Wielding the mute button? Social policy as a legitimisation tool in Russia

Niels Smeets


Please do not cite or circulate without permission of the author

1. Introduction: social policy as a legitimisation tool for both democracies and authoritarian regimes

Investing in social policy is considered a risky business in authoritarian regimes, since it could strengthen critically minded social groups that could erode the regime through education and support for democratic values. On the other hand, social policy can be seen as a mute button to temper social tensions that lie at the base of political protests. Examples of such a ‘silencing’ function in non-democratic regimes are numerous. In Kazakhstan, President Nazarbayev ordered Foreign Oil Companies to take up social responsibility in response to mass protests against the unfair distribution between the oil region and the administrative centre. In Russia, Putin promised financial funds to develop the Perm region in an attempt to convince the local population to vote in favour of integrating the Perm region (Oblast’) with the socially less-developed Komi-Permyak Autonomous Okrug.

Social policy thus could be used to gain support for particular policy options. Moreover, social policy is often considered the ultimate legitimisation tool of a regime in fulfilling socio-economic needs of citizens. Social policy directly affects the socio-economic conditions of the people, and therefore affects the people’s evaluation of the political regime in general, and those in power in particular. Legitimacy is thus understood as the affective and evaluative dimension that indicates the support for a regime, the belief that the existing political institutions are the most appropriate. However, these political institutions can be either democratic or authoritarian. Two theories offer an explanation of social policy as a legitimisation tool.

Modernization theory asserts that socio-economic development spills over into democratisation, and in this way would subvert rather than legitimise a non-democratic

---

1 Research Fellow at KU Leuven (University of Leuven), Leuven InterNational and European Studies (LINES), Russia and Eurasia Research Group
regime. This American theory is embedded in the historical experience of offering economic and political rights to lower strata. The expansion of the electorate in favour of the worker class improved the legitimacy of the regime. ‘National social policies were linked to establishing national political legitimacy and were aimed at the incorporation of the working class into the political and economic systems of nation-states’. At the same time, the enlarged electorate also raised the need for qualitatively different social policy. Citizens expected more from their government, in casu a welfare state. The rise of the socialist parties in the latter half of the 19th century incorporated this social agenda and heightened the pressure on the state to extend its policy agenda towards social redistribution mechanisms and the improvement of labour standards. As a result, the elected government enjoyed a broader legitimisation from the population as a whole, and the role of social policy became an important policy area for the masses.

The most often cited indicators of the social conditions to this democratisation process - wealth and education - are precisely promoted by social policy such as minimum wages, pensions and the organisation of the national education system. Theoretically, there are two mechanisms through which social policy could lead to democratisation. First, ‘The higher one’s education, the more likely one is to believe in democratic values and support democratic regimes’. Recent empirical research has confirmed that high-income countries rank high on post-modern values where individual autonomy and self-expression values score high. This strand of literature argues that these post-modern values undermine the legitimacy of authoritarian regimes and stimulates democratization. Second, wealth stimulate political participation. ‘Only in a wealthy society in which relatively few citizens lived in real poverty could a situation exist in which the mass of the population could intelligently participate in politics’. Highly educated civilians are more prone to political participation and are more capable to critically assess candidates and the political system as a whole.

Thus, this theoretical framework implies that social policy promotes democratisation by educating its population and becoming more intelligible to participate in the political process. The flip side of the medal is that education and wealth erodes support for

---

9 According to Inglehart and Welzel (2010: 562), Russia’s population has more than average self-expression values, and finds itself in the company of Canada and Germany. Russia indeed has a high level of industrialisation, literacy, urbanization and education, the four conditions to modernization (Lipset, 1959). According to these indicators, Russia would be expected to score high on the democracy index.
authoritarian regimes by stimulating critical assessments of those in power and by fostering democratic values.

Social policy is also an important legitimisation tool in semi-authoritarian regimes. Since workers also enjoy the right to vote in semi-authoritarian regimes, their population also voices social policy expectations. This is especially the case in Russia. During the chaotic 1990s, it became obvious that Russian society lost its social protection mechanisms in the transition from Communism to Capitalism. This fostered Soviet nostalgia to an era of social security, a challenge that Putin addressed by securing pay-outs, increasing pensions and supporting young parents. In this setting, a revamped social contract between Russia’s elite and the population at large, based on loyalty in return for socio-economic development.

Social contract theory goes against the assumption of modernization theory that socio-economic development will eventually result in democratization. On the contrary, socio-economic development in the form of social policy fosters support and legitimacy of Russia’s semi-authoritarian regime. In this sense, social policy is a mute button to silence oppositional voices, rather than stimulating political participation. De Tocqueville pointed out that ‘only those who have nothing to lose ever revolt’. By providing social policy, chances of popular protest decline because major social groups have a great deal to lose, their social safety net.

Social contract theory serves as a legitimisation tool between the incumbents and the population at large, also in non-democratic regimes. In the Russian case, some authors argue that such a negatively formulated contract came into being. Aleksandr Auzan speaks of a vertical contract in Putin’s Russia as ‘loyalty in return for stability’. Social policy thus is one bargaining chip that can be traded for political support.

This theoretical discussion raises the main question of this article: whether social policy is subversive to authoritarian regimes, or that it can be used as a legitimisation tool that works as effectively as in democracies. On the basis of modernization theory and social contract theory, this article formulates two mutually exclusive hypotheses. In the framework of modernization theory, one would expect that people are more likely to believe in democratic values and would be more inclined to participate in the political process. This intensified social policy would result in an intensification of socio-political protest against an authoritarian regime (legitimacy crisis). Social contract theory on the other hand would expect that the population expresses their loyalty to the authoritarian regime in response to an intensification of social policy.

---

14 Especially the so called Buzhetniki who are fully dependent on state wages (doctors, teachers, ...)
To assess this dual role of social policy as a force to both instigate and mute social mobilization, this article focuses on Russia’s revamped social policy in reaction to mass protests in the wake of the Duma elections of 4 December 2011. The announcement that Medvedev ‘voluntarily’ refrained from running for a second presidential term, and Putin offering his position of Prime-Minister to Medvedev in return for becoming a candidate to the presidency himself demonstrated to the population that the intra-elite informal decision making trumps formal elections. Moreover, the allegedly rigged Duma-elections in combination with socio-economic uncertainty provoked the deepest legitimacy crisis of Russia’s political elite since Putin taking office in 2000. Thousands took to the street on the 5th of December in reaction to the Duma election results. Subsequent rallies followed each other, resulting in a wave of opposition marches. The composition of protesters widened from young liberals and highly educated at the 5th of December 2011, to protesters of all ages (about 60% between the age of 25-54) and all social backgrounds (the group of financially secure people accounted for only 24%) 4th of February 2012.\(^\text{16}\) To counter this legitimacy crisis, Russia’s political elite launched not only repressive measures, but also announced several social policy changes and institutional reforms. Effective legitimisation thus can be operationalized as the absence of protests in response to social policy reforms. The remainder of this article consists of four sections. First, the characteristics of social policy in a Russian context are discussed, followed by Russia’s legitimacy triangle between Russia’s citizens, and political and economic elite. In the subsequent section, the policy and institutional reforms in response to the legitimacy crisis are analysed both quantitatively and qualitatively. Finally, social policy as an effective and sustainable legitimisation tool in Russia is scrutinized.

## 2. Social Policy in the Russian context

Social policy itself is hard to operationalise since it covers many domains. However, some general policy fields have been identified: health, housing, education, social security and personal social services.\(^\text{17}\) In a Russian context, these policy fields generally find their reflection in the social services as defined by Russia’s state budget: Housing (Zhilishzhno-kommunal’noe khozyaystvo), Education, Culture, Health Care, Social policy, and Physical Culture & Sport.\(^\text{18}\) Social policy (code 1000) in its turn consists of six categories: pensions, social services, social protection, family and children’s well-being, applied scientific research

---


in the domain of social policy and a residual category of social policy.\textsuperscript{19} The Russian classification thus reveals a rather broad definition of social policy, including sports and culture.

Apart from the formal social policy, which is - similar to most other states - conducted by means of the state budget, informal redistribution schemes are also of great importance. Major (state) companies are responsible for investments in the socio-economic well-being of the local population. The Pikalevo-case demonstrates the role of companies and the mechanisms of a muting-strategy. In response to rising social distress as a consequence of the 2008 global financial crisis, Putin forced oligarch Oleg Deripaska to sign a contract that included a commitment to restore deliveries and production and pay out all outstanding wages in \textit{monogorod} Pikalevo.\textsuperscript{20}

This role of companies in regional development goes beyond classical social policy. Gazprom and Lukoil\textsuperscript{22} for instance consider its financial support for the Olympic Winter Games in Sochi as social policy. The former company also reports on investments in the Russian Orthodox church which seems to support Karl Marx’s famous saying that Religion is the opium of the people. Moreover, the development of national values with the people is one of the aims of Gazprom’s social policy.\textsuperscript{23}

3. The social contract between the Russian energy sector and the political elite in respect of social policy

To fully grasp the social contract between the Russian political and economic elite with regard to social policy, the formal and informal contributions of the energy sector to this policy area are scrutinized. Are energy windfalls used to ‘buy’ political support in the form of social policy? Godzimirski for instance argues that ‘Energy resources secure relative stability on the domestic front by providing legitimacy to a semi-democratic, or semi-authoritarian, regime that can buy the support of the public by using oil and gas windfalls to finance many


\textsuperscript{20} Pikalevo is a typical example of a \textit{monogorod}, a city that is entirely dependent on a small number of companies in terms of employment, social protection and wages.


\textsuperscript{23} Annex 1. provides an overview of social policy measures of major energy concerns.
social (...) programmes in Russia.\textsuperscript{24} This section first turns its attention to the state budget, followed by non-budgetary pension and social contributions. Finally, additional regional socio-economic development programmes of the energy companies are evaluated.

In 2013, almost two thirds of the state budget (61.66 \%) is allocated to social policy as consisting of housing, education, culture, health, sports and social policy (code 1000).\textsuperscript{25} To trace the importance of contributions by Russia’s energy sector, we turn to the income side of the budget. Figure 1 depicts the evolution of the oil and gas revenues as a proportion of total budget revenues. Although the official policy is to lower the dependency of the state budget on energy revenues, the graph reveals an increasing trend of dependency in the wake of the global financial crisis. In 2012, half of the budgetary funds originated from oil and gas revenues. Forecasts of the Ministry of Economic Development expect that the budgetary revenues that are not energy-related are set to decline further in 2016.\textsuperscript{26}

Figure 1. Evolution of Oil & Gas Revenues as a Percentage of Total Budget Revenues 2008-2012

![Figure 1. Evolution of Oil & Gas Revenues as a Percentage of Total Budget Revenues 2008-2012](source)

Yet about a quarter (25,31 \%) of the consolidated budget spending in the matter of social policy originates from non-budgetary social funds. Pension, medical and social insurance contributions make up the lion’s share of these non-budgetary funds. Since energy concerns are among the leading Russian companies, they also significantly support the social safety net via this non-budgetary path. In 2012, 7 out of 10 largest Russian companies in terms of

\textsuperscript{25} Ministry of Finance RF, Budget for Citizens [Byudzhet dlya Grazhdan], 16.12.2013, p.51.
capital gain did business in the energy sector,\textsuperscript{27} by 2014, five out of six largest Russian companies represent the energy sector (Table 1.) and 28 out of the top 100 Russian companies are active in the energy sector.\textsuperscript{28}

Table 1. List of Six Largest Russian Companies at the end of 2013 in terms of Cap Gain

<table>
<thead>
<tr>
<th>Company</th>
<th>Rating</th>
<th>Sector</th>
<th>Cap Gain (Million Roubles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gazprom</td>
<td></td>
<td>Gas Industry</td>
<td>3 286 120</td>
</tr>
<tr>
<td>2. Rosneft</td>
<td></td>
<td>Oil Industry</td>
<td>2 649 968</td>
</tr>
<tr>
<td>3. Sberbank</td>
<td></td>
<td>Banking</td>
<td>2 181 145</td>
</tr>
<tr>
<td>4. Lukoil</td>
<td></td>
<td>Oil Industry</td>
<td>1 723 581</td>
</tr>
<tr>
<td>5. Novatek</td>
<td></td>
<td>Gas Industry</td>
<td>1 218 227</td>
</tr>
<tr>
<td>6. Surgutneftegaz</td>
<td></td>
<td>Oil/Gas Industry</td>
<td>1 009 545</td>
</tr>
</tbody>
</table>


Oil giant Rosneft is one of the largest employers and tax payers of the Russian Federation,\textsuperscript{29} not only in terms of its direct contribution to the state budget, but also through the payment of pension contributions. Social and pension expenditure of Rosneft almost doubled between 2011 and 2013 (See Table 2). In 2013, Rosneft contributed 23 billion roubles to the State Pension Fund and spent another 31 billion on the state social funds.\textsuperscript{30} This is about 1.5 per cent of the state’s total social and pension revenues in 2013.

Table 2. Social and Pension contributions of Rosneft to the State non-budgetary funds

<table>
<thead>
<tr>
<th>Contributions to (in billion Roubles):</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Social Fund</td>
<td>16</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td>State Pension Fund</td>
<td>14</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>37</td>
<td>54</td>
</tr>
</tbody>
</table>


\textsuperscript{27} Riarating, Rating of the most expensive Russian Companies by Capgain, 2013, http://riarating.ru/infografika/20130201/610536030.html
\textsuperscript{28} Riarating, Rating of the most expensive Russian Companies by Capgain, 2014, http://riarating.ru/infografika/20140130/610607304.html
Apart from these compulsory contributions to the pension and social funds, these companies also have social programmes of their own that go far beyond the company’s mere economic interest. The state seems to outsource part of social policy to energy concerns. RusHydro for instance explicitly states that their principles, targets and tasks of their social policy programme are an answer to the governmental ‘Concept of Long-Term Socio-Economic Development of the Russian Federation until 2020’. The annual reports of the energy concerns point to major investments in the socio-economic well-being of the regions in which they are active, and some companies even claim Federation wide social policy programmes (Annex 1.). Thus, energy companies are at the same time implementation bodies of social policy in the subjects of the Federation. In response to the flooding of some regions in the Far East on the border with China, Igor Sechin and Vladimir Putin agreed to offer the local population a temporary 10-15 per cent discount on gasoline, and Sechin even proposed a full-blown humanitarian rescue mission dubbed “Together we overcome the flooding”.

These social policy contributions are not limited to state companies, of which one could expect to serve the public/national interest. ‘Independent’ companies such as Novatek and Lukoil, in which the state formally does not hold a controlling stake, also take part in this regional development aid (Annex 1.). The largest independent gas provider, Novatek, claims to be concerned about the preservation of the national identity of tribes in the High North, and Lukoil aims at supporting victims of local conflicts. The latter company explains this ‘voluntary’ social policy programme as ‘a unique opportunity to develop partnerships with the organs of state power, the municipalities and the local community.’

Thus, the fact that energy companies, be they state controlled or private, go beyond their mere market obligations provides evidence of a horizontal social contract amongst elites. This unwritten contract seems to consist of loyalty to the political elite in return for the daily management of strategically important energy assets. The Khodorkovski case demonstrated what could happen if this pact is breached. Political aspirations are considered to be in breach of political loyalty, thereby losing property rights over his own company, Yukos. The most profitable parts of this company were transferred to Rosneft, ensuring state control. The loyalty side of the contract implies active support of energy companies to support regional socio-economic development. Although all top Russian energy concerns have significant international (downstream) assets (Annex 1.), and profit is mainly made on international markets, social responsibility is focused mainly on national and regional development within the Russian Federation at the upstream side. Thus, these companies provide some sort of domestic development aid on the basis of foreign profits. In 2012, Rosneft reported of allocating 6223 million roubles to this socio-economic regional development aid.

---

34 Because of the domestic regulated energy prices
development and charity programmes alone; Lukoil allotted 83 million dollars during the same year.\textsuperscript{35}

This horizontal contract also reinforces the vertical contract between the political/economic elite and the population at large. The social policy of energy companies legitimates the role of oligarchs in Russia’s economic system by providing social assistance and development programs to the local population. This was necessary since the oligarchs had lost this legitimacy during the 1990s because of asset-stripping, mismanagement, the lack of social protection and outstanding wages. In conclusion, this analysis highlights that a large share of social policy contributions is accounted for by Russia’s energy sector, and provides support for social contract theory in which social policy is used as a legitimisation mechanism of a semi-authoritarian regime.

\textbf{Figure 2 Legitimacy Triangle: Russia’s Horizontal and Vertical Social Contract}

4. \textit{Social Policy Measures stepped up after the 2011 Duma elections}

In this triangular relationship between the population, and political and economic elite, social policy measures were significantly stepped up after the legitimacy crisis during the 2011-2012 election cycle. Godzimirski\textsuperscript{36} refines social contract theory by applying it to energy sector, stating that freezing energy prices avoids social protests. Øverland, Kjaernet, and Kendall-Taylor\textsuperscript{37} confirm this loyalty for energy redistribution contract: the regime receives popular support in return for increasing living standards on the basis of energy revenues.

One of the official reactions to calm down public protests in reaction to the allegedly rigged elections and the ‘casting’ (Rokirovka) of Putin and Medvedev was to draw the social policy card. Attention to social policy raised significantly on the background of popular unrest. In his pre-election program, Putin dedicated an entire article to the cause “Building Justice. Social policy for Russia” in which he promises improvements in the socio-economic condition of the population at large. After Putin’s re-election in 2012, he immediately took policy action, what came to be known as the May Decrees (Mayskiye Ukazy). The socio-economic promises that he made in his election campaign article on social policy were ‘put into practice’ on the same day of his inauguration in the form of a presidential decree that instructs the government to take action, including a tight time schedule with concrete deadlines. For instance, Putin expected a plan for the development of labour standards by 1 December 2012. In general, the government was expected to implement 131 orders (poruchenie) in 2012-2013 to realize the May Decrees.

Major pension reforms were also announced. Putin promised that pension payments will increase for everyone. He points out that pensions of army personnel were increased by 1.6 times in January 2012. In his May Decree on Social Policy, Putin ordered to develop a long-term strategy on the pension system that would raise pension benefits and guarantee pension savings. In 2013, the decision was made to shift from an accumulative to a redistributive pension system.

Apart from Putin’s May Decrees, far-reaching institutional reforms were initiated. The Ministry of Health Care and Social Development was split into Ministry of Healthcare and the Ministry of Labour and Social Protection. The Federal Supervision Service for Healthcare and Social Protection was split accordingly. This institutional specialisation would help to implement the May Decrees more effectively. Moreover, a regional socio-economic development dimension was added by the establishment of a new Ministry for the Development of the Far East in May 2012. Additionally, a new Federal Agency for Construction and Housing was established. This institutional government reforms that are almost exclusively dedicated to Social Policy thus demonstrate the rising importance of Social issues.

---

38 Putin, V. V.: A fair society, economy is the main condition of our development in the coming years, in: Komsomol’skaya Pravda, 13.02.2012.
39 Putin, V. V.: A fair society, economy is the main condition of our development in the coming years, in: Komsomol’skaya Pravda, 13.02.2012.
41 Especially given the high rate of inflation, pension savings turn out to be rather modest when reaching retirement age.
44 Ibidem.
In 2013, some visible policy measures were taken to temper rising prices. In a meeting on the planning of the state budget for the period 2014-2016, Putin emphasizes that the budget should play an important role in developing the country, and refers to the need to implement the “May Decrees”. During this session, Putin agreed to freeze prices of natural monopolies in 2014. For the population, this meant that the tariffs on gas supply and the electricity grid will be indexed in January 2015 only, at the level of inflation. Medvedev argues that frozen tariffs will also restrict inflation to 4 – 5 per cent which would benefit the population as a whole.

At the same time, this decision to freeze energy prices also shows that the government expects from companies as Gazprom and Rossetey to bear the costs in realizing state social policy. However, Gazprom questioned this horizontal contract by stating that if tariffs will be frozen in 2014 and indexed at the inflation in 2015-2016, revenue will decrease with 500 billion roubles, and said that if the government does not compensate this loss, the gas monopoly would be forced to end its gasification policy.

To gain a quantitative insight in the increased attention paid to social policy after Putin’s 3rd inauguration, statements made on social policy during the Medvedev presidency (May 2008 – May 2012) are compared with the Putin presidency until January 2014. The study makes use of the Kremlin.ru archives to gather speeches and conversations of Medvedev and Putin with main actors in social policy, that is with both international and regional interlocutors, as well as representatives of major companies. Given the legitimacy triangle that reflects the preponderant role of the energy sector in both providing the financial basis for the state budget, and implementing social policy in the regions, the database of political texts is limited to energy-related documents. Moreover, social acceptability is one of the indicators of security of supply as worked out by the Asia Pacific Energy Research Centre. The result is a database of 300 energy-related texts of Medvedev and Putin (Table 1).

---

47 This policy ensures gas deliveries to difficult to reach areas. At the moment, 27 per cent of the communities do not have access to gas supply.
49 Operationalized in the Kremlin.ru database as having the ‘Energetika’ tag.
Table 1 Attention to Social Policy in Energy-Related Documents

<table>
<thead>
<tr>
<th></th>
<th>Medvedev</th>
<th>Putin</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of documents in database</td>
<td>198</td>
<td>102</td>
<td>300</td>
</tr>
<tr>
<td>Absolute number references to social issues</td>
<td>302</td>
<td>201</td>
<td>503</td>
</tr>
<tr>
<td>Average references to social issues per year</td>
<td>75.50</td>
<td>120.60</td>
<td>88.76</td>
</tr>
<tr>
<td>Number of energy-related documents that mentioned Social Issues</td>
<td>73</td>
<td>51</td>
<td>124</td>
</tr>
<tr>
<td>Average documents with references to social issues per year</td>
<td>18.25</td>
<td>30.6</td>
<td>21.88</td>
</tr>
<tr>
<td>Energy-related Documents/Social policy (%)</td>
<td>36.87%</td>
<td>50.00%</td>
<td>41.33%</td>
</tr>
</tbody>
</table>

Table 1 demonstrates that social policy was mentioned considerably more under the 3rd Putin presidency than during Medvedev’s rule. On average, social policy aspects were mentioned 120.6 times/year between May 2012 and February 2014; while the preceding four years linked energy issues to social acceptability 75.5 times/year (an increase by 60% on average). Out of the total number of energy-related documents, half of the material covered social security aspects under Putin, whereas 36.87 per cent of the documents touched upon social issues under Medvedev. Therefore, the quantitative analysis confirms the statement that increased attention was paid to social policy after Putin’s re-election.

Social Policy Expenditure

The next question that arises is whether the actual social spending followed increased discursive attention to social policy. First, this study analyses the redistribution of the state budget by examining the evolution of formal social policy spending. Then, the social policy budgets of the energy companies will be addressed.

The share of total budgetary expenditures remained relatively stable since 2006, while both the absolute and real social policy expenditures increased gradually. This is an indication that the total budget expenditure increased as well. Indeed, the pie became bigger: whereas in 2008 total budgetary expenditures amounted to 13959.2 billion roubles, total budget expenditure rose to 23174.7 billion roubles in 2012. The real change in social expenditures (after controlling for inflation) was about twice as high during the years of the protests in comparison to previous years. Whereas 2011 and 2012 accounted for 9 – 11 per cent increase, the crisis years 2008-2010 accounted for a yearly growth in social policy expenditures in the range of 4 – 6 per cent. Again, the evolution of social expenditure confirms the statement that social policy measures increased after the protests broke out in 2011-2012.
Table 2 Formal Social Policy Expenditure (2002-2012)

<table>
<thead>
<tr>
<th>Consolidated Federal Budget</th>
<th>Social policy expenditure in billion Roubles*</th>
<th>As share of total budgetary expenditures</th>
<th>Price Index 2008=100</th>
<th>Real Change in social policy expenditures (Prices of 2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1627,8</td>
<td>47,82%</td>
<td>31,21</td>
<td>-36,55%</td>
</tr>
<tr>
<td>2003</td>
<td>1429,7</td>
<td>36,15%</td>
<td>43,2</td>
<td>-3,40%</td>
</tr>
<tr>
<td>2004</td>
<td>1756,4</td>
<td>37,65%</td>
<td>54,94</td>
<td>-36,55%</td>
</tr>
<tr>
<td>2005</td>
<td>2481</td>
<td>41,76%</td>
<td>65,85</td>
<td>17,85%</td>
</tr>
<tr>
<td>2006</td>
<td>5186,3</td>
<td>61,86%</td>
<td>74,85</td>
<td>83,91%</td>
</tr>
<tr>
<td>2007</td>
<td>6793,7</td>
<td>60,41%</td>
<td>86,72</td>
<td>13,06%</td>
</tr>
<tr>
<td>2008</td>
<td>8281,6</td>
<td>59,20%</td>
<td>100</td>
<td>5,71%</td>
</tr>
<tr>
<td>2009</td>
<td>9485,7</td>
<td>59,11%</td>
<td>108,8</td>
<td>5,28%</td>
</tr>
<tr>
<td>2010</td>
<td>10669</td>
<td>60,56%</td>
<td>117,58</td>
<td>4,08%</td>
</tr>
<tr>
<td>2011</td>
<td>12440,9</td>
<td>62,22%</td>
<td>123,68</td>
<td>10,86%</td>
</tr>
<tr>
<td>2012</td>
<td>14290,2</td>
<td>61,66%</td>
<td>130,26</td>
<td>9,06%</td>
</tr>
</tbody>
</table>

* Social-cultural arrangements + housing and communal utilities

Yet, the increase from 4.08 to 10.86 per cent is put into perspective by the spectacular upswing by 83.91 per cent between 2005 and 2006. This great leap forward cannot be exclusively explained by the rise in total budget expenditure as a consequence of rising oil prices, since the share of social policy also rose from 41.76 to 61.86 per cent. This policy switch does not coincide by accident with the year of the ‘orange revolution’ in Ukraine. It proved fears of a domino-effect in which protests would spread towards Russia, presenting a serious threat to the regime.

As considers the social expenditures of major energy concerns, most of the companies also increased their financing during 2011-2012 in comparison with previous years (Table 3). However, one should treat the data with caution in interpreting them as being fully independent from the state budget. Some companies receive additional funding from the state budget to realize governmental programmes. Rosatom for instance received considerable budget funding for several projects within the framework of the Presidential Commission on Modernization and Technological development of the Russian Economy.51

Table 3 Total Social Expenditures of Selected Energy Companies (Million $)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom</td>
<td>X</td>
<td>X</td>
<td>499.78</td>
<td>719.03</td>
<td>X</td>
</tr>
<tr>
<td>Rosneft</td>
<td>535.44</td>
<td>497.19</td>
<td>517.65</td>
<td>634.30</td>
<td>700.44</td>
</tr>
<tr>
<td>Novatek</td>
<td>X</td>
<td>X</td>
<td>24.19</td>
<td>37.88</td>
<td>31.25</td>
</tr>
<tr>
<td>RusHydro</td>
<td>X</td>
<td>8.9</td>
<td>13.57</td>
<td>34.72*</td>
<td>12.5</td>
</tr>
<tr>
<td>Rosatom</td>
<td>X</td>
<td>X</td>
<td>371.88</td>
<td>353.13</td>
<td>353.13</td>
</tr>
<tr>
<td>Lukoil</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>467.3</td>
</tr>
</tbody>
</table>


*Including major infrastructure funds for the community “Cheremushki” that fell victim to the Sayano-Shushenskaya hydroelectric power station accident

These data on social policy expenditures thus seem to indicate that social policy was used as a mute button by decreasing socio-political tensions, thereby supporting social contract theory that social policy expenditure is increased to alleviate protests.

**Political or Social Protests?**

The above quantitative analyses provide some indications, but a qualitative approach is necessary to assess the link between social policy increases and apathetic loyalty to a non-democratic regime. How did the political elite attempt to restore the legitimacy crisis? The vertical contract between Russia’s political elite and the population at large is embodied by the ‘Direct Line’ format, an annual television debate in which Putin addresses questions from citizens. The 2011 program was broadcasted in midst of political turmoil, on 15 December, in which Putin publicly reacted to the protests of 5th and 10th December. The then candidate to the presidency not only referred to the protesters as being paid by foreign actors, in an attempt to delegitimise the protests, his emphasis was clearly on the social base of the protests. Inflation is being curtailed, which allows for lower home loan interest rates, wages are on the rise, and efforts will be made to increase wages in the military. Putin emphasized that pensions increased and will be indexed again, and the retirement age will not change, notwithstanding the economic crisis and the tendency of Western states to limit pensions and to postpone the retirement age. Moreover, the Russian economy recovered sooner than ‘developed countries’ from the global financial crisis. Putin links Russia’s healthy economic

---

52 $ = 32 roubles
53 In his last annual address to the united chambers, Dmitriy Medvedev also referred to protesters as agitators and extremists, as well as to foreign interference.
situation with the development of a sound social system. \(^{54}\) Even on topics of international relations, social policy is mentioned. The aim of integration projects such as the Customs Union and the Single Economic Space is to improve the living standards of our peoples. \(^{55}\) The overall tone of the ‘direct line’ is that political questions are addressed with socio-economic solutions. On the question of increasing ethnic tension caused by migrant flows from the Northern Caucasus to major cities such as Moscow and Saint-Petersburg, Putin suggests that the government needs to develop this socio-economic backward region as a structural policy to prevent migration, rather than nationalist demands to stop funding the Caucasus. \(^{56}\)

Interpretations that protests were targeted against his rule have been downplayed. The video in which part of the crowd hissed at Putin during his visit to the Olimpyskiy stadion was reinterpreted by Putin as an act of general discontent over the boxing match that had taken place. However, the Russian fighter, Fedor Emelianenko convincingly won against his American rival, Jeff Monson.

In his pre-election article, Putin elaborates on an ambitious social policy that would significantly improve the socio-economic well-being of all Russians. Putin first addresses his own administrative resources, that is the state personal. He promises to raise wages of the so called budzhetniki, \(^{57}\) including professors, doctors and teachers, to the average wage level of the region and for professors to 200 per cent the wage of the economy’s average by 2018. In his estimate, this would cost the state annually about 1,5 per cent of GDP. After having addressed these specific categories, Putin concentrates himself on every Russian citizen by promising to boost social protection and pensions. Interestingly, he interprets the protests as socio-economic, rather than politically targeted against his rule, by stating that a social rupture between rich and poor within society is the source of social tension and injustice. \(^{58}\) He repeats this argument in his final report to the Duma by stating that the wages of the richest citizens are 16 times higher than those of the poorest citizens, in which he sees not only social and economic risks, but also political. \(^{59}\)

Not only Putin links political protests to social unrest, also then president Medvedev reacted in a similar way. In his final address to the Federal Assembly in 2011, Medvedev announced major political reforms in reaction to the political protests. The reinstatement of directly

---

\(^{54}\) Putin, V.V., Razgovor s Vladimirem Putinem [A conversation with Vladimir Putin], 15.12.2011 : “У нас здоровая экономика, и на этой базе мы сможем успешно развивать социальную сферу.” (Minute 36-37 ; http://www.youtube.com/watch?v=Qm0aFrFTYoM )

\(^{55}\) Putin, V.V., Razgovor s Vladimirem Putinem [A conversation with Vladimir Putin], 15.12.2011 : “Таможенный союз, Единое Экономическое пространство (...) с целью (...) обеспечение более высокий уровень жизни наших граждан” (Minute 1:21 – 1:22 ; http://www.youtube.com/watch?v=Qm0aFrFTYoM )

\(^{56}\) Putin, V.V., Razgovor s Vladimirem Putinem [A conversation with Vladimir Putin], 15.12.2011 (Minute 2 :16 – 2 : 17 ; http://www.youtube.com/watch?v=Qm0aFrFTYoM )

\(^{57}\) Those who work for the state.

\(^{58}\) ‘социальный]разрыв воспринимается как несправедливость и служит источником социальной напряженности.’ Putin, V. V.: A fair society, economy is the main condition of our development in the coming years, in: Komsomol’skaya Pravda, 13.02.2012.

elected heads of the subjects of the Russian Federation and the liberalisation of the registration procedure for parties were announced. This liberalization of political participation seems to support modernization theory, in which additional social groups – parties that were not registered by the central election committee - find their representation in parliament. However, Medvedev interprets the protests as socio-economically inspired. In his state of the nation, he first mentioned the socio-economic achievements of his presidency in the sphere of health care, demography and the modernization of the economy. Moreover, Medvedev explains the proposed political reforms as measures to temper social tension, also between different social groups. The main motivation thus seems to be to ease social unrest in the short run, rather than to give them more voice. The real power lies within the hands of the election committee, that continues to decide on the registration of parties.

Regional elite also linked the protests to social discontent. At the meeting of the Council on the Development of Civil society and Human Rights, the representative of a Tatar NGO, Nailya Biktimirova, stated that ‘the only result that we experience is an increasing social tension. Picket lines, meetings on this theme, they became regular and are organised almost every day.’

The task of energy companies as a stabilising actor in those regions is underlined by Anton Fedorov, head of the management with the regions of Rosatom: ‘Our task is to maintain social stability in the regions where we [Rosatom] are active. (...) that is why we are oriented towards solving a broad line of problems, starting from safeguarding the rich cultural life in the cities where we are active to finding optimal solutions in the domains of construction and reconstruction of housing objects, city utilities and transportation.’

In conclusion, to restore the vertical contract, Russia’s elite attempted to reduce the political protests to its social base, and proposed several solutions to counteract socio-economic discontent.

---

60 A party should have a minimum of 500 members, instead of 45 000 members; and should be present in at least 50% of the regions.
63 For instance, the party of opposition leader Aleksey Navalny had problems with being registered under the liberalised system.
64 Biktimirova, N.M., Zasedanie Soveta po Razvitiyu grazhdanskovo obschestva i pravam cheloveka, 15.03.2012, Novokujbyshevsk, http://xn--90aoqjh7c4a.xn--d1abbgf6aiiy.xn--p1ai/%D0%B0%D0%BE%D0%B2%D0%BE%D1%81%D1%82%D0%B8/14776
66 Наша задача – сохранить социальную стабильность на территориях присутствия (...) поэтому мы ориентированы на решение широкого круга вопросов – от обеспечения насыщенной культурной жизни в городах присутствия до поиска оптимальных решений в сфере строительства и реконструкции объектов ЖКХ, городского благоустройства, транспортного сообщения.
5. Social Policy as an effective and sustainable mute button?

The next question is whether this social policy offensive is effective, and will be a sustainable legitimisation tool. At first sight, the heightened attention to social policy measures and the increased governmental and business social spending delivered results. Major political protests have quieted down in 2013; however social protests persisted under the surface, within the regions of the Russian Federation.

*Is an increase in social policy an effective legitimisation tool?*

If we take a look at another indicator of regime legitimacy, the approval of Putin’s performance, the approval index hit an all-time low of 25 points in December 2011 (Figure 3). This reflects the *Zeitgeist* of the moment, the month in which major protests broke out in reaction to the Duma elections of 4 December 2011. However, Putin’s rating recovered in the run up to the presidential election of 4 March 2012 to 42 points. This cannot be explained by increased repression, since the Bolotnoe case, and several restrictive laws were voted only after Putin’s inauguration of May, 7. Putin’s socio-economic revival program during his pre-election campaign could explain this impressive improvement. People started to believe in Putin’s reframing of the political protests towards social protests, and supported his attractive social policy programme. This high appreciation of Putin’s work remained stable until midst of June 2013.

Between June 16th and 30th 2013, Putin’s approval ratings fell sharply from 40 to 35. At this time, the implementation of Putin’s May Decrees were put into question. On June 13th, Putin himself recognized the implementation problems of his May Decrees and openly criticized the government during his budget message. A lot of the state’s social programmes were based on an expected increase in budget financing, but the financial sources were not determined. Moreover, the main element of the pension reforms, the parameters of the pension formula, was still lacking.

Moreover, the number of people who actively disapprove Putin’s performance remains stable. After the legitimacy crisis at the end of 2011, the disapproval rate continues to be historically high, hovering around 10 per cent. This part of the population was not convinced by the socio-economic recovery package, and remains a feeding ground for political protests in the future.

---

67 Which could be an alternative explanation why protests waned
Figure 3 Approval ratings of Putin’s Performance

Is an increase in social policy sustainable?

Russia’s socio-political sustainability ratings, conducted by the Rating Fund ‘Peterburgskaya Politika’, registered this decline in socio-political stability in Russia’s regions throughout 2013 (Figure 4). A drop in the ratings is explained by several social protests in reaction to rising housing service prices in Barnaul, Kazan, Ryazan, Murmansk, Novosibirsk and Penza. At the moment, the number of participants of these social protests remains limited, since the budzhetniki are difficult to mobilise against their employer. They are more dependent on the local administrative apparatus because their wages are small and social transfers are high. In addition, Putin intervened effectively by holding the regional administrations and the Ministry of Regional Development responsible for the defective implementation of social policy.\(^{70}\) Moreover, Putin dismissed the Minister of Energy and Housing Services of the

\(^{70}\) Vinokurova, E., Political Protest turns Communal [Politicheskiy protest prervashaetsja v kommunal’niy], Gazeta.ru, 04.03.2013, http://www.gazeta.ru/politics/2013/03/03_a_4997525.shtml
Yet, there are signals that the social policy program is not sustainable given the difficult economic conditions. The rising price level in general was of continuous concern to the population. The official discourse to counter this problem is about tempering inflation. Medvedev for instance emphasized that inflation was historically low, and will fall under 7 per cent in 2011. The state budget foresees a gradual fall in the inflation rate. In 2014, the budget is calculated on an inflation rate of 4.5 – 5 per cent. However, Rosstat expects that the overall inflation for 2014 is projected at around 7 per cent. Moreover, some sensitive price levels for households rose significantly at the beginning of 2014. According to the official data of Rosstat, year over year prices for housing services rose with 9.8 per cent in January 2014, in January 2013 prices also rose by 9.6 per cent. Although tariffs for the electricity grid and gas deliveries were frozen, prices for gas and electricity rose by respectively 14.9 and 12.9 per cent in January 2014.

71 Vinokurova, E., Protest is not for ideals [Protest ne za idealy], 05.03.2013, Gazeta.ru http://www.gazeta.ru/politics/2013/03/04_a_4999297.shtml
Moreover, the economic motor started to stutter which could undermine the vertical social contract: if the population fails to perceive an improvement in the promised living standards, social protests might again transform into political mass protests. The worsening of Russia’s economic situation seems to question the feasibility of an extensive social policy. Although oil prices were relatively high, the economy slowed down (3.4 per cent in 2012, 1.4 per cent in 2013). It became clear that the projected cost of 1.5 per cent of GDP as mentioned by Putin in his pre-election program would be much higher. Analysts of Standard & Poors calculated that Russia’s regions were in need of financial assistance of the federal budget: 3.3 per cent GDP in 2013, and an additional 2.1 per cent GDP in 2014.74 Minister economic development, Aleksey Ulyukaev, claimed that the full implementation of the May Decrees would require annual economic growth of 5.3 per cent.75

Meanwhile, Russia’s elite seem to understand the crucial role of social policy in maintaining political stability. Although the economic slowdown called for austerity measures, social policy has been explicitly left untouched. At the Saint Petersburg G20 summit, Russia’s minister of Finance Anton Siluanov, proposed to decrease state budget expenditures by 5 per cent. However, he emphasized that these economies would not be applied to social expenditures.76

6. Conclusion: Social policy as an Effective but Unsustainable Legitimisation Tool in Russia

The point of departure of this article was the theoretical question whether social policy legitimises or de legitimises an (semi-)authoritarian regime. Modernization theory suggested that social policy would subvert a non-democratic regime through reinforcement of critical voices and support for democratic values; whereas social contract theory allows for legitimisation of regimes, be they democratic or non-democratic, through horizontal and vertical unwritten agreements. Given the case of the legitimacy crisis in the wake of the contested Duma elections, effective legitimisation can be operationalized as dwindling protests and an increase in approval ratings of the President in response to social policy reforms.

The analysis of Russia’s social policy revealed the preponderant role of energy companies. The fact that energy companies, be they state controlled or private, go beyond their mere market obligations provides evidence of a horizontal social contract amongst elites. In return

for the daily management over the strategic energy sector, these companies have to contribute to regional development. Moreover, this horizontal contract improves the vertical contract between the population at large and oligarchs who were discredited during the 1990s.

In evaluating the immediate reaction to the 2011-2012 legitimacy crisis multiple indications of increased social policy have been discerned. Institutional and policy reforms were introduced during Putin’s pre-election program and concrete targets were set in his May Decrees. Moreover, Putin’s referred about 60 per cent more often to social issues in energy related documents than his predecessor Medvedev; and the rise in social expenditures doubled in 2011 and 2012 in comparison with the previous years. The social programs of energy companies also increased over the same period. This increase in social measures confirms the vertical social contract hypothesis that social policy is used as a muting tool. Moreover, the decision to freeze energy prices provoked resistance from the energy companies, shedding light on the continuous negotiation of a horizontal contract between the economic and political elite.

The qualitative approach revealed that the political elite, including Putin, Medvedev and regional representatives, re-interpreted the political protests as social protests, and proposed several solutions to solve the ‘social rupture’ to prevent further protests and to restore the vertical contract legitimising the incumbents.

Finally, the article concluded that the increase in Social Policy seems to be effective in the short run: the legitimacy rating of Putin increased spectacularly to the run up of the presidential elections, while a possible alternative explanatory variable, increased repression, could not. Repression was only stepped up after Putin’s re-election. However, the sustainability of this legitimisation tool is precarious at least given the current economic circumstances of rising inflation, rising costs of the social policy package, and stagnating economic growth. Social policy thus seems to be an effective legitimisation tool in the short run, although it is questionable whether the strategy is sustainable.
## Annex 1. Additional Social Policy Programmes of Russian Energy Companies

<table>
<thead>
<tr>
<th>Energy Concern</th>
<th>Reach of Social Policy</th>
<th>Domain of activity</th>
<th>Projects beyond Enterprise Interests: “Domestic Development Aid”</th>
</tr>
</thead>
</table>
| Gazprom (50.002%) (Ranking 1.) | - Local  
- Regional  
- National | - Education  
- Science  
- Sports  
- Culture | - Russian Orthodox Church  
- Development of Sochi Region  
- Projects targeted at the revival of national values |
| RusHydro (66.8370%) (Ranking 26.) | - Local vicinity of Hydroelectric Power plants | - Health Care  
- Education & Science  
- Culture  
- Sports | - Orphanages and boarding schools  
- Socially unprotected layers of local society |
| Rosneft' (Ranking 2.) | - Local society in the regions where the company is active (including remote area’s)  
- All 8 Federal Districts | - Housing  
- Health Care  
- Sports  
- Culture  
- Education & Science  
- Orphanages | - Revival of the spiritual heritage  
- Support for the indigenous people of the North  
- Support for war veterans organisations  
- Sochi Winter Games  
- Company’s Labour force deployed to fight the consequences of the flooding disaster (Krymsk, 2012)  
- Stavropol construction of policlinic, Secondary School Nr.3. |

---

77 Orthodox Church: e.g. in 2012, the financial support for the construction of the Cathedral ‘Birth of Christ’ in Yugo-Sakhalinsk. (Rosneft, Annual Report. p.63)

78 Construction of houses, infrastructure, and health for these groups.

79 A rescue team had been formed on the basis of the refinery personnel, headed by the ceo of the Tuapsinskiy Refinery, Andrei Vontinov. (Rosneft Annual Report 2012, p77)
| **Lukoil**  
(Ranking 4.) | - Active in 10 Subjects of the Russian Federation  
- Nation Wide\(^8\) | - Education  
- Child Care  
- Orphanage  
- Health Care  
- Culture  
- Sports | - Support for major specialised medical research centres  
- Sponsorship of national (отечественные) museums  
- Financial support for veterans of the second world war and victims of local conflicts  
- Construction and renovation of housing for indigenous peoples  
- Medical care in remote and difficult to reach areas for nomadic tribes |
| **Novatek**  
(Ranking 5.) | - Local Society in the Regions where the company is active | - Education  
- Culture  
- Health Care  
- Sports | - Preservation of the national identity of the indigenous peoples of the North, Siberia and the Far East  
- Support of socio-economically weak layers of society  
- Technical equipment for physically challenged people  
- Medical equipment for children’s hospitals |
| **Rosatom**  
(Ranking > 100) | - 40 Subjects of Russia  
- Priority to regions with nuclear reactor sites | - Innovative Education  
- Culture  
- Youth Organizations  
- Health Care | - Participation in patriotic education, dissemination of moral (духовные) values  
- Resettlement of Oktyaberskiy (509 families) and Muslyumovo (604 families) population to a safe zone |


\(^8\) E.g. sport events such as ‘Spartakiady’, Lukoil Racing team; and education grants
References


Biktimirova, N.M., Zasedaniye Soveta po Razvitiyu grazhdanskovo obschestva i pravam cheloveka, 15.03.2012, Novokujbyshevsk, http://xn--90aoq1lh7c4axn--d1abbg6aiiy.xn--p1ai/%D0%BD%D0%BE%D0%B2%D0%BE%D1%81%D1%82%D0%BA/14776


Federal Law No.121 F3 of 23 July 2012 ’Introducing Amendments to Certain Legislative Acts of the Russian Federation Regarding the Regulation of Activities of Non-Commercial Organizations Performing the Function of Foreign Agents’

Federal Law No. 65-FZ of 8 June 2012 of the Russian Federation amending Federal Law No. 54-FZ of 19 June 2004 on Assemblies, Meetings, Demonstrations, Marches and Picketing


Putin, V. V. / Sechin, I.: Meeting with the head of the company of Rosneft Igor Sechin, in: 17 September 2013, http://kremlin.ru/news/19229

Putin, V. V.: A fair society, economy is the main condition of our development in the coming years, in: Komsomol'skaya Pravda, 13.02.2012.


Putin, V.V., Razgovor s Vladimirom Putinym [A conversation with Vladimir Putin], 15.12.2011 : “У нас здоровая экономика, и на этой базе мы сможем успешно развивать социальную сферу.” http://www.youtube.com/watch?v=Qm0aFrFTYoM


Vinokurova, E., Political Protest turns Communal [Politicheskiy protest prevrashaetsja v communal'niy], Gazeta.ru, 04.03.2013, http://www.gazeta.ru/politics/2013/03/03_a_4997525.shtml

Vinokurova, E., Protest is not for ideals [Protest ne za idealy], 05.03.2013, Gazeta.ru http://www.gazeta.ru/politics/2013/04/04_a_4999297.shtml


Annual Reports


Rosneft, Annual Financial Report, 2013,
http://www.rosneft.ru/Investors/statements_and_presentations/annual_reports/

Rosneft, Annual Report in the field of Sustainable Development, 2012,
http://www.rosneft.ru/Investors/statements_and_presentations/annual_reports/