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The Journal of Sociology & Social Welfare

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Volume 28  
Issue 1 *March*

Article 7

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March 2001

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### Recommended Citation

Julian, Isabel Pla (2001) "The Transformation of Russian Social Policy in the Transition toward a Market Economy," *The Journal of Sociology & Social Welfare*: Vol. 28 : Iss. 1 , Article 7.  
Available at: <https://scholarworks.wmich.edu/jssw/vol28/iss1/7>

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# The Transformation of Russian Social Policy in the Transition toward a Market Economy

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*The last few years have witnessed truly extraordinary events in the formerly communist societies. These countries were characterized by the great importance attached to social policy as opposed to market economy countries with a similar level of economic growth. However, the transition process toward a market economy has set new conditions for the functioning of governing levels and companies, which has affected social policies altogether. On the one hand, economic liberalization has brought about a reduction of the Russian Government's intervention in the economy, particularly in social policy. On the other hand, the privatization of the state company in a post-communist society would have implied a new way of economic management based on the principal of competition, in direct opposition to the nature of communist companies. Consequently, such a view of the reforms suggests a social policy of a lower magnitude. However, the difficulties of the transitions now underway in the countries that are emerging from communism (which is increasing claims for social protection) together with the deep-rooted nature of the social securities inherited from the communist period, is putting this new approach of a minimal social policy into question.*

In this article we intend to examine the transformation of social policy in the transition from communism to a market economy, and we will focus on the Russian case. First of all, we explain social policy in force during the Soviet planning system, which will bring forward elements of reference for analysis. Secondly, we will focus on the social policy which is a consequence of the process of reforms aiming at a market economy. Finally, we will provide an in-depth analysis of the consequences of the divestiture of the social assets of company provided social services.

### Social Policy in the Traditional Centrally Planned Economy

Social policy in the traditional centrally planned economy was basically characterized by the principles of universality of protection and solidarity among citizens. Throughout the period of the prevalence of the Soviet planning system, two main tools allowed for the development of social policy:

Firstly, price policy was to remain at the service of planning. Thus, prices were of a political nature, that is to say, they had neither an economic role nor reflected the benefit or the shortage of goods. The system of prices was a dual one, as different prices existed for industrial products and consumer goods. Household consumer prices were the principal tool of the incomes policy and did not reflect the costs of production, thus allowing for the consolidation of a norm of consumption of basic products accessible to all Soviet citizens. Such a policy of prices allowed in its turn for the maintenance of a planned salary system with a low salary structure (Chavance, 1987).

Secondly, there was a wide range of non-monetary benefits provided by the state-owned companies. These companies that provided social services were of three types: (1) services provided for current workers in the company during the course of their work and as a benefit of employment (for example, subsidized meals in the on-premise canteens, paid vacations, holiday accommodations in *dachas* or *sanatori*, and sports facilities). Such services in kind constituted part of the workers' wage package, and thus the benefit of this provision could be balanced by a lower cash wage; (2) services provided for current workers and their families alike, for example, pre-school education or health clinics; (3) services provided for the local community, whether or not employees were part of the company (e. g. public infrastructure, hospitals, or transport subsidies) (Commander & Jackman, 1997).

The particular nature of the communist company, which was a national unity of production and a provider of social services, conferred a very important role to social policy during centralized planning, in such a way that each company was bound to direct a part of its clear profits to social policy by means of the Socio-Cultural and Housing Funds. By means of these funds and subsi-

dies granted by the Central Planning Organ (*Gosplan*), companies were not only in charge of building houses for their workers, day-care centers for their children, restaurants and supermarkets, but, moreover, the companies were in charge of administration of the health and cultural affairs of the country, among other services. In general, the importance of providing social services was greater if the company was larger in size and if it belonged to a priority sector for planning. Definitively, it may be noted that a great deal of the non-monetary income of Soviet workers was indirectly distributed through their own companies. These benefits, on the other hand, complemented the lowest Soviet salaries, stated in monetary terms.

### Implications of the Transition to a Market Economy on Social Policy

Since 1991, the transition to a market economy has brought about a number of basic changes in the social policy that had been implemented in the traditional centrally planned economy. These reforms have changed the tools used for determining social policy, and this has meant important consequences for the standard of living:

- First of all, the policy of economic liberalization in the area of prices, which started in 1992, has led to the disappearance of subsidized prices for basic necessity products. As we have previously seen, the policy of prices of the planned economic system was one of the main tools of social policy. Nowadays, however, this kind of policy has been set aside and forgotten because it would be non-viable, given the budgetary and financing problems which the Russian Federation is facing at the moment.
- Secondly, in respect to the incomes of the population, the liberalization implies, on the one hand, the disappearance of the planned salaries in such a way that private companies will be capable of determining their salaries more freely. On the other hand, from 1995 on it has been considered necessary for incomes to be based exclusively on individual effort, therefore limiting the importance given to the social policy as a complementary element in the monetary income. The carry-over on the part of the Russian government in the matter of incomes distribution

has been limited to stipulating the necessity of fixing a guaranteed minimum wage, to the establishment of a progressive tax system on incomes which restrains their excessive growth, and to carrying out an indexing policy of the earned revenues compensating for the variation of prices.

- Thirdly, the posture of the state-owned companies as providers of social services has radically changed as a result of their privatization. Privatization has brought about at least three important consequences which affected the living conditions of the Russian population:
  - a. Upon the disappearance of the structure of ownership, which had been mainly state-owned, the spread of the public services was no longer guaranteed, thus affecting the greater part of the population. This situation would become worse if, as happened in the Russian case, the distribution of the resulting wealth from this process of privatization had been unfavorable to a great part of the working population. Although the working population certainly did not lose wealth in real terms, since property in the final analysis had previously belonged to the state, this sector of the population did indeed lose wealth in relative terms, as the redistribution of property had occurred from the state to a limited number of private agents: company managers and banks (Panorama Privatizatsiya, 1995a, 1995b, 1996, 1997). The rapid curtailment in the intermediary role of the public sector of the economy, sometimes linked to the need to bring the public finances under control, accelerated the breakdown of long-established Soviet institutions that had performed a vital social safety net role (such as cultural, sports and vacation camps, public libraries, or art centers) but did not result in the emergence of adequate substitutes related to organizations of civil society. Thus, the insufficient level of state support to social policy during transition led to a reduction, for example, in the number of day hospitals that was accompanied by rendering more out-clinic services. At the same time, the average number of visits to doctors per person declined and the number of beds showed a reduction, outstripping development of out-clinics, consulting, diagnosis and special kinds

of medical assistance. Limited budgetary possibility during the transition period explains a reduction in the construction of new social and cultural facilities (such as libraries, clubs and cinemas, whose number has been seen to decline in recent years) and the deterioration of the available facilities (Shishkin & Rozhdestvenskaya, 1998).

- b. The privatization of the state-owned companies has made the maintenance of the full employment policy that was in force during the central planning impossible, and the phenomenon of unemployment appeared for the first time. Apparently, the problem of unemployment is not a great problem because of the fact that the unemployment level registered in relation to the working population for the Russian Federation has and continues to be very poor, as it went from 1.1% in 1992 to 3.4% in 1996 . However, according to the OECD and the ILO, the estimated unemployment was higher: 5.5% in 1992 and 7.8% in 1996. Moreover, some indicators pointed out that the unemployment levels registered were worse than they appeared to be. For instance, the number of people who involuntarily worked part-time or without remuneration in a company has been on the rise, and reached 5.1% of the total working population in 1995 (Commander & McHale, 1996). Among the explanations for this peculiar transitional period characterized by its lack of serious unemployment problems (given that the slump in production implicitly carried with it a reduction of personnel) we find the fact that the greater part of the process of privatization of the state-owned companies had been carried out through internal privatization. This privatization has left the control of the company in the hands of its internal personnel. On the other hand, the nature of the newly created private sector generated from self-employment or from what was a part of the informal sector of the economy, had also reduced the effect of unemployment in the Russian economy. In the medium term, it is estimated that whereas companies restructured and adapted themselves to the new economic situation, they would be eliminating those people who maintained a formal link with them, but without any

- economic trade-off. These people, then, would be added to the lists of unemployment.
- c. As a result of liberalization and privatization, the disappearance of the planning management of the economy has been taking place since 1991, and has reduced the companies' responsibility to assign a substantial part of their benefits (previously directed through the Socio-Cultural and Housing Fund) to provide social services for the improvement of their workers' welfare. The contribution of the companies to the social policy by means of the Federal Budget (via the Social Consumption Fund) has been changed into payments to Extra-budgetary Funds. A process of divestiture of company provided social services brought about by the companies, which stipulated that the responsibility of privatized companies to provide these services should be transferred to the local governments where these companies were located—but only in the event there was an explicit consent on the part of these governments-. On the other hand, the privatization of the companies has in turn forced the local governments to take on responsibility for the financing of these services, and it is obvious that in a context characterized by serious financial shortages—which was a result of the early and incipient characteristics of the Russian system for financing—the companies will progressively reduce expenses that are less related to their productive labor.
- Fourthly, a process of decentralization of the implementation of social policy through a substantial reduction of its financing by the Federal Budget and the formation of extra-budgetary financing has been witnessed. On March 7, 1995, the Government of the Russian Federation approved Decree No. 235, "On the transference of Socio-cultural and communal and personal services in Federal ownership into state property of subjects of Russian Federation and municipal property" (Freinkman & Starodrubrovskaya, 1996). However, the result of the transfer of the responsibility of social sphere to the sub-national governments has not been positive, given that an increase in total social spending has not come about. Thus, real spending in social

services in 1996 was 62.4% of what it was in 1991, according to the Consolidated Budget, which included the items of Social Policy in the Republican and Local Budgets, as well as Non-Budgetary Funds (Institute for Economy in Transition, 1997).

- Finally, the economic difficulties associated with the transition have affected both those already living near the poverty line in the pre-transition period—consisting mainly of pensioners subsisting on minimum pensions, single-parent families, and families with several children—and others who, while were not necessarily near the poverty line at that time, saw their real incomes eroded as a result of the particularly harsh effect of the transition on their individual sectors or industries—for example workers living in city-companies (“closed” cities) affiliated with the military-industrial complex in outlying regions of Russia, engineers working in heavy industry, as well as public sector workers employed in education and health centers-. As a result of the reforms, it has been estimated that people with income levels below a rather austere minimum subsistence level of some 200,000 roubles a month (\$45) went from some 1.2% of the total population (or about 45 million people) in the year 1989 to 21.5% in 1996 (Lopez Claros & Alexashenko, 1998).

Nevertheless, income welfare measures in an economy undergoing profound structural transformations need to be interpreted with care, given the large fluctuations in relative prices, and the shifts in the structure of the economy and in the (formal or informal) sources of activity and income. A more complete picture of social conditions is thus obtained by supplementing income based indicators with others measures that attempt to capture certain aspects of the standard of living. Between 1989 and 1995, some indicators of welfare evolved as follows: (1) 36% drop in the net birth rate; (2) 46% increase in the net death rate; (3) sharp increases in the incidence of certain diseases (diphtheria, measles and tuberculosis); (4) a six and three years decline in the life expectancy for men and women respectively; (5) extremely large increases in violent deaths and the incidence of crime in general (Lopez Claros & Alexashenko, 1998).

### The Process of Divestiture of Company Provided Social Services

The transition toward a market economy and privatization encouraged the divestiture of the developed social functions traditionally provided by the communist companies. Legal arrangements for the status of companies' social assets in Russia were determined by two decrees that specified the transfer of the social services to the local and municipal governments and the possibility that the companies could sell or rent their social patrimony to private institutions as well as to individuals. Thus, on December 23, 1993, the Russian Federation Government passed Decree No. 1325, "On the financing of socio-cultural and communal and personal services being transferred into the authority of local bodies of executive power during the privatization of companies". Additionally, the State Committee for Management of State Property (GKI) passed Letter no. 13/648 "On procedure for transferring company housing stock, housing maintenance and housing repair units servicing this stock into Municipal Ownership" (Freinkman & Starodubrovskaya, 1996). The arguments behind this emphasis on divestiture (externalization) are that Russian firms will not be able to compete effectively in the market if they are at the same time burdened with having to run various social services, and that, at least in some contexts, company closure could lead to a collapse in the provision of essential services if these had previously been provided by the company. In practice, the situation is rather more complex, and the prospects for achieving benefits from divestiture in the absence of parallel reforms of the housing and local government finance systems are much less clear-cut than these simple claims suggest (Commander & Jackman, 1997).

The federal regulations for company provided social services varied across different types of social assets. Thus, a part of social assets, such as health, educational, cultural and sports facilities, was allowed to be included in the charter capital of companies, with an obligation to keep the profile of these assets unchanged. Another group of assets, which includes housing together with attached utilities networks (so long as they are not situated on the land belonging to the company), as well as maintenance units

of companies with all their so-called 'material base', cannot be included in the charter capital and must be divested to municipalities according to the time schedule approved by municipal administrations but within six months after privatization. Before divestiture takes place, these assets are to be kept on the balance sheets of the companies. At the same time, companies were not forced to include any social assets in their property, if their employees did not want to do so and did not intend to include them in the privatization plan. In cases where some assets are located on land belonging to companies but are used for municipal needs, they have been transformed into the common property of the privatization companies but are used for municipal needs, and they have to be transformed into the common property of the privatizing companies and the local authorities' (Freinkman & Starodrubrovskaya, 1996).

*Attitude of Companies toward the Divestiture of Company Provided Social Services*

In practice, companies have widely attempted to economize on providing benefits, but the extent of divestiture to date is less than might have been expected. Thus, although 33% of the Russian companies reduced their social benefits during the years 1992 and 1996, this reduction was not the result of the transfer of the entirety of the company provided social services, but only of some of the infrastructure. In this way, it appears as though the total social spending by companies in Russia remains at its very high pre-reform level of 20% of gross wage costs (Lefèvre, 1998).

Apart from these general tendencies, however, we must point out some of the variables that condition the particular evolution of each company:

- (1) Traditionally, the company that provided social services benefited from taxation privileges, which allowed for the payment of less taxes, provided that a part of them were deductible by way of welfare payments. Since late 1995, however, the Russian Government has abolished a number of tax exemptions that were formerly extended to entrepreneurial activity in this field.

Under current tax laws, companies have the right to deduct their social expenditure from both the tax on profits

(but not to exceed 50% of the amount of tax due) and from the 1.5% local turnover tax, which can be introduced (and in practice has already been introduced almost everywhere) by local governments specifically to finance housing and facilities. However, the local implementation of these federal regulations varies greatly across municipalities, which use different options for regulation of the profit tax and turnover tax deductions. The major differences are of three types: differences in the way costs are credited against corresponding taxes, differences in the way tax credit mechanisms are applied, and differences in the way deductions from the two different taxes are combined (Freinkman & Starodrubrovskaya, 1996).

- (2) The formation of a structure of basically private property rights, immediately after the privatization of the national and private companies of new creation, has raised contrary opinions between the shareholders in the companies with regard to the providing of social services. In this sense, three tendencies in the Board of Management can be distinguished, depending on the origin (internal or external action) and the majority generation (age) to which the different representatives belong. On one side, in general, the younger staff is inclined to be in favor of the entire transfer of the social services to the municipality. On the contrary, the older staff is more opposed to the idea of this transfer, and do not consider it appropriate to admit that they are going to leave their workers without at least some form of social support from the company. It is argued that this paternalistic attitude reveals the splendor of a company and it is a mechanism to attract prestigious workers to the company. On the other hand, the external shareholders in the company disagree with this use of profits, and they opt for the disappearance of the provision for company provided social services. In fact, the financing difficulties and the disappearance of the state subsidies make it more difficult to justify the cost of maintaining the subsidies before the external shareholders of the company, who are receiving little in the form of dividends. For example, *Uneximbank*, the capitalist firm that bought 38% of *Norilsk Nickel* for \$618 million in a controversial auction in 1997, wanted *Norilsk*

*Nickel* to free themselves from their social policy activities (The Economist, 1998). Definitely, depending on the correlation of powers in the Board of Management (whether there is a greater or lesser number of external shareholders) and the capacity for influence of the workers (whether they are older or younger) over the decisions made by the entity, the strategy to be followed by the company for the providing of social services tends to vary.

- (3) Independent of whatever previous decision has been made, however, there is another variable which greatly influences the evolution of company provided social services immediately after privatization of a company. And this is, precisely, that size (Alm & Sjoquist, 1995), expressed as much in absolute terms (number of workers) as in relative terms (in function of the number of employees or the productive activity concentrated in a given region) determines the following typology in terms of the social policy:
  - a. The most common case refers to small and medium companies located in big cities, which have been progressively separated from the larger part of their infrastructures and social services transferring them to the local authorities, which are the administrations in charge of managing the social policy at present. Of all existing companies in the Russian Federation in 1995, 10% transferred the responsibility of the social expenditures to the municipality, and 30% of the rights of the existing infrastructures in the company in order to provide social services (Blasi, Kroumova & Kruse, 1997).
  - b. Companies, as a result of the privatization and the disappearance of the state subsidies (Blasi et al., 1997) had begun to increase cost recovery by raising user fees, generally by applying differential tariffs for non-employee access to services or by making company provided social services independent by commercialising them, either by marketing or renting the infrastructures to other companies and, in some cases, to the workers themselves employed in the company in the social policy. In fact, 5% of the companies transferred their social services to their workers in 1995 (Alm & Sjoquist, 1995).

On the contrary, the services which were not profitable, or that remained in the company, progressively deteriorated given the scarcity of funds available for their maintenance, or they were eliminated. Thus, 18% of all Russian companies eliminated any social expenditure during 1995 (Blasi et al., 1997).

- c. Exceptionally, the most profitable companies, which were generally the largest ones, only ceased subsidizing company provided social services while they were having financial problems and, once they had recovered, they took these activities up again. This is the case, for instance, of the steel production company *Ore* (Kabalina, 1996).
  - d. Although less habitual, the justification or reasons given by medium or big companies were more problematic when they represented the whole of the greater part of the activity of a sole region. The city-companies which were created in the Soviet regions of difficult access because of bad weather conditions and national security matters, were the towns generally associated to the Atomic Energy Ministry (Lefèvre, 1993). These companies owned a network of infrastructures assigned to the social security benefit for their workers which were extendible to the population of the region concerned. These facilities were developed to such a degree that it was difficult for them to be transferred to the local authorities, given the fact that this would have surpassed the monetary resources or even the materials needed to be able to make them functional. In general, these companies continued with these services, although the maintenance of their quantity and quality depended on their financial situation. One outstanding example is *Norilsky Nikel AO*, the most important nickel manufacturer in the USSR, located in Norilsk (Krasnoyarsk *oblast'*). The financial difficulties of this company involved a reduction of the amount of social services in the year 1996, which represented 22% healthcare, 61% education, 18% culture and 2% sports as compared to the year 1992 (Aberkeeba, 1997).
- (4) There is a different attitude towards two different groups of social assets: kindergartens, housing and dormitories are

considered to be a major burden by a relatively large group of companies, and the fate of these assets is now the most painful issue; however, sports facilities, cultural centers, hospitals and clinics are considered much easier (Freinkman & Starodrubrovskaya, 1996). There is a link between company profitability and the level of cost recovery in social assets financed by the companies; thus, the more difficult the financial situation of the company is, the greater the pressure for restructuring social assets. However, although the motivation for providing a wide scale of benefits in larger firms was in large part economic, it is important to appreciate the non-economic factors, which have deeper psychological and cultural roots, that are behind the phenomenon that explains the maintenance of the social policy in the companies, because they do not consider it appropriate to admit that they are going to leave their workers without at least some forms of social support from the company. Evidence from the World Bank business survey suggests that a significant proportion of the labor force continues to have entitlements to food subsidy, healthcare, child care, holiday resort, housing and transportation subsidy (Commander & Jackman, 1997), because of the fact that more than half the managers of responding firms continued to provide these social benefits. In addition, it was usual that most of the companies had maintained at least the system of distribution of goods and services with subsidised prices for their workers—which had become institutionalized in the years of economic shortage. Nowadays, the main suppliers of goods which are able to maintain these services are: (1) retail businesses and the great trade organizations that sell their products to the companies, with discounts over the market price which fluctuate between 10% and 30%, (2) the associates from the industries who use this activity to pay their debts to the companies, or have an agreement for exchange of goods at a favorable price, generally at a cost price, (3) farms which are subsidiary to the companies. Previously, these were used for the hiring of workers or to employ inactive ones in the companies. Nowadays, they constitute a good way of supplying food to the workers as an incentive or as a way of payment in kind, and they do not represent a too elevated

cost provided that they belong to the company and that they are producing (Lefèvre, 1993).

- (5) Finally, we should point out that companies continue to provide workers with benefits in kind, and that these represent the majority within what can be referred to as social services. On the contrary, the volume of the monetary benefits, the traditional ones (which are subsidized in the prices of certain goods, scholarships, etc.), as well as the new type, which is to say, by means of the contribution to the extra-budgetary funds (adhesion of the company to the benefits of salaried workers, to private funds for pensions or medical insurance), depends on the company's economic and financial situation, as well as to the degree of monetization used in the exchanges of the company—which is low if we take into consideration that exchanges for barter represented 50% of the GDP in 1996- (Aukutsionek, 1998).

### Conclusions

Since 1991, the reforms aimed at the conversion of the Russian society into a market economy have radically changed the idea of social policy inherited from the USSR. In this way, institutional change has progressively come about, thus transforming the organizational structure of social policy as well as the financing mechanisms. The conception of social policy, no longer of a universal nature and based on the principals of solidarity, has become basically a welfare sort of policy. Progressively, the Russian Government has emphasized the need for incomes to derive exclusively from individual effort, thus limiting the importance of social policy as a complementary element to monetary income. Additionally, the economic transition, basically by means of privatization and liberalization of the economy, has brought about a reduction in the social securities and, therefore, a worsening in the living conditions of the Russian population.

Thus, independent of the greater or lesser degree of equity in the process of distribution of ownership, which was mostly state-owned in the past, the most immediate consequences of privatization for the Russian population are obvious. First of all, the reduction of the public assets does not guarantee the

spreading of the public services to the population. Secondly, the Russian companies have stopped being paternalistic institutions which looked after the interests of their workers, and they have progressively stopped supplying the previous social services they provided for. This has happened in such a way that the workers of these companies have witnessed the reduction of a part of their non-monetary compensation, as the services which previously covered the greater part of their daily activity, including their houses, which they would now have to buy, have ceased to exist. This situation has not been accompanied, in general terms, by the rise of their direct salary, expressed in monetary terms. Additionally, the privatization of the companies overrules the strategy of full employment, with the phenomenon of unemployment raising its head for the first time, with its consequent effects upon the standard of living.

On the other hand, the liberalization of prices and incomes has worsened the life conditions of the Russian population, as salaries have in real terms decreased, and the subsidies on prices have disappeared, a situation which affects to a great extent those people with lower incomes.

With regard to the process of decentralization in the social policy, promoted by the Federal Government by means of transference to the local governments, this has come about gradually, and in some cases the companies continue to finance these services. In reality, financing of the social services still remains considerably centralized, but responsibility for allocation of these funds and their utilization is not strictly defined. The undefined division of power between various state managing bodies results in erosion of responsibility of the state as a whole for provision of public goods to the population. There are no funds for the adequate functioning of the available system of rendering social and cultural services to the population. With the funds that are available, this system is only degrading. But no one is assuming the responsibility to officially revise the conditions and the scale of rendering social and cultural services and goods to the population free of charge or on a preferential basis.

Among the reasons under which companies continue to provide social services we find, first of all, that the companies consider paternalism to be a measure of prosperity and prestige

for them, and not only just an expense. Secondly, up until the year 1995 it was beneficial for companies to keep on providing social services due to the taxation privileges they enjoyed. Finally, local governments do not often accept the transference of social assets because of budgetary problems, given that the responsibility in social policy has hardly been conferred to budgetary considerations.

Neither the process of privatization nor the decentralization of the social policy have managed to solve the problems of social policy. On the one hand, it is generally considered that the role of the companies in social policy matters will continue to be important during some time. Different factors explain that the maintenance of company provided social services is still important for the Russian companies. In the first place, these social services are being used by the companies to negotiate labor issues. In the second place, social policy can become a source of revenues if the price for the use of certain social infrastructures becomes stable. In third place, the goods and services offered by the companies can be used for exchange in trading operations or for any other operations that might be attractive to companies faced with growing financial problems or that are finding a minimum degree of monetization in the exchanges. In fourth place, some company managers consider social policy to be their own responsibility. Although the motivation for providing a broad scale of benefits in larger firms was based on economic considerations, it is important to appreciate the non-economic factors, which have deeper psychological and cultural roots behind the phenomenon. This would tend to explain why companies tend to keep on maintaining social services, because they do not consider it appropriate to admit that they are going to leave their workers without at least some forms of social support from the company. Lastly, the financial difficulties of those who have had to face the leaders of the local governments impedes divesture of the companies from these services that they wish to eliminate.

The problem of the transference of the social services is more complex than what the Russian authorities were able to predict. Furthermore, the budgetary uncertainty accompanying this transference of the social services is negative for the local governments and it lays the foundations of the regional inequality in the living conditions of the Russian population.

As we have confirmed throughout the previous pages, social policy of the Russian Federation is confronting a double set of problems. Firstly, its aim of reducing social protection arises in a context of progressive worsening of the standard of living of the Russian population. Furthermore, the main problem of Russian social policy has been the gap that exists between the broad range of obligations of the state towards the citizens, inherited from the Soviet past, and the real volume of the actual budgetary financing. It will be difficult to close this gap (given the problems of tax collection). The social policy will therefore face an even greater decline in the future. Secondly, the transfer of the responsibility in social matters to the Local Governments is produced in an environment of considerable vagueness. Both of these aspects are creating a great deal of uncertainty in social policy matters.

Different from what occurs in the market economies, the Russian challenge is tantamount to transferring social policy from the area of responsibility of the privately owned companies to the area of public responsibility. However, this nationalization of social policy is occurring with a scarce commitment on the side of the Russian public sector. Furthermore, participation of the private sector in social policy is not at all significant at the present time, either. It remains very much to be seen, over a mid term and long term period, whether the social cost that will be transferred to the local budgets or the population will be able to assume this expenditure, either by means of taxes or by paying the market price. In large part due to problems in collecting tax, it will be very difficult to close this gap.

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