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“Population Aging, Low Fertility and Social Security in Russia”

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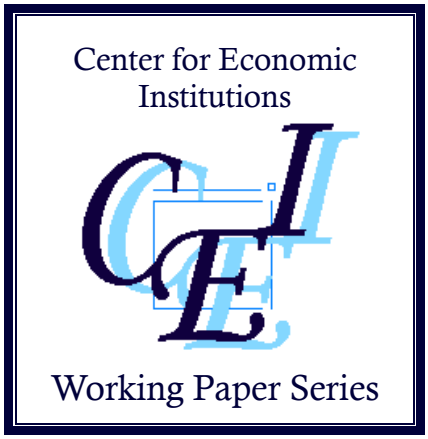

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Population Aging, Low Fertility and Social Security in Russia *

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I. Introduction

It goes without saying that social security policies are implemented because of poverty arising from problems centered on injury/illness, childbirth, and aging. The same was/is true for both Soviet Russia and the modern Russian Federation. However, it has to be said that the economic background as well as social systems were very different between two regimes. For example, in the Soviet Union, unemployment was not supposed to exist, so there was no system of employment insurance. Yet injury/illness, childbirth, and aging are events that occur regardless of the economic systems, so there has always been a need to protect individuals from them.

In this chapter the author offers an overview of the economic circumstances and social environment that provide the background to social security policy in modern Russia. Although the chapter does not touch on the Soviet era in detail, it must at least refer to the sorts of socioeconomic shocks that Russia experienced following the collapse of the Soviet Union. Therefore, the chapter summarizes the changes in the socioeconomic environment that took place from the end of 1980s until after the Soviet collapse, as well as trends after 2000, when sustained economic growth began to be seen.

Despite the risk of repeating oneself, the author should state that the ultimate goal of social security is to reduce poverty. So to begin with, the author looks at the trend with poverty levels from the end of the Soviet period and in Russia subsequently, and developments in the area of economic disparities. After that, the author intends to describe the aspects of injury/illness and aging from among the main causes of poverty.

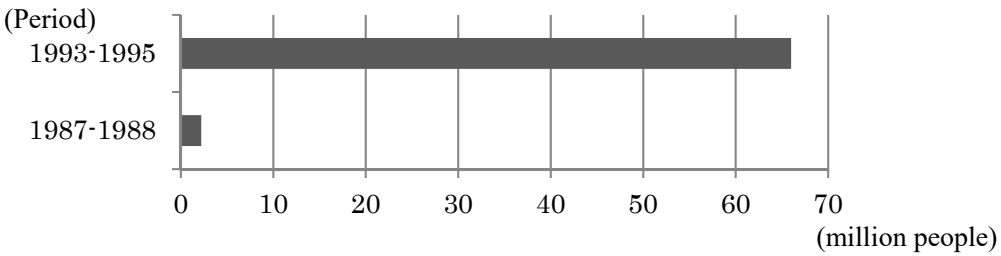
II. Poverty and economic disparities in Russia

It is fair to say that it is widely known that economic disparities were small and poverty levels were low in the former Soviet Union and other socialist countries. In the Soviet Union, income redistribution was conducted broadly, the state set uniform wage rates, and social security measures such as medical coverage and pensions were generous. These policies kept poverty at low levels (McAuley, 1979). But as the system began to be transformed, this situation underwent major changes. The well-known Milanovic (1997) estimated the total number of people with income less than the poverty line based on a variety of data. Milanovic (1997) found that in 1987–1988, the number of people in poverty in Russia was no more than 2.2 million people (1.5%) out of a total population of 146 million (1987), but that once the systemic transformation had got underway, 66 million people, or 44% of the total population of 148.5 million (1993), were in poverty. This meant that the total number of people in poverty had increased by 30 times (Fig. 1). This put the poverty line at an income of USD 4 per person per day in terms of purchasing power parity in 1993, which can be said to be quite a high

estimate. However, this does not alter the overall trend.

Of course, even in the Soviet Union, which operated under a system of socialism, it is doubtful that poverty did not exist at all. Because it was impossible to look at data on household incomes and household consumption, the situation was just such that investigations could not be performed. But at the same time, poverty expanded in Russia in conjunction with the systemic transformation, and it is reasonable to say that this was seen on a broader scale.

Fig.1 No. of people in poverty in Russia



Source: Prepared by the author from Milanovic (1997)

The expansion in poverty pointed out by Milanovic (1997) and shown here has been described as "sudden poverty" in previous research on poverty in Russia (Ruminska-Zimny, 1997). This choice of expression is indicative of the view that once the socialist system, with its generous social security, collapsed, poverty expanded rapidly. In fact, when the poverty headcount during the socialist era and the period after the start of systemic transformation are compared, a major shift can be observed. That being said, hardly any data for the socialist era exists, which is something the author mentioned earlier. At present, various estimate series can be used, and relying on those, the trend in the poverty headcount is presented in Fig. 2, which shows Russia's poverty headcount (defined in the Russian Federation as the proportion of the population earning less income than the "basic cost of living.") and per-capita gross domestic product (GDP) between 1980, prior to the Soviet collapse, and 2018.

Fig. 2 Russia's poverty headcount and per-capita GDP, 1989–2018

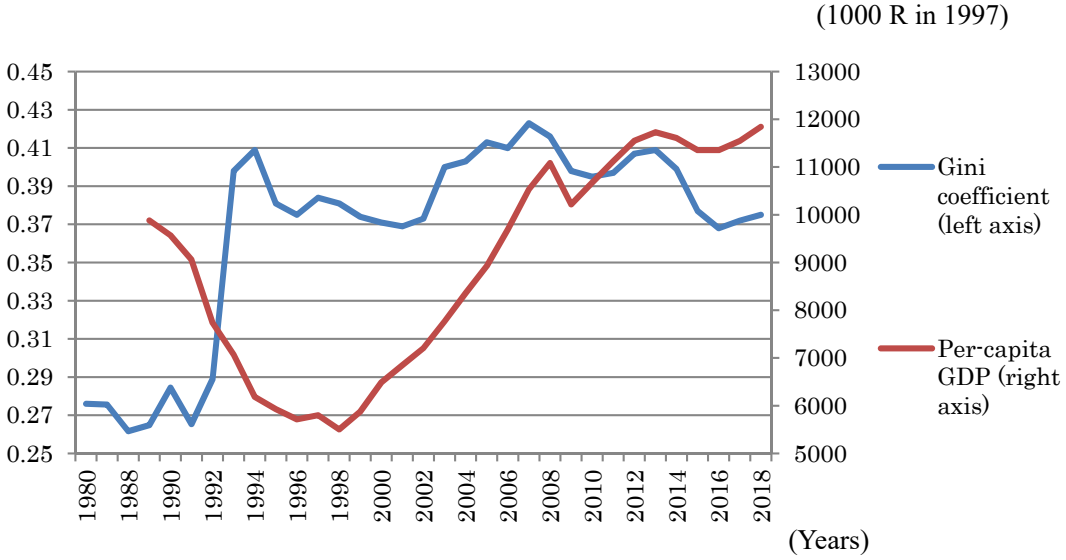
Sources: Prepared by the author from Rosstat, *Sotsial'noe polozhenie i uroven zhisni naseleniya Rossii*, various years; Rosstat, *Regiony Rossii*, various years; World Bank, *World Development Indicators*.

Here, Russia's poverty headcount, which was 11.4% in 1991, had reached 31.5% in 1993, after the systemic transformation, which had begun at the end of 1991, had already got underway. This attests to the truth of the "sudden poverty" in transition economies described by Ruminska-Zimny (1997).

On the other hand, it is easy to see that the poverty rate jumps dramatically in the 1990s before falling back in the 2000s, which indicates contrastive dynamics depending on the time period. Here, it can be pointed out that there is a close relationship between economic conditions and the poverty rate. This is obvious when one compares the poverty rate and per-capita GDP, as the coefficient of correlation between the poverty headcount and per-capita GDP as shown in Fig. 2 is -0.82, which shows that the poverty headcount falls as per-capita GDP expands.

Similarly, as shown in Fig. 3., the Gini coefficient, which is an indicator of income disparities, spiked from 0.265 in 1991 to 0.398 in 1993. It has stayed at a high level since, but after showing signs of rising once again in the middle of the 2000s, it fell back again, and has been stable since the second half of the 2000s.

Fig. 3 Russia's income disparities and per-capita GDP, 1980-2013



Sources: Prepared by the author from Braithwaite (1995); Rosstat, *Sotsial'noe polozhenie i uroven zhisni naseleniya Rossii*, various years; Rosstat, *Regiony Rossii*, various years.

At the beginning of the systemic transformation, it is certainly true that both the poverty rate and income disparities broke with the previous trend and started to rise discontinuously. But it can be confirmed that this was in line with the sharp drop in economic output (Figs. 2 and 3). However, when one looks at the situation after 1999, when economic growth began, one sees that the poverty rate clearly contracted, while economic disparities did not necessarily widen. It is not hard to imagine that economic growth, by raising income levels among all classes of people, would lead to a drop in the poverty rate. But besides that, it is also feasible that social security effectiveness would increase on a wider scale, resulting in income redistribution, which would curtail any expansion in economic

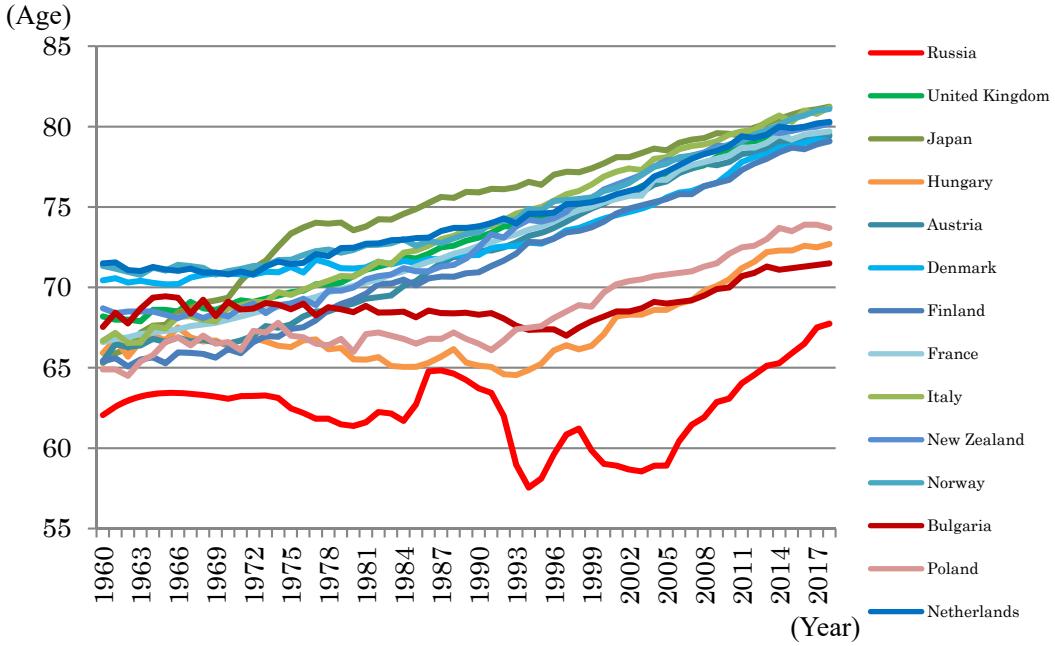
disparities. In Russia in the first half of the 1990s, a certain degree of progress had been made with the establishment of a legal framework, but it was impossible to effectively reduce poverty levels because, for example, funding from the federal budget was restricted and the value of the benefits provided were so measly. It therefore seems likely that the sustained economic growth seen in the 2000s was what made it possible to implement effective social security policies.

As mentioned earlier, the chapter was able to confirm time-series estimates for poverty and economic disparities in Russia. What should be examined next are trends with the various factors that determine such poverty levels. Among these factors, the author looks at the central ones, namely healthcare and pensions, as well as aspects relating to childrearing/childbirth.

III. Longevity and injury/illness

During discussions of Russian health policy, what comes up frequently is the issue of healthcare levels and the issue of diets and lifestyles. As a result of such factors, average life expectancy at birth in Russia has exhibited a startling trend. Fig. 4 shows the average life expectancy at birth of males not only in Russia and a number of other former socialist countries, but also in Western European countries from 1961 to 2018.

Fig. 4 Average male life expectancy at birth



Sources: Prepared by the author from World Bank, *World Development Indicators* and Rosstat, *Demograficheskii ezhegodnik Rossii*, various years.

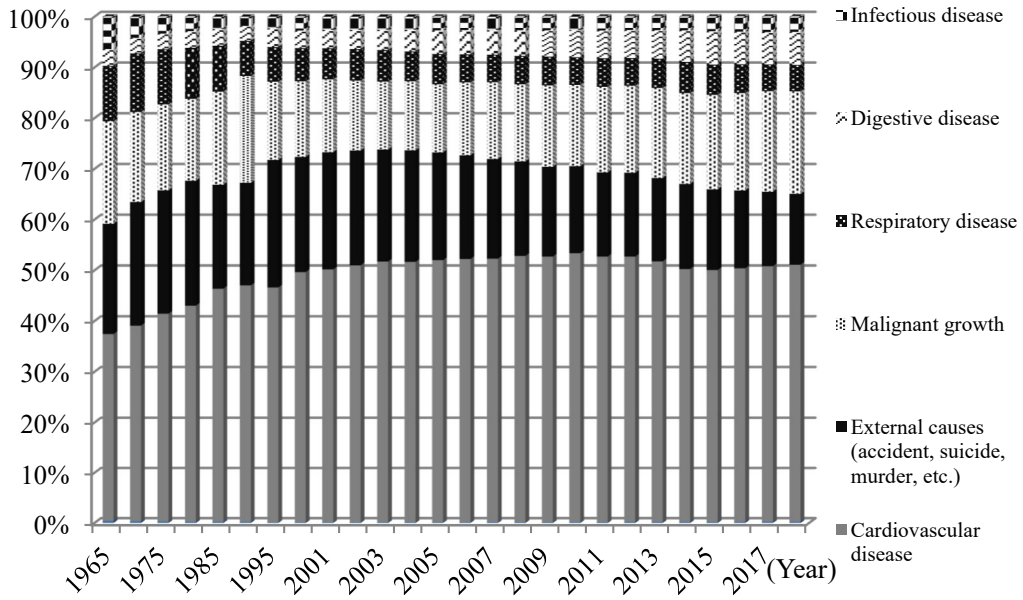
From the middle of the 1960s, a distinctly different trend can be seen with the former socialist countries (Bulgaria, Hungary, Poland, and Russia) on the one hand and the Western advanced countries on the other. In general, the curves for the Western countries climb continuously from left to right. However, it can be said that those for the socialist countries did not rise at all from the mid-1960s until

the systemic transformation that occurred in 1989–1991.

Among the socialist countries, Russia's divergence is observed to be especially large. It could be even said that the curve was trending downwards. But what is behind this high death rate in Russia? Because the death rate was already high during the Soviet era (average life expectancy at birth was low), the conclusion cannot be drawn that the deterioration of healthcare levels and the collapse of the social security system following the demise of the Soviet Union was a direct cause of the rise in the death rate.

The principal controversialists in the field of Russian demographics explain what happened using such reasons as a sharp rise in stress levels in conjunction with the systemic transformation (Vishnevsky and Bobylev, 2009). Supporting this logic is the relative frequency of different causes of death. Figure 5 shows causes of death for men only, and the proportion of deaths that occurred due to each cause.

Fig. 5 Causes of death among Russian males, 1965-2018



Source: Prepared by the author from Rosstat, *Demograficheskii ezhegodnik Rossii*, various years.

Between 1965 and 1990, the proportion of deaths from "cardiovascular disease" increased. Furthermore, the proportion for "external causes" was high in 1965–1980. The data strongly suggests that these high figures for "cardiovascular disease" and "external causes" could be connected with the high overall death rate in the Soviet Union and Russia, the low average male life expectancy at birth, and standards of living, or more specifically, alcohol consumption (Nemstov, 2002). What clearly appears following the collapse of the Soviet Union at the end of 1991 is a jump in the proportion of deaths from "external causes," which had fallen back in 1985–1990. The proportion remained high until the early 2000s. Also clear is the fact that the proportion of deaths from "cardiovascular disease" climbed rapidly after 1995 and stayed at a high level thereafter. This would be consistent with the interpretation that stress resulting from the systemic transformation triggered an increase in alcohol

consumption, and that this led directly to a rise in the death rate. This view is also shared with various analyses employing microdata, which hold that until the middle of the 2000s alcohol intake harmed the health of Russians and was one of the factors behind the increase in the death rate. The statement that "Russians drink too much alcohol" might come across as a joke, but the insights accumulated from previous research indicate that the statement is factual.

However, as one moves into the second half of the 2000s, one sees a clear downward trend in the proportion of deaths attributed to "external causes," and this can also be said to be consistent with the fact that the economy became stable. Indeed, as was seen in Fig. 4 above, the average male life expectancy at birth has increased continuously since 2005 and at a speed never observed previously.

The issue of lifestyles that was seen in the 1990s, along with the problem of Russia's traditional approach to health, namely medical care that is focused on treatment rather than prevention, could not be ignored. However, the economy at the end of the 1990s had shrunk in size to just a little over half that seen at the end of the Soviet era, and under these circumstances it was difficult to successfully implement measures that were suited to the conditions.

For these circumstances to undergo changes, and the Russian health authorities to deliver recognizable improvements, what was needed was the rapid economic growth that occurred from beginning of the 2000s, and which also helped to a reduce poverty levels. In 2005, a national priority project called "Public Health" was established with the goals of not only improving advanced medical care through the improvement of frontline healthcare levels and the deployment of more medical equipment, but also stepping up action against traffic accidents and cardiovascular disease, transforming the healthcare system, recommending lifestyle improvements, shifting the focus to preventative medicine, and so on[1]. As a result, government funds began to be invested in the healthcare field on a large scale for the first time since the collapse of the Soviet Union.

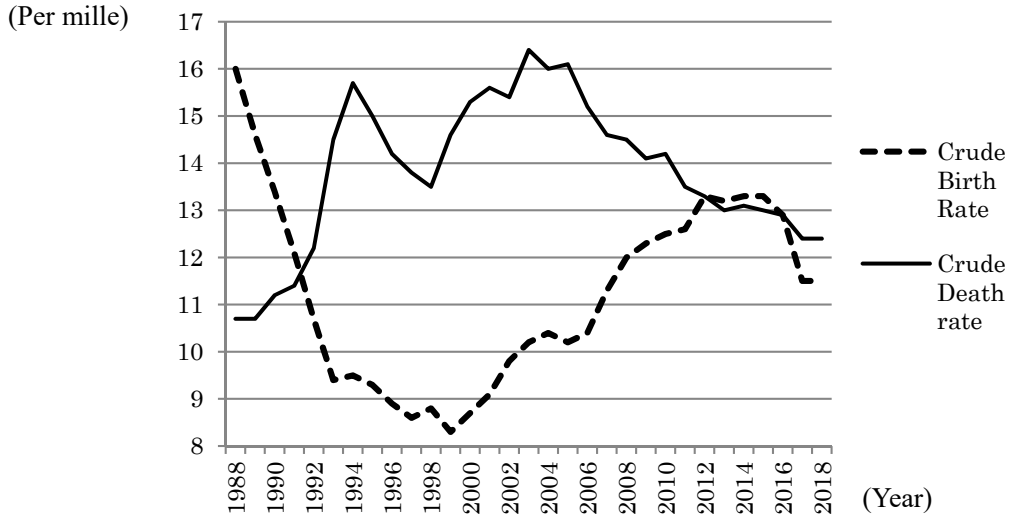
IV. Aging and pensions

There is no argument that population is what is important when considering a social security system, and especially a pension system. One of the biggest problems facing Russia was, alongside the high death rate discussed in the previous section, falling fertility (see next section), which meant, as can be seen from Fig. 6, that during the more than 20-year period between 1992, just after the Soviet collapse, and 2012, the natural rate of population increase was a negative, meaning that the total population was falling[2]. The drop in population was caused mainly by the declining birth rate, but as the number of children decreases, the proportion of the population who are elderly also increases.

Given the extremely low average life expectancy at birth, which the chapter saw in the previous section, it might seem odd that the population of Russia is aging. However, due to the impact of the age structure of the population (e.g. the baby-boom generation born after the Second World War becoming part of the elderly population) and differences in the definition of working age, the population of Russia is aging, too. Fig. 7 shows calculations for age composition indexes along based on the ages at which Russians become eligible to receive pensions. Here, one can see that the elderly population index is increasing. Furthermore, the elderly population index rose sharply from 32.6 in 2005 during the following 15 years, reaching 46.7 at the beginning of 2019. This, alongside the figure

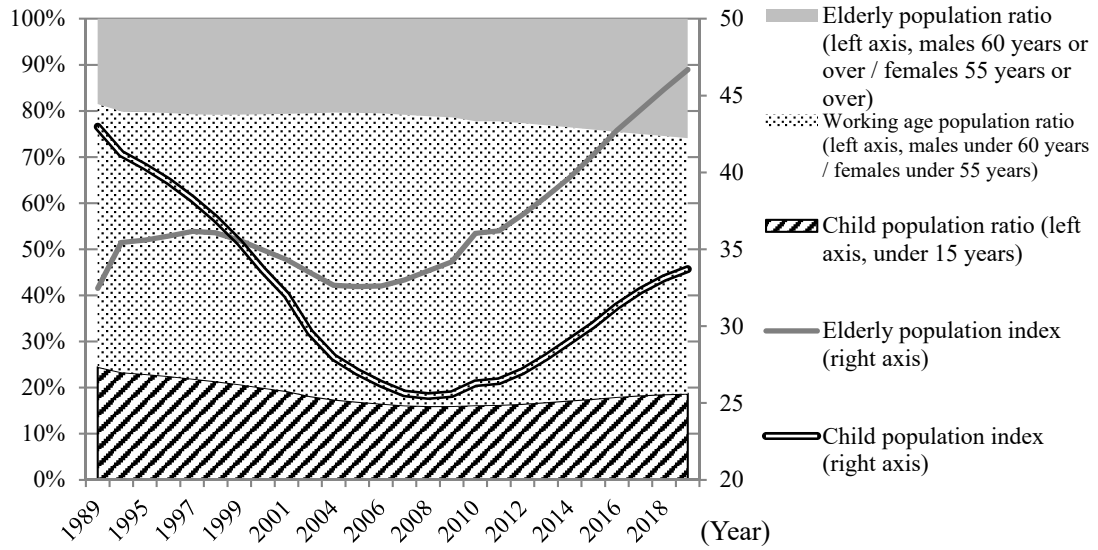
for Japan, is the highest in the world (the figure for Japan was 47.2 in 2020 according to annual estimates of population from the Statistics Bureau of Japan (SBJ)).

Fig. 6 Crude birth rate and crude death rate in Russia, 1960-2018



Source: Prepared by the author from Rosstat, *Demograficheskii ezhegodnik Rossii*, various years.

Fig. 7 Proportion of population by age group / age composition indexes, 1989-2019

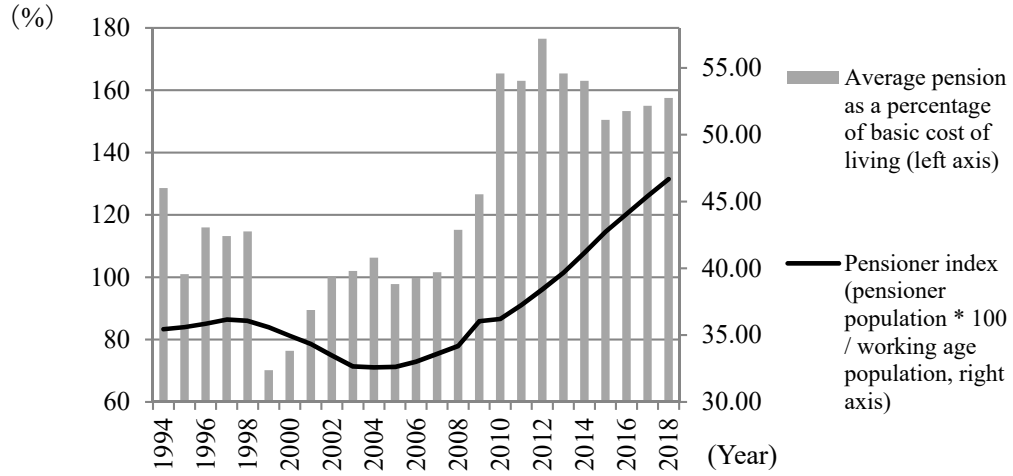


Source: Prepared by the author from Rosstat, *Demograficheskii ezhegodnik Rossii*, various years.

Aging is one of the main causes of poverty. Asset disparities expand as the age group rises, and, as is widely known, when elderly people without assets become unable to work, they are at higher risk of falling into poverty. However, the poverty risk among pensioners in Russia is not remarkably high. This is partly because the average annual pension in Russia has generally exceeded the “basic cost of living” determined by the federal government. Refer to Fig. 8. From the 1999 Russian financial crisis

until 2001, there was rapid inflation, and indexation failed to keep up, so the average annual pension temporarily dipped below the "basic cost of living," but apart from that, it has usually been in the vicinity of or higher than the basic cost of living. Furthermore, since 2010, the average annual pension has stayed steady at 1.5 times the basic cost of living.

Fig. 8 Average pension relative to basic cost of living and pensioner index, 1994-2018



Source: Prepared by the author from Rosstat, *Sotsial'noe polozhenie i uroven zhisni naseleniya Rossii*, various years.

While pensioners may not regard the amount they receive as adequate, their benefits appear to be generous, at least in light of the economic circumstances and scale of fiscal expenditure since 2009. Starting with an amount more or less equal to the basic cost of living, pensions were increased rapidly from 2007 onwards[3]. What has made this level of pension benefits possible is, of course, the increase in government revenue from the export of resources, mainly oil and gas. So generous pensions can also be said to have been gifted by economic growth.

Nevertheless, the continued rise in such indicators as the elderly population index (Fig. 7) and the ratio of pensioners to the working age population (Fig. 8) makes it necessary to redesign systems relating to the use of government funds, the supply of which is not inexhaustible and which are affected by energy market conditions. Until recently, people have begun receiving pension benefits at the extremely young ages of 60 years for men and 55 years for women, but because the pension fund account is already in the red, in October 2018 the decision was made to increase the age of eligibility to receive pension benefits, and this measure took effect in January 2019[4]. As a result of this law, the pension eligibility age would be gradually raised to 65 for men and 60 for women. Given that the population is going to continue to age in the future, improving pension finance is a pressing issue for Russia, too[5].

V. Childbirth/childrearing

Childbirth and then childrearing lead at least to the short-term withdrawal of the main care providers from the labor market or to them no longer being fully employed. The risk of them falling into poverty

may therefore be higher. It is commonly understood that in high-income countries, demand for "quality" in terms of children increases, and that demand for "quantity" of children shrinks in response, and that this has led to a declining birth rate, or in other words, fewer children (Becker, 1960).

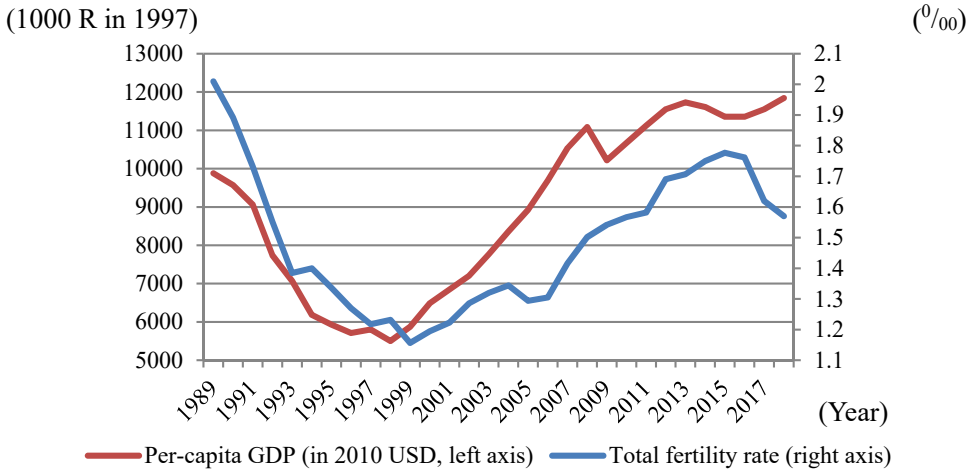
Because the Soviet Union lost a huge number of lives during the Second World War, having children was always encouraged in the post-war Soviet Union. From the 1960s onwards, birth rates in Western advanced countries declined rapidly, while the socialist countries maintained a birth rate of just over 2.0, enough to sustain the population, until 1989, partly as a result of plentiful social childcare facilities (nursery schools and kindergartens under the control of companies or government organizations).

After the collapse of the Soviet Union, however, the network of social childcare facilities (nursery schools and kindergartens) weakened swiftly. Those that had been operated for companies for their employees, and which were almost free of charge, were either closed or charges for them were introduced. This led directly to an increase in the cost of childcare[6]. Furthermore, the economic crisis that accompanied the systemic transformation resulted repeatedly in sharp decreases in the size of the economy. Because of this, the ability of the new generation to bear the cost of childrearing declined.

The Soviet Union was known for its generous social security system (McAuley, 1979). However, the systemic transformation destroyed the foundation of the system. The Soviet labor market was also characterized by stable employment, an absence of unemployment, and stable, though not especially high, wages. But such features were lost with the economic transition. Factors like these compounded one another, and the end result was rapid drop in Russia's total fertility rate, which slumped to below 1.20 in 1999 and 2000 (Fig. 9).

The Russian government came out with various measures for addressing this situation. In "Population Development Concept for the Russian Federation by 2015,"[7] a document that the Russian federal government produced in 2001, the government promised to take steps to improve the health of citizens and increase the birth rate. At that time, however, no new measures to tackle the falling birth rate and the rising death rate were taken. In other words, the document did not have any real meaning.

Fig. 9 Russia's total fertility rate and per-capita GDP, 1989-2018



Source: Prepared by the author from Rosstat, *Demograficheskii ezhegodnik Rossii*, various years; Rosstat, *Regiony Rossii*, various years.

In the policy arena, a turning point arrived during the latter half of the first Putin administration, after sustained economic growth had begun. In 2005/2006, President (at that time) Putin, in his annual addresses to the Federal Assembly, mentioned the issue of the slumping birth rate, and stated that increasing it was a governmental goal. Following this, in December 2006 the childcare allowance etc. was raised[8], while a new "mothers' fund"[9] was established as a government-funded scheme that would provide large sums of money for having children. Income redistribution in the form of support for childbirth/childrearing was designed to reduce the risk of people of reproductive age falling into poverty.

However, what needs to be kept in mind here is that, as Fig. 9 shows, the rise in the birth rate can be seen to have begun in 2001, prior to the introduction, in 2006, of the government-funded scheme that can be viewed as a measure aimed at encouraging people to have children. In other words, the inflection from a declining to a rising birth rate can be regarded as matching the start of economic growth, and this can also be seen here. Attention also needs to be paid to the fact that measures to encourage childbearing are implemented as a means of transferring income to the childrearing generation, but that the execution of such measures requires a fiscal foundation.

Here, too, economic growth itself can be seen to have enabled social policies to be implemented. Between the 1990s and the early 2000s, it would not have been an overstatement to say that the Russian government's social policies were nothing more than words of encouragement. However, this situation underwent substantial changes from the mid-2000s onwards, as measures that were actually accompanied by fiscal resources began to be introduced.

VI. Conclusion

In this chapter, an overview of the socioeconomic background behind social security policy in Russia was provided. The rapid economic growth seen in the 2000s provided the foundation that allowed Russia's social security system, which had become fragile following the collapse of the Soviet Union, to be strengthened. However, the modes of behavior of individuals are up to individuals themselves to decide, and, of course, it is by no means certain, even in Russia, that the wishes of the government will be fulfilled.

Lifestyles and the shock of the systemic transformation pushed up the death rate in Russia. Once into the 2000s, economic growth began to be observed on a sustained basis, and the federal government has started to invest its new resources in strengthening the public health system. With the population aging, a reinforced fiscal foundation has provided the background to efforts to boost pension benefits, but it would be difficult to argue that this will be sustainable over the long term, so the consequences of the pension system reforms that have been introduced will be an issue in the future. Post-Soviet Russia, which experienced an ultra-low birth rate, is using massive government revenues obtained from oil and gas to implement extremely aggressive measures to promote childbirth/childrearing, and the success of these measures may be being demonstrated in the form of an increase in the birth rate.

Against a backdrop of continued economic and social stability, Russia can be regarded as having finally started to expand and reform its social security policy. As for the end result, however, the

reforms themselves are still at a nascent stage, and the evaluation of policies will require the observation of the trend over a certain period of time. It will therefore be some time before the outcomes of the policies can be ascertained.

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[1] The website of the steering committee for national priority projects (http://www.rost.ru), which reports directly to the President of the Russian Federation, provides detailed information about various “national priority projects.” The “Public Health” project is a described in detail in the section of the aforementioned website for specific projects (http://www.rost.ru/projects/health/health _main.shtml).

[2] In 2013, the natural rate of increase turned positive for the first time in more than 20 years, but was heavily impacted by the age structure, within which women of reproductive age accounted for a large proportion of the total population. In fact, since 2016 the natural rate of increase has once again been negative.

[3] Poslanie federalnomu sobraniyu Rossiiskoi Federatsii, 26 aprerya 2007. http://archive.kremlin.ru/text/appears/2007/04/125339.shtml (checked on March 25, 2020)

[4] Federal'nyy zakon ot 3 oktyabrya 2018 goda № 350-FZ "O vnesenii izmeneniy v otdel'nyye zakonodatel'nyye akty Rossiyskoy Federatsii po voprosam naznacheniya i vyplaty pensiy".

[5] The basics of Russia’s pension system were defined in “Federalnyi zakon ot 15 dekabrya 2001g. N167-FZ <Ob obyazatelnom pensionnom strakhovanii v Rossiiskoi Federatsii>” and “Federalnyi zakon ot 17 dekabrya 2001g. N173-FZ <O trudovykh pensiyakh v Rossiiskoi Federatsii>,” but since then numerous alterations have been made.

[6] *Vechernaya Moskva*, No.37, Feb. 3, 2007; *Vechernii Peterburg*, Aug. 25, 2009.

[7] Rasporyazhenie pravitel’stva RF ot 24.09.2001 No.1270-r.

[8] At that time, the childcare allowance etc. was a flat 700 rubles (approx. 30 USD at that time), but this was increased to 1,500 rubles (approx. 70 USD at that time) for the first child and 3,000 rubles (just under 140 USD at that time) for the second child and subsequent children. As stated in "Federal'nyi zakon ot 1 marta 2008, No.18-FZ o vnesenii izmenenii v otdel'nye zakonodatel'nye akty Rossiiskoi Federatsii v tselyakh povysheniya razmerov otdel'nykh vidov sotsial'nykh vyplat i stoimosti nabora sotsial'nykh uslug," these amounts are normally revised based on the rate of inflation.

[9] Federal'nyi zakon ot 29 dekabrya 2006, No.256-FZ o dopolnitel'nykh merakh gosudarstvennoi podderzhki semei, imeyushchikh detei.