Politics* 55(4) (2003): 485-516.

[10] Paul Pierson, "Three Worlds of Welfare State Research," *Comparative Political Studies* 33(6/7) (2000): 791-821; Paul Pierson, "The New Politics of the Welfare State," *World Politcs* 48(2) (1996): 143-179; Jacob S. Hacker, "Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States," *American Political Science Review* 98(2) (2004): 243-260; Robert R. Kaufman, "The Political Effects of Inequality in Latin America: Some Inconvenient Facts," *Comparative*

Politics 31(3) (2009): 359-379.
[11] Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy*. (Cambridge: Cambridge University Press, 2006); cf William Easterly, "The Middle Class Consensus and Economic Development," *Journal of Economic Growth* 6(4) (2001): 317-335.
[12] Stephan Haggard and Robert R. Kaufman, *Development, Democracy and Welfare States: Latin America, East Asia, and Eastern Europe*. (Princeton: Princeton University Press, 2008).
[13] Cook, *Social Contract*.
[14] Song, Shunfeng, "Pension Systems and Reforms in China and Russia." *The Chinese Economy* 42:3 (2009): 9-23; Robert Holzmann, "Global Pension Systems and Their Reform: Worldwide Drivers, Trends, and Challenges," Washington, World Bank, May 2012, Discussion Paper no. 1213, p. 2; Robert Holzmann, David A. Robalino, and Noriyuki Takayama, eds., Closing the Coverage Gap: The Role of Social Pensions and Other Retirement Income Transfers, Washington, DC: World Bank, 2009; Mitchell Orenstein, "Pension Privatization in Crisis: Death or Rebirth of a Global Policy Trend?" *International Social Security Review*, 65:3 (2011), pp. 65-80.
[15] The contributions to the social insurance fund, managed by the Pension Fund, includes contributions to a common pool that funds base pensions, and contributions to individual pension insurance accounts.
[16] Sarah Sokhey, "The politics of pension reform," Association for Slavic, Eurasian and East European Studies annual convention, New Orleans, November 16, 2012.
[17] Susan Shirk, *The Political Logic of Economic Reform in China*. (Berkeley, CA: University of California Press, 1993); Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*. (Princeton: Princeton University Press, 1988); Sebastian Heilmann, "Making Plans for Markets: Policies for the Long Term in China," *Harvard Asia Quarterly* 13(2) (2011): 33-40; Sebastian Heilmann and Lea Shih, "The Rise of Industrial Policy in China, 1978-2012," *Harvard-Yenching Institute Working Paper Series* (2013): 1-24; Richard Sakwa, *The Crisis of Russian Democracy: The Dual State, Factionalism and the Medvedev Succession*. (Cambridge: Cambridge University Press, 2011); Vladimir Gel'man, "The Unrule of Law in the Making: the Politics of Informal Institution Building in Russia," *Europe-Asia Studies* 56(7) (2004): 1021-1040; William Zimmerman, Ruling Russia. (Princeton: Princeton University Press, 2014).
[18] Jerry F. Hough and Merle Fainsod, *How the Soviet Union Is Governed*. (Cambridge: Harvard University Press, 1979).
[19] Timothy J. Colton and Stephen Holmes, Eds. (2006). *The State after Communism*. Lanham, MD, Rowman & Littlefield.
[20] Andrew Mertha, *China's Water Warriors: Citizen Action and Policy Change*. (Ithaca, NY: Cornell University Press, 2008); Andrew Mertha, "'Fragmented Authoritarianism 2.0': Political Pluralization in the Chinese Policy Process," *China Quarterly*(200) (2009): 995-1012.
[21] John D. Huber and Charles R. Shipan, *Deliberate Discretion? The Institutional Foundations of Bureaucratic Autonomy*. (Cambridge: Cambridge University Press, 2002).
[22] Shirk, *The Political Logic*.
[23] On "leading small groups," Lieberthal and Oksenberg, p. 41; Kenneth G. Lieberthal, "Introduction: The 'Fragmented Authoritarianism' Model and Its Limitations," in

Kenneth G. Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (University of California Press, Berkeley, 1992).
[24] Li Wei, *The Chinese Staff System: A Mechanism for Bureaucratic Control and Integration*. (Berkeley, CA: Institute of East Asian Studies, University of California, Berkeley, 1994).
[25] Thomas F. Remington, Presidential Decrees in Russia: A Comparative Perspective (Cambridge, Cambridge University Press, 2014); Thomas F. Remington, "Democratization, Separation of Powers, and State Capacity," *The State after Communism: Governance in the New Russia*. Ed. Timothy J. Colton and Stephen Holmes. (Lanham, MD: Rowman & Littlefield, 2006): 261-298; Thomas F. Remington, "Patronage and the Party of Power: President-Parliament Relations under Vladimir Putin," *Europe-Asia Studies* 60(6) (2008): 965-993; Thomas F. Remington, "Putin, Parliament, and Presidential Exploitation of the Terrorist Threat," *Journal of Legislative Studies* 15(2/3) (2009): 219-238; Ora John Reuter and Thomas F. Remington, "Dominant Party Regimes and the Commitment Problem: The Case of United Russia," *Comparative Political Studies* 42(4) (2009): 501-526.
[26] On the legislature, see Murray Scot Tanner, "How a Bill Becomes a Law in China: Stages and Processes in Lawmaking," *China Quarterly* no. 141 (March 1995): 39-64.
[27] On the role of recurrent temporal cycles, see Remington, *Presidential Decrees*.
[28] Yu. M. Baturin, A. L. Satarov, V. F. Il'in, V. V. Kadatskii, M. A. Kostikov, A, Ya. Krasnov, K. F. Livshits, L. G. Nikiforov, and G. A. Pikhoia, Ed. (2001). *Epokha Yel'tsina: ocherki politicheskoi istorii*. Moscow, Vagrius.
[29] Ol'ga Kuvshinova, Filipp Sterkin, "Kak i zachem prinimalos' reshenie o zamorazhivanii pensionnykh nakoplenii," *Vedomosti*, October 21, 2013.
[30] Deng Xiaoping's "southern tour" in 1992 was an important case in point. In developing alliances for policy change outside the existing system of party and state offices, his initiative resembled Mao Zedong's willingness to destroy the party-state system in the Cultural Revolution.
[31] Thomas F. Remington, *The Politics of Inequality in Russia* (Cambridge: Cambridge University Press, 2011); Susanne Wengle and Michael Rasell, "The Monetisation of L'goty: Changing Patterns of Welfare Politics and Provision in Russia," *Europe-Asia Studies* 60(5) (2008): 739-756.
[32] Quoted in Thomas F. Remington, Irina Soboleva, Anton Sobolev, and Mark Urnov, "Governors' Dilemmas: Economic and Social Policy Trade-Offs in the Russian Regions (Evidence from Four Case Studies)," *Europe-Asia Studies* 65(10) (2013), p..
[33] Zubarevich, N. V. (2011) 'Sotsial'nye i investitsionnye prioritety v mezhbyudzhetnykh otnosheniyakh tsentra i regionov na stadii vykhoda iz krizisa', Paper presented at conference on Problems of Development of Economy and Society, Higher School of Economics, Moscow, 6 April 2011.
[34] Chinese officials face a task environment in which performance targets are classified as "priority" (meaning that failure to meet the goal effectively kills the official's career); "hard" (important and often quantifiable goals), and "soft" (lower priority). Maria Edin, "State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective," *The China Quarterly* 173 (2003): 35-52 Bill K. P. Chou, *Government and Policy-Making Reform in China: The Implications of Governing Capacity*. (London and New York: Routledge, 2009).

[35] He Na and Chen Xin, "Age-old question raises a retirement dilemma," *China Daily*, June 24, 2012

[36] Thomas F. Remington, Irina Soboleva, Anton Sobolev, and Mark Urnov, "Governors' Dilemmas: Economic and Social Policy Trade-Offs in the Russian Regions (Evidence from Four Case Studies)," *Europe-Asia Studies* 65(10) (2013): 1855-1876; William Hurst and Kevin J. O'Brien, "China's Contentious Pensioners," *China Quarterly* 170 (2002): 345-360.

[37] Linda J. Cook, *Postcommunist Welfare States: Reform Politics in Russia and Eastern Europe*. (Ithaca, NY: Cornell University Press, 2007); Shih-Jiunn Shi, "The Contesting Quest for Old-Age Security: Institutional Politics in China's Pension Reform," *Journal of Asian Public Policy* 4(1) (2011): 42-60.

[38] Interview with pension expert, December 2013; on Kazakhstan, see: <http://www.cacianalyst.org/publications/field-reports/item/12769-kazakhstan-adopts-controversial-pension-reform.html>.

[39] Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development," *Journal of Economic Literature* 49(4) (2011), p. 1116; Sebastian Heilmann, "Experimentation under Hierarchy: Policy Experiments in the Reorganization of China's State Sector, 1978-2008," *Working Papers, Center for International Development, Harvard University* CID Working Paper No. 172 (2008); Sebastian Heilmann and Elizabeth J. Perry, "Embracing Uncertainty: Guerrilla Policy Style and Adaptive Governance in China," *Mao's Invisible Hand*. Ed. Sebastian Heillmann and Elizabeth J. Perry. (Cambridge, MA: Harvard University Press, 2011): 1-29.

[40] There are exceptions, but rarely in the area of welfare policy. Under Putin, the jury trial system was tested before being adopted throughout the country, as was the new school curriculum on ethics. Policies on energy conservation, land valuation, and other issue are also tried out locally first. However, major reforms of tax and social policy are not tested through local pilot programs, in part because of the high level of integration of social funds at the national level.

[41] Jr. Chandler, Alfred D., *The Visible Hand: The Managerial Revolution in American Business*. (Cambridge, MA: Harvard University Press, 1977).

[42] Eric Maskin, Yingyi Qian and Chenggang Xu, "Incentives, Information, and Organizational Form," *Review of Economic Studies* 67(2) (2000): 359-378.

[43] Yingyi Qian and Chenggang Xu, "Why China's Economic Reforms Differ: the M-form Hierarchy and Entry/ Expansion of the Non-State Sector," *Economics of Transition* 1(2) (1993): 135-170; Yingyi Qian, Gerard Roland and Chenggang Xu, "Coordination and Experimentation in M-Form and U-Form," *Journal of Political Economy* 114(2) (2006): 366-402; Yingyi Qian and Chenggang Xu, "Why China's Economic Reforms Differ: the M-form Hierarchy and Entry/ Expansion of the Non-State Sector," *Economics of Transition* 1(2) (1993): 135-170; Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development," *Journal of Economic Literature* 49(4) (2011): 1076-1151.

[44] Thomas F. Remington, *Building Socialism in Bolshevik Russia: Ideology and Industrial Organization, 1917-1921*. (Pittsburgh, PA: University of Pittsburgh Press, 1984).

[45] Sebastian Heilmann and Elizabeth J. Perry, "Embracing Uncertainty: Guerrilla Policy Style and Adaptive Governance in China," *Mao's Invisible Hand*. Ed. Sebastian Heillmann and Elizabeth J. Perry. (Cambridge, MA: Harvard University Press, 2011): 1-29.

---

[46] Sebastian Heilmann, "Policy-Making through Experimentation: The Formation of a Distinctive Policy Process," in Sebastian Heilmann and Elizabeth J. Perry, eds., *Mao's Invisible Hand: The Political Foundations of Adaptive Governance in China*, (Cambridge: MA: Harvard University Press, 2011), pp. 62-101.
[47] Ezra Vogel, *Deng Xiaoping and the Transformation of China*. (Cambridge, MA: Harvard University Press, 2011); Shirk, *The Political Logic of Reform*; Xu, "The Fundamental Institutions."
[48] Jerry F. Hough, *The Soviet Prefects: The Local Party Organs in Industrial Decision-Making*. (Cambridge: Harvard University Press, 1969); N. Iu. Lapina and A. Chirikova, *Regional'nye elity v RF: Modeli povedeniia i politicheskie orientatsii*. (Moscow: Institut nauchnoi informatsii po obshchestvennym naukam, 1999); N. Iu. Lapina and A. Chirikova, *Strategii regional'nykh elit: ekonomika, modeli vlasti, politicheskii vybor*. (Moscow: Institut nauchnoi informatsii po obshchestvennym naukam, 2000); N. Iu. Lapina and A. E. Chirikova, *Regiony-Lidery: Ekonomika i politicheskaia dinamika*. (Moscow: Izdatel'stvo Instituta sotsiologii RAN, 2002).
[49] Sebastian Heilmann and Lea Shih, "The Rise of Industrial Policy in China, 1978-2012," *Harvard-Yenching Institute Working Paper Series* (2013): 1-24.
[50] Interview with banking official, July 2013.
[51] Dwayne Benjamin, Loren Brandt and John Giles, "The Evolution of Income Inequality in Rural China," *Economic Development and Cultural Change* 53(4) (2005): 769-825; Dwayne Benjamin, Loren Brandt, John Giles, et al., "Inequality and Poverty in China during Reform," *PMMA Working Paper 2007-07* (2007); Irina Dolinskaya (October 2002) Transition and Regional Inequality in Russia: Reorganization or Procrastination? *IMF Working Paper* WP/02/169; James K. Galbraith, Ludmila Krytynskaia and Qifei Wang, "The Experience of Rising Inequality in Russia and China during the Transition," *European Journal of Comparative Economics* 1(1) (2004): 87-106; Qin Gao and Carl Riskin, "Market versus Social Benefits: Explaining China's Changing Income Inequality," *Creating Wealth and Poverty in Postsocialist China*. Ed. Deborah S. Davis and Feng Wang. (Stanford, CA: Stanford University Press, 2009): 20-36; Richard Herd, "A Pause in the Growth of Inequality in China?," *OECD Economics Department Working Papers* No. 748 (2010); Tianlun Jian, Jeffrey D. Sachs and Andrew M. Warner, "Trends in Regional Inequality in China," *National Bureau of Economic Research Working Paper Series, Working Paper 5412* (1996); Ravi Kanbur and Xiaobo Zhang, "Fifty Years of Regional Inequality in China: A Journey through Central Planning, Reform, and Openness," *Review of Development Economics* 9(1) (2005): 87-106; Azizur Rahman Khan and Carl Riskin, *Inequality and Poverty in China in the Age of Globalization*. (New York: Oxford University Press, 2001); Austin Nichols, "Income Inequality, Volatility, and Mobility Risk in China and the US," *China Economic Review* 21 (2010): S3 - S11; Carl Riskin, "Has China Reached the Top of the Kuznets Curve?," *Paying for Progress in China: Public Finance, Human Welfare and Changing Patterns of Inequality*. Ed. Vivienne Shue and Christine Wong. (London and New York: Routledge, 2007): 29-45; Shang-Jin Wei and Yi Wu, "Globalization and Inequality: Evidence from Within China," *National Bureau of Economic Research Working Paper Series, Working Paper 8611* (2001); John Whalley and Ximing Yue, "Rural Income Volatility and Inequality in China," *National Bureau of Economic Research Working Paper Series, Working Paper 12779* (2006); Yu Xie and Xiaogang Wu, "Danwei Profitability and Earnings Inequality in Urban China," *China*

Quarterly 195 (2008): 558-581; Dennis Tao Yang, "Urban-Biased Policies and Rising Income Inequality in China," *American Economic Review* 89(2) (1999): 306-310; Yingqiang Zhang and Tor Eriksson, "Inequality of Opportunity and Income Inequality in 9 Chinese Provinces, 1989-2006," *China Economic Review* 21 (2010): 607-616.

[52] The literature on income inequality in China is voluminous. See, in particular, Björn A. Gustaffson, Li Shi and Terry Sicular, Eds. (2008). *Inequality and Public Policy in China*. Cambridge, Cambridge University Press; Li Shi, Hiroshi Sato and Terry Sicular, Eds. (2013). *Rising Inequality in China: Challenges to a Harmonious Society*. Cambridge, Cambridge University Press; on Russia, see Thomas F. Remington, *The Politics of Inequality in Russia* (Cambridge, Cambridge University Press, 2011). Note that estimates of China's Gini coefficient vary widely. Key issues concern valuation of social benefits, calculation of rural incomes and calculation of unreported cash incomes. According to one estimate, the large size of unreported incomes going to the highest-income strata mean that the actual decile ratio for China's income is 65:1 rather than the officially-reported figure of 23:1. See Xiaolu Wang and Wing Thye Woo, "The Size and Distribution of Hidden Household Income in China," *Asian Economic Papers* (2011) 10:1, pp. 1-26.

[53] On the top 1% issue, see Dwayne Benjamin, Loren Brandt and John Giles, "The Evolution of Income Inequality in Rural China," *Economic Development and Cultural Change* 53(4) (2005): 769-825; Anthony B. Atkinson and Thomas Piketty, *Top Incomes: A Global Perspective*. (New York: Oxford University Press, 2010); Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez, "Top Incomes in the Long Run of History," *Journal of Economic Literature* 49(1) (2011): 3-71; Thomas Piketty and Emmanuel Saez (2001). "Income Inequality in the United States, 1913-1998," NBER Working Paper Series. Cambridge, MA, National Bureau of Economic Research.

[54] This practice is common in both Russia and China. Frazier, Socialist Insecurity; Zhang Bingwen, CPR; Philip Hanson, "Federalism with a Russian Face: Regional Inequality, Administrative Capacity and Regional Budgets in Russia," *Economic Change and Restructuring* 39 (2006): 191-211; Kathryn Stoner-Weiss, *Resisting the State: Reform and Retrenchment in Post-Soviet Russia*. (Cambridge: Cambridge University Press, 2006). In China, the April 2014 strike at the Yue Yuen footwear factory illustrated this practice: over 40,000 workers walked out for two weeks after learning that the company had been paying social insurance contributions only on their base pay, not on overtime and bonuses. The strike ended only after the government required the Taiwanese-owned company to pay not only current and future contributions on the full amount of earnings, but also to make up the substantial retroactive arrears. Demetri Sevastopulo, "China Charges Labor Activist after Yue Yuen Shoe Factory Strike," *Financial Times*, April 29, 2014

[55] Aleksei Kudrin and Evsei Gurvich, "Starenie naseleniia i ugroza biudzhetnogo krizisa," *Voprosy ekonomiki*(3) (2012): 52-79.

[56] Bingwen Zheng of the Chinese Academy of Social Sciences has been sounding the alarm for several years. Bingwen Zheng, "Institutional Root Causes of the Irregularity of Social Security Funds in China," *China and World Economy* 15(5) (2007): 65-76; Bingwen Zheng, *China Pension Report 2012 (CPR 2012)*. (Beijing: Economy & Management Publishing House, 2012).

[57] Mark W. Frazier, *Socialist Insecurity: Pensions and the Politics of Uneven Development in*

China. (Ithaca, NY and London: Cornell University Press, 2010); Xian Huang, "The Politics of Social Welfare Reform in Urban China: Social Welfare Preferences and Reform Policies," *Journal of Chinese Political Science* 18 (2013): 61-85.

[58] Cook, *Postcommunist Welfare States*; Andrea Chandler, *Shocking Mother Russia: Democratization, Social Rights, and Pension Reform in Russia, 1990-2001*. (Toronto: University of Toronto Press, 2004).

[59] Chandler, *Shocking Mother Russia*, p. 76.

[60] One of the influential figures was as Igor' Yurgens, head of the national insurance association, vice-chair of RSPP, and later head of the INSOR think tank. The liberal orientation of the council may be inferred from the fact that, among other things, they invited the architect of the Chilean pension plan, José Pinera, to visit Russia. José Pinera, "A Chilean Model for Russia," *Foreign Affairs* 79:5 (September-October 2000), 62-73; Robert Holzmann, "Global Pension Systems and Their Reform: Worldwide Drivers, Trends, and Challenges," Washington, World Bank, May 2012, Discussion Paper no. 1213, p. 2; Robert Holzmann, David A. Robalino, and Noriyuki Takayama, eds., "Closing the Coverage Gap: The Role of Social Pensions and Other Retirement Income Transfers," Washington, DC: World Bank, 2009.

[61] Among other things, legislation regulating the individual savings accounts and the private pension funds, had still not been passed. RFE/RL Business Watch, Vol. 1, No. 24, December 27, 2001.

[62] In the the average return on pension savings in the VEB accounts (where about 84% of contributors keep their pension accounts) was about 5.7% per year while inflation has been running 8-10%. The return on investments in the non-state pension funds was highly variable, some higher than inflation, most well below it.

Anastasiia Bashkatova, Mikhail Sergeev, "Pensionery nedopoluchaiut po 900 rublei v mesiats," *Nezavisimaia gazeta*, October 26, 2010.

[63] *Godovoi otchet za 2011 Pensionnogo Fonda Rossiiskoi Federatsii* (Moscow: Pensionnyi fond Rossiiskoi Federatsii, 2012), p. 21.

[64] Strategy 2020, p. 173.

[65] Vladimir Putin, "Spravedlivoe ustroistvo obshchestva, ekonomiki — glavnoe uslovie nashego ustoichivogo razvitiia v eti gody," *Komsomol'skaia pravda*, February 13, 2012.

[66] Mikhail Sergeev, "Vozrast vykhoda na pensiiu ne meniatsia," *Nezavisimaia gazeta*, October 24, 2011.

[67] Mikhail Malykhin, "Bol'shinstvo rossiian ne zhelaiut povysheniia pensionnogo vozrasta," *Vedomosti*. May 5, 2011.

[68] Liliia Ponomareva, "'Liudi dolzhny poniat', chto rabotodatel' ne beret ikh v rabstvo',"
Kommersant, July 30, 2013.

[69] When payroll taxes went up from 26 to 34% on January 1, 2011, the director of one small firm in Russia informed his employees that he could only afford to keep on 5 of the 10 workers of the firm. The employees responded by proposing to nominally quit their jobs, apply for unemployment benefits, and continue working at the company on an informal, cash-only, basis. Anecdotal evidence indicates that such arrangements are common.

Rimma Avshalumova and Elena Gorelova, "Snova ukhodiat v ten'," *Vedomosti*, January 26, 2011.
[70] Interview with Moscow businessperson, December 2013. The reason for this arrangement, I was told, is that bribes consume a very sizable share of a firm's revenues.
[71] Ol'ga Kuvshinova, "Otdat' i podelit'," *Vedomosti*, October 25, 2010.
[72] Sergei Kulikov. Dlia pensionerov pridumali osobyi institut, " *Nezavisimaia gazeta*, April 8, 2011.
[73] Anastasiia Bashkatova. Partiinyi raskol pensionnoi reformy," *Nezavisimaia gazeta*, April 5, 2011.
[74] Alexander Mazunin; Dina Ushakova, "Defitsit -- delo kazhdogo," *Kommersant*. November 9, 2011.
[75] Maksim Glinkin, Iuliia Iarosh, "Chubais: 'Ser'eznyi politik' ne pozhertvuet nakopitel'noi chast'iu pensii," *Vedomosti*. September 21, 2012.
[76] The health minister first proposed the plan in April 2012.
Ol'ga Kuvshinova, Evgeniia Pis'mennaia, "Na pensiiu grazhdanam pridetsia kopit' samim," *Vedomosti*., April 16, 2012.
[77] Evgeniia Pis'mennaia. Pensionery s nakopitel'noi chast'iu mogut stat' bednee obychnykh," *Vedomosti*. September 17, 2012.
[78] "Ot redaktsii: novyi pensionnyi povorot," *Vedomosti*. February 4, 2013.
[79] Anastasiia Bashkatova, "Pravitel'stvo teriaet kurs," Nezavisimaia gazeta, April 30, 2013.
[80] Ibid.
[81] The implication is that the government will continue to use the notional individual accounts to pay pensions to current pensioners, in effect preserving a PAYG system but infusing more contributions into it.
[82] Nataliia Biianova, "V obankrotivshikhsia NPF propalo 0.5 mlrd rub. pensionnykh nakoplenii grazhdan," *Vedomosti*, November 1, 2013.
[83] Ol'ga Kuvshinova, Filipp Sterkin, "Kak i zachem prinimalos' reshenie o zamorazhivanii pensionnykh nakoplenii," *Vedomosti*, October 21, 2013; Ol'ga Kuvshinova. Pensionnaia formula ob"edinila byvshikh opponentov -- ee sochli avantiuroi," *Vedomosti*. November 18, 2013; Ol'ga Kuvshinova, "Kak Gosduma prinimala pensionnuiu reformu -- reportazh," *Vedomosti*, November 20, 2013; Polit.ru. November 19, 2013.
[84] A report in July 2013 found that one survey found that only around a third of Russians were aware of the coming pension reform; and of them 14% of them were unaware they had pension savings. Polit.ru, July 16. 2013. Surveys conducted by the labor ministry in July about pension reform showed that over half the population said that they did not know the details of how their pension benefits were calculated. And only about half were receiving only white (fully reported) pay, although 90% knew that their pension depends only on official pay. "Ot redaktsii: Khotiat li russkie na pensiiu," *Vedomosti*, July 18, 2013.

A VTsIOM survey found that a third of the population were indifferent to pension reform. This was especially the case among youth (of 18-24 yr olds, over 60% were unaware of moratorium on sending contributions to the savings system;

of those near pension age, about half were unaware. Polit.ru. Ocdtober 22, 2013. Overall, 57% of respondents were unaware of the moratorium; 60% were interested. Ol'ga Grosheva, "'Liudei, konechno, napriagaet reshenie vlastei zabrat' ikh den'gi'," *Kommersant*. October 22, 2013; Anastasiia Bashkatova, "Ocherednoi skandal vokrug pensionnoi reformy," *Nezavisimaia gazeta*, November 1, 2013.
[85] Interview with expert, Moscow, December 2013.
[86] Anastasiia Bashkatova, "Rabotaiushchim starikam sokhraniat ikh mizernoe posobie," *Kommersant*, July 24, 2013.
[87] Mariia Yakovleva, "'Molchunov' prorvalo," *Kommersant*. 19 nov 13
[88]Liliia Biriukova, Maksim Glikin, Mariia Zheleznova, "Pensionnuiu reformu rastolkuiut i uskoriat," *Vedomosti*. December 6, 2013.
[89] Ol'ga Kuvshinova, "Kak Gosduma prinimala pensionnuiu reformu -- reportazh," Vedomosti, November 20, 2013.
[90] Ol'ga Kuvshinova, "Pensionnaia formula ob"edinila byvshikh opponentov -- ee sochli avantiuroi," *Vedomosti*, November 18, 2013; Ol'ga Kuvshinova, "Kak Gosduma prinimala pensionnuiu reformu"; Polit.ru. November 19, 2013; *Kommersant*, November 19, 2013.
[91] N.a., "Gosduma priniala pensionnye zakonoproekty v tret'em chtenii," *Vedomosti*, December 23, 2013; Elena Mart'ianova, "'Ideiia, kotoraia zalozhena v reforme, ne o tom, kak podniat' pensii'," *Kommersant*, January 6, 2014; "Putin podpisal zakon o sozdanii sistemy garantirovaniia pensionnykh nakoplenii," *Vedomosti*, December 30, 2013.

The text of the law on pension insurance may be found at: < http://www.rg.ru/printable/2013/12/31/strahpensii-dok.html>
[92] Anastasiia Agamalova, "Pravitel'stvo mozhet vospol'zovat'sia pensionnymi nakopleniiami grazhdan eshche i za 2015 g.," Vedomosti, October 1, 2013.
[93] Margarita Liutova, Margarita Papchenkova, " Pensii zakataiut v asfal't," *Vedomosti*, October 2, 2013.
[94] Following the Cultural Revolution, many state enterprises in China managed their own pension funds. When China launched market reforms, pension obligations were often a major fiscal liability for enterprises that had older labor forces and large numbers of pensioners to support. The first stage of pension reform therefore focused on enabling SOEs to shift their pension responsibilities to local government.

Nelson Chow and Yuebin Xu, "Pension Reform in China," in Catherine Jones Finer, ed., *Social Policy Reform in China: Views from Home and Abroad*. (Aldershot: Ashgate, 2003), p. 130.
[95] Edward X. Gu, "Beyond the Property Rights Approach: Welfare Policy and the Reform of State-Owned Enterprises in China," Development and Change 32 (2001), pp. 129-150; Mark W. Frazier, *Socialist Insecurity: Pensions and the Politics of Uneven Development in China*. (Ithaca, NY and London: Cornell University Press, 2010).
[96] Chow and Xu, "Pension Reform," p. 131.
[97] Edward X. Gu, "Beyond the Property Rights Approach: Welfare Policy and the Reform of State-Owned Enterprises in China," Development and Change 32 (2001), pp. 142-4.

---

[98] The text of the law may be found at: <http://www.ssf.gov.cn/flfg/gjflfg/201205/t20120509_5142.html>

[99] Xian Huang, "The Politics of Social Welfare Reform in Urban China: Social Welfare Preferences and Reform Policies," *Journal of Chinese Political Science* 18 (2013): 61-85.

[100] Mark W. Frazier, *Socialist Insecurity: Pensions and the Politics of Uneven Development in China*. (Ithaca, NY and London: Cornell University Press, 2010), p. 20.

[101] Ibid., pp. 123-149.

[102] Jin Hui, "Low-level of social pooling is the root cause of deficiencies in China's pension System (Q&A with Zheng Bingwen)," <http://dz.jjckb.cn/www/pages/webpage2009/html/2012-12/28/content_61390.htm?div=-1> *Economic Information* (Newspaper sponsored by Xinhua News Agency), December 28, 2012.

[103] Bingwen Zheng, *China Pension Report 2012 (CPR 2012)*. (Beijing: Economy & Management Publishing House, 2012), p. 147.

[104] Ibid, p. 3.

[105] Ibid, pp. 100-1.

[106] Ibid., p. 11.

[107] China Development Research Foundation, *Constructing a Social Welfare System for All in China*. (New York: Routledge, 2012), p. 31.

[108] Ibid., p. 27.

[109] Mark W. Frazier, *Socialist Insecurity: Pensions and the Politics of Uneven Development in China*. (Ithaca, NY and London: Cornell University Press, 2010), p. 12, 20, .

[110] Frazier, *Socialist Insecurity*, p. 12; "Stability or Growth? Debate on the marketization of China's pension fund," <http://finance.people.com.cn/n/2013/0704/c70846-22083667.html>, July 14, 2013.

[111] Cook, *Postcommunist Welfare States*.

[112] Evgenii Gontmakher, "Nuzhen novyi pensionnyi dogovor," *Vedomosti*, July 23, 2012; cf. Valentin Dement'evich Roik, "Matritsa dostoinoi pensii," *Nezavisimaia gazeta*, May 14, 2011.

[113113] Torben Iversen, *Capitalism, Democracy, and Welfare*. (Cambridge: Cambridge University Press, 2005); Peter A. Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. (New York: Oxford University Press, 2001);
Torben Iversen and David Soskice, "Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More Than Others," *American Political Science Review* 100(2) (2006): 165-181; Torben Iversen and David Soskice, "Distribution and Redistribution: The Shadow of the Nineteenth Century," *World Politics* 61(3) (2009): 438-486;Torben Iversen and John D. Stephens, "Partisan Politics, the Welfare State, and Three Worlds of Human Capital Formation," *Comparative Political Studies* 41(4-5) (2008): 600-637.