I. Introduction

How do authoritarian regimes make social policy? In contrast to the rich literature on social policy in developed and developing democracies, (Polanyi 1957 [1944]; Esping-Andersen 1990; Hall and Soskice 2001; Huber, Ragin and Stephens 1993; Iversen 2005; Iversen and Soskice 2009; Iversen and Stephens 2008; Palier 2010; Skocpol 2009; Inglot 2008; Cook 207; Haggard and Kaufman 2008), there are fewer studies focusing on authoritarian regimes. With respect to pension systems in particular, although we some studies of individual authoritarian regimes (eg Chandler 2004), comparative studies are sparse (but see Brooks 2009).

Theoretical generalizations about policy-making in authoritarian regimes often rely on simplifying assumptions. A common device is to posit a "selectorate," a body of power-holders treated alternately as an institution or as a collection of notables who collectively hold the power to choose those who will rule. Leaders seek to acquire, maintain and amass power but must consider the demands of that portion of the selectorate with whom they share the benefits of rule (Bueno de Mesquita, Smith, Siverson and Morrow 2003; Bueno de Mesquita and Smith 2009). Policy-makers choose between growth-enhancing public goods (such as honest government and rule of law) and kleptocratic private goods, and between broader and narrower ranges of beneficiaries. The ruler seeks to maintain the smallest possible coalition of immediate supporters relative to the larger group of those empowered to remove him. The leader also calculates how to distribute social benefits so as to forestall popular uprisings, although often such theories treat social policy as wasteful redistribution of rents rather than as human capital investment or social protection (Bueno de Mesquita and Smith 2009).

Another approach is to treat economic and social policy as the product of global pressure. Globalization presses governments to adopt policies to reduce barriers to the movement of goods and capital and to lower labor costs. The World

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1 I wish to express appreciation to several research assistants who have helped gather material for this paper: Alicia Ju, Charlotte Zhang, Siqi Huang, Miao Yang, and Drew Wagstaff. Nancy Hearst at the Fung Library at Harvard helped locate a number of useful sources. Discussions with Sarah Sokhey, Linda Cook, Israel Marques and Nara Dillon have been extremely helpful. Comments by participants in discussions at presentations of versions of this paper at the Davis Center, ICSID and the China Research Center in Atlanta were very helpful as well. I am particularly appreciative to Caiwei Huang, who has shared insights with me based on her internship with the Ministry of Human Resources and Social Security in Henan Province. I am also very grateful for a year as senior scholar at the Davis Center for Russian and Eurasian Studies at Harvard, which gave me an opportunity to do much of the research on which this paper is based.
Bank, IMF, and other institutional organizations urge governments to adopt approved formulas for managing economic and social policy. From this perspective, for example, adoption of the multi-pillar system of pension provision by over 30 countries in Latin America and Central and Eastern Europe in the 1980s and 1990s reflects a "broader neoliberal agenda for global economic policy" (Orenstein 2005, p. 175). Other scholars emphasize the effect of diffusion by learning from neighboring countries or the path dependent response of national institutional frameworks to common global pressures (eg Brooks 2005, 2007; Shou 2013). Some, however, emphasize that states retain some discretion in choosing how to combine liberalization of economic and social institutions with state-led development (eg Kurtz and Brooks 2008).

A third approach treats policy reforms as responses to domestic social pressures. In the absence of competitive elections, autocratic rulers are insecure about public tolerance for hardship and preoccupied with maintaining social stability. If authoritarian regimes implement market-oriented reforms, groups made worse off--urban workers, public servants, those living on fixed incomes--are a source of potential threat (Przeworski 1991; Solinger 2007, 2009). Different categories of society, such as owners or workers, insiders or outsiders, state sector or private sector, rural or urban, may have different latent preferences over the design of institutions distributing risk and reward (eg Mares 2003, 2005; Huang 2013). These theories hold that social policies can be adopted to forestall popular discontent (eg dibao in China), modified ex post (eg monetization of benefits in Russia [Wengle and Rasell 2008]), or designed to accommodate the interests of particular groups (Huang 2013; Frazier 2010).

Each of these approaches sheds light on a particular aspect of policy-making under authoritarian rule, but their theories of politics are underpowered. Power-maximization by top leaders is undoubtedly a useful assumption for explaining the coalition-building behavior of rulers. It is useful, for example, to trace the reciprocal relation between the inner circle of those who rule, such as a General Secretary and a Politburo, and the wider circle of those who have the potential power to make or unmake the inner circle, such as a Central Committee. Although some scholars have found the selectorate model to be useful in explaining outcomes, they ground it first in a specific institutional setting (cf Shirk 1993, Roeder 1993, Zimmerman 2014). Without a contextually informed understanding of the coalitions themselves and the rules governing their choices, it is impossible to predict ex ante what alliances of rulers will produce what reforms of social and economic institutions. Once those are established, however, the selectorate framework itself adds no value to the analysis other than as a label. Moreover, given the fluid and contingent nature of the relationship of the top leader or leaders and the broader circle of those with the latent power to remove them, the composition of the "selectorate" and "winning coalition" is itself endogenous to the joint outcome of the players’ strategies.

Another problem is the assumption of a unidimensional policy space. Leaders choose between distributing "public goods" and "private goods" ("the benefits of rule"). Members of the selectorate are treated as having homogeneous policy preferences (Gallagher and Hanson 2013, p. 187). Therefore such theories rule out the possibility that diverse coalitions form around policy preferences or
that bureaucratic agencies may have their own political interests. Such theories tend to treat the policy agenda as a tabula rasa in which policy choices are unconstrained by prior choices, geography, demography, or social structure. Although it is possible to stipulate, as Morrow, Bueno de Mesquita, Siverson and Smith do, that there are *always* a selectorate and a winning coalition (Morrow, Bueno de Mesquita, Siverson, and Smith 2008, p. 393), such a proposition is valid only by definition. To explain actual policy outcomes, the analyst must determine the identities and goals of actual power-holders in each case and the rules of the game, formal and informal, in which they operate. If the relationship between the rulers and those with the power to remove them is to have any bite in explaining actual policy outcomes, then these concepts have to be fleshed out with historical and sociological detail that establishes who the power centers are in the society and what their policy interests are. Doing so, however, quickly exhausts what little generalizability such a theory has in real-world cases. Analytical tractability is achieved by sacrificing all the stuff of politics--the trucking, bartering and exchanging through which power is exercised.

The theories centering on globalization and diffusion are similarly thin until they link the influence of international actors to the policy choices made by governments. Such theories tend to downplay the agency of governments as they seek out solutions to policy problems. They call attention to the convergence of policy models, such as the widespread adoption of the World Bank’s recommended "three-pillar" system of pension provision: a first pillar based on mandatory contributions to a pay-as-you-go defined benefits system; a second pillar consisting of mandatory defined contributions into a combination of notional personal accounts and private retirement savings accounts, and a third pillar of voluntary private pension insurance [Holzmann et al. 2009, Holzmann 2012]). But they cannot explain policy reversals. As Sarah Sokhey has pointed out, as of 2015, ten of the 28 countries that adopted private pension savings accounts in the 1980s and 1990s have since dropped them (Sokhey 2015b, p. 5).

Similarly, appeals to social forces need to be accompanied by an analysis of the way they shape the policy agenda. Why do authoritarian regimes suppress some demands while accommodating others? Since authoritarian regimes can, by definition, use extra-judicial coercion to suppress opposition, a complete account must specify the conditions under which the cost of toleration is lower than the cost of repression. Societally-based theories usefully draw our attention to the fact that authoritarian regimes are often sensitive to threats to their power arising from collective action (King, Pan and Roberts 2013; Chen, Pan and Xu [forthcoming];

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2 In *The Logic of Political Survival* Bueno de Mesquita, Smith, Siverson and Morrow assert that in the Soviet Union, "The incumbent needed about half of the party membership to ensure maintenance in office" (2003, pp. 53-4). No empirical or theoretical evidence is offered in support of this claim, which is at variance with every serious study of Soviet politics. They also define "the selectorate" in the Soviet regime as the entire adult population, a proposition which renders the concept of a selectorate meaningless.

3 NB: Some accounts break down the three pillars somewhat differently.
Reuter and Robertson 2012). However, they lack a general theory linking the threat of collective action to specific policy or institutional reforms. In the absence of institutional means to affect policy, the only way in which they can influence policy is increasing pressure on rulers to "do something." But rulers are free to choose how to respond as they wish--to repress or accommodate. Certainly in the cases of Russia and China, where labor organizations maintain dependent and clientelistic relations with the regime, and protests are anomic, decisions over major policy and institutional reform not made through formal channels of consultation between government and social groups (Cook 1997, 2007a; Clarke and Lee 2002; Pringle and Clarke 2011; Ashwin 1999; Ashwin and Clarke 2003).

All three approaches, therefore, need to be supplemented by a more robust theory of the ways in which rulers build and maintain power, forming coalitions with allies, eliminating opponents from positions of power, and reforming institutions for distributing risk and reward. Addressing policy problems is therefore inevitably tied to political calculations. As George Breslauer wrote of the post-Stalin Soviet leaders, "I take power consolidation to be a given. But I assume that, in the absence of terror, authority-building is necessary to protect and expand one's base of political support. Authority-building requires both problem-solving capacities and political skills" (Breslauer 1982, p. 10). This is certainly not a new perspective, but it is often forgotten in the search for parsimonious explanations of policy outcomes. Mid-range theories, where institutional scope conditions are sufficiently similar across cases that they can be held constant, may be better suited to the study of factional and bureaucratic interests in authoritarian polities. Examples include theories of East Asian "developmental states," where constraints such as the absence of abundant natural resources and severe internal and external security vulnerabilities led elites to form cross-class coalitions emphasizing investment in human capital (Doner, Ritchie and Slater 2005). Similarly, to explain political strategies in communist states, scholars of communist states weigh the influence of factions based on personal and patron-client ties and coalitions of bureaucratic interests (Nathan 1973; Lieberthal and Oksenberg 1988; Lieberthal 1992; Breslauer 1982; Sakwa 2011).

This paper proceeds from the premise that the policy-making environment consists both of the top leaders as well as of self-interested bureaucratic officials who seek to maximize power by pursuing policy interests. They form coalitions and build support in order to win over the top leadership. Therefore to explain the reform of welfare institutions in authoritarian states, we must follow the alignments of key bureaucratic stakeholders over time. To illustrate this method, I trace the process of pension policy-making in Russia and China. The account is based on press and government reports and scholarly research. Although numerous single-country studies have treated social policy in Russia and China, only a comparative case study can isolate the factors that most strongly affect policy choices. The comparative method allows us to hold constant some factors while isolating the impact of others. Features of the political environment that may be taken for granted in the context of a single case take on new significance when seen in the perspective of other, similar cases. Other factors that appear to be particularly
distinctive to a particular country may turn out to be common to all countries with a particular institutional heritage.

I treat Russia and China as most similar systems, taking advantage of the fact that they share a number of features derived from their history as communist systems; indeed, most of China's state institutions were modeled on the Soviet system. Therefore they also face the common policy challenges arising from the transition from socialist, state-owned and state-administered planned economies to market-oriented economies. Both have placed most of their social welfare institutions--pension, health care, unemployment, disability, and maternity provision--onto a social insurance footing. They differ significantly, however, in the degree to which the administration of economic and social policy is centralized. It is this difference which I will treat as the major explanatory variable in this paper.

To be sure, Russia and China launched market reforms at very different levels of development. To minimize the degree to which this difference affects the analysis, I focus particularly on the reform of urban employees' pension coverage in China. Only recently has China sought to incorporate the rural population into a new, separate rural pension scheme, and still more recently to pool civil servants' and public sector employees' into the urban employees' pension funds. The principal point of comparison is therefore the reform of pension insurance for the urban working population. In this way, I seek to identify the effects of inherited institutional constraints and bureaucratic coalitional politics on responses to the problem of creating a sustainable pension system.

II. The Policy-Making Process

As noted above, I argue that bureaucratic politics models are the most productive way to analyze institutional change in authoritarian regimes such as Russia and China. As in other domains of policy, social policy choices in Russia and China are made through a process of bargaining and deliberation among government agencies. Experts and recognized social associations such as trade unions may be consulted but do not set the agenda or veto decisions. Many experts on China use the term "fragmented authoritarianism," first proposed by Michel Oksenberg and Kenneth Lieberthal to characterize the policy-making process in China (Lieberthal and Oksenberg 1988; Lieberthal 1992; Mertha 2009). The model of "institutional pluralism" described by Jerry Hough for the late-Soviet regime is its Russian equivalent (Hough and Fainsod 1979). Under Putin, the tension between political centralization and bureaucratic and factional competition continues today (Sakwa 2011). In the bureaucratically pluralistic political systems of Russia and China, there are multiple centers of initiative and (often informal) veto power, with the difference that China gives sub-central entities many more points of access to policy-making. In keeping with the literature on public administration, we can assume that each center of bureaucratic power seeks to expand its discretionary control over resources and competes with others in order to do so (Huber and Shiban 2002).

The institutional environment of bureaucratic authoritarian regimes such as Russia and China has a number of distinctive features. On is that policy-making
consists of a constant search for consensus among bureaucratic actors with competing stakes in a policy decision (Shirk 1993). In Russia the term for this process is soglasovanie. Policy decisions usually must be reviewed and cleared by (soglasovany) relevant bureaucratic entities before their final adoption. In the case of a new policy requiring enactment in legislative form, relevant government departments must first overcome their differences and report out an agreed-upon text for the approval of the government as a whole, which is then submitted to the Duma for passage. The presidential administration is at least consulted if indeed it is not the initiator of the proposed policy. In the case of a presidential decree, the soglasovanie goes on within the presidential administration and the government before being submitted to the president for his signature (Baturin et al. 2001). The process is time-consuming. In both countries no fixed decision rules are used.

Similarly, China uses working groups and "leading small groups" (lingdao xiaozu) to coordinate the policy-making efforts of multiple competing bureaucratic interests. A leading small group consists of a senior party official, representatives of interested departments, and experts. Participation by senior party officials help to ensure that a particular decision will be supported by the party and allows the party to set priorities and limitations. Both the "soglasovanie" process in Russia and the leadership small groups in China enable highly complex, articulated bureaucratic authoritarian regimes to reach consensus across diverse bureaucracies, and both are used at all levels of government. In China, where the specific details of major policy initiatives are often left to provincial and local governments, province- and city-level leading small groups are critical in determining the particular direction of policy in the given territorial-administrative jurisdiction.

In both countries the process of consensus-seeking often requires that the initiator of a policy reform must make some concessions in order to win support for it from other concerned departments. These may be compromises over the substance of the policy (eg a tax rate) or over a related issue (eg how the revenues will be used). In Russia, for decisions requiring legislative enactment, parliament, particularly its dominant party United Russia, often contributes to the discussion of details after the broad outlines of a policy have been decided. At that point the party may win minor concessions (for example, delaying or weakening the application of a rule for a favored constituency). Almost never is the Duma or Federation Council given an opportunity to shape or block a major policy decision that the president and government have made (Remington 2014). In China the National People Congress and National People’s Political Consultative Conference and their local equivalents may modify details, but do not set basic policy (Tanner 1995; Truex 2014).

As in other bureaucratic systems, impending deadlines often force closure on a pending decision. In Russia, an important impetus for policy decisions is the annual budget cycle; another is preparation for the president’s annual message to parliament. Impending elections are another source of pressure to make or avoid a decision (Remington 2014). In China, an impending party congress or Central Committee plenum similarly serves as an action-forcing deadline, pushing bureaucratic entities to overcome their differences and reach a consensus so that the decision can be announced publicly (Li 2012).
The consensus-seeking impulse in policy-making in Russia and China should not be exaggerated. Top leaders have the power to impose a decision when they choose to expend political capital to do so. They may also force the contending bureaucracies to reach a consensus by setting a firm deadline. In both countries, the top leader may set a general direction of policy, for example, toward more social protection or, alternatively, toward more investment-friendly policies. Skillful subordinates or outsiders may make an end-run around their nominal superiors and go directly to the top for a decision (some of Yeltsin's associates resorted to this practice, frustrating Yeltsin's designated gatekeepers [Baturin et al., 2001]) and the practice has continued under Putin (Kuvshinova and Sterkin, "Kak i zchem," 2013). We know less about the decision-making process in China, but it is reasonable to infer that the successors of Mao and Deng sometimes also upset carefully constructed policy agreements. On the other hand, if the top leadership is divided--for example, if a party general secretary and a prime minister or a president and prime minister share decision-making power--then policy impulses from the top can be muffled (cf Nathan and Gilley 2002, pp. 178-179; Remington 2014). This can allow lower-level officials greater leeway to steer policy to their own advantage.

Two other common features of the institutional environment affect social policy. First, in both countries, the authorities are fearful of the potential for social unrest. In Russia, for example, the furor created by the botched effort to replace in-kind benefits with cash made the authorities wary of other, similarly bold moves (Remington 2011; Wengle and Rasell 2008). In China, in response to the public outcry over a trial balloon floated by Ministry of Human Resources and Social Security on June 5, 2012, proposing that the retirement age be raised, the People's Daily newspaper conducted an online survey of public opinion. 93.3% of the 450,000 respondents opposed raising the retirement age. A week later the ministry declared that it was putting the idea on hold (Na and Xin 2012). In both countries, local officials fear for their careers if significant social unrest occurs on their watch (Remington et al., 2013; Hurst and O'Brien 2002). We must bear in mind, however, that decision-makers can choose the timing and form of policy measures responding to social unrest.

Second, bureaucratic actors act as de facto representatives for broader social constituencies. In both Russia and China, two rival blocs compete over the proper balance of economic development and social welfare objectives: a bloc consisting of the "social" departments (the departments and agencies concerned with administering social benefits, such as the labor, health, social security, and pension bodies) and the "economic" departments (the ministries for finance and economic development) (Cook 2007; Shi 2011). Each bloc cultivates alliances with outside partners: the social blocs with trade unions, the financial-economic bloc with business associations (and, in Russia, the private pension funds). In China, but not in Russia, each bloc develops ties to local governments in order to conduct trials of

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4 Deng Xiaoping’s "southern tour" in 1992 was an important case in point. In developing alliances for policy change outside the existing system of party and state offices, his initiative resembled Mao’s decision to launch the Cultural Revolution by appealing to forces outside the party and government. See Vogel 2013.
their favored policy models (Shi 2011). Policy outcomes at any given time reflect compromises between these blocs. Where agreement is tenuous or incomplete, policy may be unstable or incoherent. Exogenous shocks or leadership turnover may also cause a policy agreement to come unstuck.

Not only the policy interests, but the political resources of bureaucratic actors vary. A stronger ministry may absorb a weaker one in a bureaucratic power play. Policy shocks or the cumulative effect of long-term demographic change may strengthen or weaken the power position of a particular agency. If an agency is deeply entrenched, reformers may -- as in democratic polities -- prefer to "layer" a new institution on top of it rather than to replace or convert it to new purposes (Hacker 2004).

The institutional framework for policy-making differs between Russia and China in two respects, however, one more important for our purposes than the other. First, in China, policy-making authority is much more regionally decentralized than in Russia (Xu 2011). Provinces and cities have far more autonomy over social and economic policy than do their Russian counterparts. Among other things, this means that policy reforms are nearly always tested out first through local experiments. No major economic or social policy reform in China in the last thirty years has been adopted without first having been tried out and tested locally (Xu 2011; Heilmann 2008; Heilmann and Perry 2011). In Russia, comparatively few major reforms are subjected to local experimentation before being adopted (vocational education and training is a rare example). In China, therefore, the policy process includes an important role for local authorities as initiators and advocates of policy reform. This also means that contending bureaucratic blocs at the center sponsor reforms demonstrating the success of their preferred policy model by allying with friendly local governments (Shi 2011).

The other difference concerns rules on leadership turnover. In contrast to the institutionalized rotation of leadership in China, term limits for Russian presidents are purely nominal (as in the Brezhnev era of the Soviet regime). Under rules first adopted by Deng Xiaoping, then confirmed under Jiang Zemin, Chinese leaders observe strict rules on rotation: the General Secretary of the party and the prime minister may serve only two terms and may not succeed themselves. The same rule applies to lower party and government offices. The Central Committee undergoes about a 50% rotation of members at each party congress. Since the 1980s, as a result, China has had a new leadership team every ten years. Each new leadership team brings with it a distinctive set of policy priorities to distinguish it from its predecessors and to set its own stamp on policy (cf Nathan and Gilley 2002). The regular rotation of leaders imparts a distinctive decadal rhythm to the policy process, marked by the succession of slogans and priorities ("market socialism," "moderately prosperous society," "harmonious society," "scientific development," "China dream"). Thus, although Russia continues to hold nominally contested elections, Vladimir Putin has been free to choose how and how long to retain power, whereas in China leadership turnover is required and regulated. This difference also affects the nature and outcome of the policy process in the two countries. However, in contrast to the important difference in the level of political
centralization, the difference in turnover rules has had only a modest effect on social welfare policy.

III. The Case of Pension Policy

Several considerations motivate the choice of pension policy for a comparative examination. Like other types of social policy, pension insurance reform demands substantial institutional engineering. Whether a new national pension insurance scheme is being created de novo, or replacing a system of state budget-financed pensions, or is shifting from a defined-benefit, pay-as-you-go (PAYG) scheme to a funded, defined-contributions scheme, decision-makers must resolve difficult decisions over rules on contributions, benefits, eligibility, pooling, coverage, and financing. It is commonly said that Social Security reform is the “third rail” in American politics. Pension reform is no less sensitive in authoritarian polities such as China and Russia. Consider the fact that, for example, both regimes have long refused to raise the age at which most employees may collect full pensions (55 for women, 60 for men; earlier for many categories of workers). Pension policy affects the distribution of risk and reward within and across generations. Successful implementation of pension reform requires enforcement of rules governing contributions. As we shall see below, for all the coercive power of the authoritarian regimes of Russia and China, both report considerable difficulty in realizing full compliance on the part of employers and employees.

Pension policy divides liberal and solidaristic conceptions of the social contract. Liberals hold that individuals must be responsible for the consequences of their choices over consumption, savings, and leisure in the present and future, so that society avoids the consequences of moral hazard and adverse selection into insurance pools. More practically, they point out that insurance-based, PAYG systems are financially viable only in economies where the size of the employed population is considerably greater than the size of the dependent population, and where younger workers substantially outnumber older workers. These conditions of course no longer apply in much of the developed world (Bonoli 2003; Holzmann).

The left counters with arguments based on values of social solidarity and social justice. Insurance plans based on contributions from earned income tend to reproduce labor market inequalities even in PAYG systems, to exclude those who are outside the labor force from full coverage, and to make family members dependent on breadwinners. As economies in both the developing and developed world come to rely more on non-standard forms of employment, workplace-based contributions schemes are even less well-adapted to the needs of society (OECD studies of informality). The recent transition in many countries, both democratic and authoritarian, toward funded pension systems, where mandatory contributions to state-managed or privately-managed investment pools finance retirement income, shifts the risk of income loss from the state or public insurance pool onto the

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5 In 2015, however, policy-makers in both countries have signalled that they are likely to raise the age of eligibility.
individual household. As Jacob Hacker has argued, this shift has occurred in the United States as much through drift, ie the failure of traditional systems of social insurance to adapt to changing family structures and forms of employment, as through conscious effort to convert defined benefit schemes to defined contributions schemes. The left tends to term schemes based on individual retirement savings accounts "pension privatization," although such schemes do not privatize existing social funds, but rather pool individual pension contributions in long-term market investment funds. Such plans transfer the risk and benefit of pension savings from society to individuals (although, if public pension funds go bankrupt, individuals also suffer a full or partial loss of benefits). Therefore the shift from PAYG to funded plans trades one set of risks--government failure--for another--market failure. It is also the case that funded systems tend to reproduce labor market inequalities to an even greater extent than do PAYG schemes. The left therefore regards the move to defined contributions private pension funding as a neoliberal assault on social solidarity, pushed by international institutions and global pension fund lobbyists (one author characterizes the global private pension lobby as using the "propaganda drip-feed of the World Bank against PAYG systems to reap its reward" [Deacon 2000, p. 157]).

Pension policy is also highly salient in both countries. One reason is demographic pressure. As in much of the democratic world, in both Russia and China, the working age population is shrinking in absolute terms and the number of pensioners as a share of the total population is rising. Russia's statistical agency estimates that at present there are around 43 people older than working age for every 100 of working age, projecting that this ratio will rise to 53 to 100 by 2030 (Rosstat 2015). This is misleading, however, as a guide to the actual demographic burden. Approximately 20% working-age adults are not employed in formal jobs (Gimpelson and Kapeliushnikov 2013, 2014). By 2030, the number of contributors is likely to be lower than the number of beneficiaries. Employers of many who are employed commonly understate the wage base on which they pay social insurance contributions. Hidden wages are thought to represent around half of total wages. (Solovev 2013). Transfers from the federal budget to the pension fund now represent 3-4% of GDP, and are rising (Godovoi otchet 2014).

Public opinion surveys show that the public is relatively uninformed about the details of pension policy but highly sensitive to any perceived threat to existing entitlements. As analysts often point out, pensioners vote in higher numbers than

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6 Defined benefits schemes in a number of American cities and states risk losing their protected status during bankruptcy proceedings. In Detroit, a federal bankruptcy court approved a plan that preserved fixed pension benefits for retired municipal employees but at lower levels. Whether local governments can eliminate defined benefits pension plans as part of bankruptcy proceedings is under adjudication in many cities and states. (Walsh 2014, 2015).

7 A report in July 2013 found that one survey found that only around a third of Russians were aware of the coming pension reform; and of them 14% of them were unaware they had pension savings. Polit.ru, July 16, 2013. Surveys conducted by the labor ministry in July about pension reform showed that over half the
do members of younger generations. They can also be aroused to protest, as the 2005 debacle with the attempt to put in-kind benefits on a cash footing showed. This helps explain why, on the eve of the 2011-2012 election cycle, United Russia threatened to expel any candidate from its party who so much as breathed a word about raising the retirement age (Bashkatova 2011) and why President Putin has been so reluctant to allow consideration of it.\(^8\)

The issue is less acute but equally salient in China. Experts are divided over how severe the pension crisis is at present, but all agree that population aging poses a serious long-term threat to the viability of the system (Wang, Béland and Sifeng 2014; Zheng 2012; Oksanen 2013; ”How to Reform China’s Pension System?” 2014; Cai and Cheng 2014). In March 2015 the minister of Human Resources and Social Security declared that while at present, there are three employed persons for every pensioner, by 2050 the ratio will be only 1.3 to 1, and declared that the retirement age needed to be raised (Li Jing 2014). Because pension pooling is decentralized to the county, city and province level, severe disparities have arisen in the financial health of pension systems in different regions (Zheng 2012, p. 147). Despite periodic declarations by the central government that pension pooling should occur at the province and eventually central level, over the last 30 years there has been only creeping movement in this direction (Jin 2012). The central government has also created a national social security fund to subsidize local funds facing deficits. Richer localities resist sharing their funds with poorer ones, so that provincial and central government subsidies are required to fill the gap. Although some provinces have adopted notional defined contributions with personal accounts, the accounts are empty because they are tapped to pay current pensions (Zheng 2012; Jin 2012). By 2010, central government subsidies to cover local pension fund deficits had reached about one trillion RMB, or just over a half of one percent of GDP. The drain is lower relative Russia but, as in Russia, the size of the pension system deficit is growing. Although with time, fewer provinces carry deficits in their pension systems, the aggregate size of the deficit is rising. Evasion and underpayment of payments are rising (Zheng 2012).

A VTsIOM survey found that a third of the population were indifferent to pension reform. This was especially the case among youth (of 18-24 yr olds, over 60% were unaware of moratorium on sending contributions to the savings system; of those near pension age, about half were unaware. Polit.ru. Occtober 22, 2013. Overall, 57% of respondents were unaware of the moratorium; 60% were interested. Ol'ga Grosheva, ”Liudei, konechno, napriagaet reshenie vlastei zabrat' ikh den'gi," Kommersant. October 22, 2013; Anastasiiia Bashkatova, "Ocherednoi skandal vo krug pensionnoi reformy," Nezavisimaia gazeta, November 1, 2013

\(^8\) During his annual call-in conference in 2015, however, Putin acknowledged for the first time that the idea has to be considered (Papchenkova, Liutova and Rodionov, "Putin priznal," 2015).
Two other arguments are offered by experts to urge pension reform. First is that low and uncertain pensions contribute to the high household savings rate and low consumption. (Lim et al. 2011; Chamon, Liu and Prasad 2010). The other is that the diversity of pension systems across cities and low mobility of pension benefits have the effect of reducing labor mobility (WB-CDRF 2012, p. 33; CDRF 2012, p. 31).

In short, in both countries pension reform is an urgent, politically sensitive issue that touches on core dilemmas of the redistribution of risk and reward within and across generations.

IV. The History of Reform

Below I outline the basic history of pension reform in the two countries, emphasizing junctures where the government made important policy decisions. In Russia’s case, these are the adoption of a three-tier system under newly-elected President Putin in 2002, the partial reversal of that model ten years later, and its restoration in 2015. For China, reform has been more incremental, punctuated by major policy acts by the central government that served to codify existing policy trends.

Russia

2000-2002

Pension reform, like other issues, was deadlocked in the 1990s. The combination of economic contraction, high inflation, political polarization between President Yeltsin and parliament, and intra-governmental conflict, prevented any reforms other than modest adjustments to pension benefit coefficients (Cook 2007; Chandler 2004; Remington 2001). However, even before the breakup of the Soviet Union, the Russian government took some initial steps, creating the Pension Fund in 1990 and funding it by a 26% pension tax on the wage fund. Along with the other off-budget funds covering medical care and social insurance (disability, unemployment, and maternity), the Pension Fund was to operate as a social insurance pool that would alleviate the strain on the state budget of meeting current social obligations.

The pension system broke down in the 1990s, leaving many recipients in penury. Benefits suffered from high inflation and the implosion of the state’s capacity to deliver benefits. Pension arrears mounted; contributions fell even faster (Cook 2007; Chandler 2004). By the late 1990s, the pension system was hemorrhaging money: by 1998, the Pension Fund was spending 16 billion rubles a month but collecting only 1.5 billion (Chandler 2004, p. 76). Government reformers wanted to overhaul the pension and other benefits plans to make the system more redistributive but also more responsive to market incentives. They proposed a multi-tier system whereby the state would guarantee a minimum basic income to all pensioners, but require current employees to contribute to a defined-contributions pension scheme with individual accounts. A final tier would encourage individual contributions to private and company plans. Opposition in the Duma and
bureaucracy prevented Yeltsin's government from enacting these proposals (Sokhey 2015a).

The 1999-2000 elections gave President Vladimir Putin the leverage to overhaul the pension system: he had a working majority in the Duma and strong personal electoral support in the country. He used this power to enact a sweeping liberalization of economic and social policy, also recentralizing much of the power that the federal government had relinquished to regional governments in the 1990s in order to implement the reforms. He turned to a team of liberals, headed by German Gref, to draft policy proposals on pensions as part of a broad set of market-oriented measures to stimulate economic growth. In addition to pension reform, they drafted legislation reforming the tax system, land ownership, business regulation, labor relations, inheritance rights, banking, property rights protection and social welfare policy (Remington 2009). For example, Putin pushed successfully to adopt a flat rate (13%) income tax, to allow land to be bought and sold, and to loosen employment protections for workers. Likewise Putin supported his liberal advisors' views on the necessity of generating incentives for long-term investment and using the pension system to do so. They revived the three-tier pension model that the liberals had pressed for unsuccessfully in the 1990s, which would mandate personal pension savings accounts alongside mandatory contributions to a PAYG pension insurance system. Although the financial industry and business associations certainly supported the idea, it is undeniable that Putin's policy team was already committed to a model of market-led economic growth. For example, they invited Jose Piñera -- the famous architect of the private pension savings plan in Pinochet's Chile -- to Russia to offer advice (Piñera 2000). Putin also formed a National Council for Pension Reform that included representatives of all the parties represented in parliament, business associations, trade unions, NGOs, and experts, which was chaired by the prime minister. It is clear that Putin's policy team was ideologically committed to liberal solutions to fiscal and social policy problems, tapping domestic and foreign experts for advice.

Under the government's plan, employers were to pay 16% of an employee's wages into the social insurance fund and, for wage-earners born after 1966, another 6% into private retirement savings accounts (this latter was called the nakopitel'naia, or accumulating, portion). The private savings contributions went into a personal account managed either by the Vneshekonombank (VEB), the designated state bank, or, at the contributor's request, into a non-state pension fund. The rest of the mandatory pension insurance contribution went into a social insurance pool that was used to fund both the guaranteed minimum pension and the current pay-as-you-go system for individual pensions. The labor ministry and pension fund won some concessions, but the reform represented a major move toward a market-friendly, sustainable pension system. By the time Putin signed the

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9 The total social contributions tax rate is 30% on wages up to a threshold that changes with inflation. 22% is for pension coverage. The remaining 8% is divided between social and medical insurance.
relevant legislation in December 2001, some of the major compromises had been reached although some key details still remained unresolved.\(^10\)

**2012-2013**

The reform of 2001 did not solve the problem of financing pensions. The recession of 2009-2010 exacerbated the deficit in the Pension Fund as contributions shrank (Russia’s GDP contracted nearly 8% in 2009, more than any other country in the G-20) and benefits rose. To maintain living standards, the government pumped money into the economy through subsidies to banks and large corporations, and raised the minimum wage. The government enacted several one-time increases in pension benefits, accelerated inflation indexing, and adopted a new formula for calculating the contribution of Soviet-era work histories toward eligibility. Legislation in 2009 almost doubled pension benefits. However, inflation ate up most of the increases. In real terms, pensions rose only slightly. The volatility of the markets, and particularly the 2008-09 crash, meant that the pension funds held by both the VEB and the private pension funds had lost ground in real terms since the mandatory private pension savings system began in 2002.\(^11\) By 2012, the Pension Fund deficit was at about a trillion rubles (about $33 billion, or just under 2% of GDP). Transfers from the federal budget made up the gap. Vladimir Putin observed in early 2012 that "pension guarantees are probably the biggest achievement and biggest problem for our country" (Putin, "Spravedlivoe," 2012). He noted that the share of pension payments in GDP had reached 10% and was continuing to rise.

By 2012, in response to the deficit in the Pension Fund and the poor performance of the private funds, the leaders of the social bloc of the government were openly calling for the elimination of the mandatory savings accounts system. All mandatory contributions would go into the current PAYG system while retaining notional defined contributions accounts (Kuvshinova, "Otdat’ i podelit’, 2010). Contributions to the accumulating accounts would be voluntary. They regarded contributions to the private pension funds as money lost to current pension obligations and to other social policy needs, such as health insurance. They pointed out that high inflation and the financial crash had made the return on private pension savings lower than inflation, whereas the PAYG system had managed to keep ahead of inflation. For its part, the influential business association RSPP countered with a proposal to eliminate the notional defined contributions accounts and switch to a mandatory all-private savings system with only a minimum defined benefit (Kulikov, "Dlia pensionerov," 2011). Experts such as former finance minister Aleksei Kudrin called for raising the pension age. The government charged

\(^{10}\) Among other things, legislation regulating the individual savings accounts and the private pension funds, had still not been passed. (RFE/RL Business Watch, 2001).

\(^{11}\) Between 2002 and 2010, the average return on pension savings in the VEB accounts (where about 84% of contributors keep their pension accounts) was about 5.7% per year while inflation had been running 8-10%. The return on investments in the non-state pension funds was highly variable, some higher than inflation, most well below it. (Bashkatova and Sergeev, "Pensionery nedopoluchaiut," 2010).
expert groups to come up with a new plan that would put the pension system on a sustainable basis without raising the retirement age or reducing benefits.

Pending full elimination of mandatory retirement savings contributions, the social bloc proposed temporarily diverting the contributions into the state pension insurance fund (Kuvshinova and Pis’mennaia, "Na pensiiu," 2012). The ministry reasoned that since only a minority of the population were sending their contributions into private pension funds, most people had little concern whether their contributions went into the general pool or individual accounts. To solve the problem of the gap between pension revenues and expenditures, the social bloc also proposed a point system to calculate benefits: each individual’s pension benefits, rather than being fixed, would be calculated according to a coefficient taking into account length of employment, amount contributed, and the financial condition of the Pension Fund. They pointed out that this would motivate individuals to work longer, thus sparing the government of the need to raise the pension age by fiat (Pis’mennaia, "Pensionery s nakopitel’noi chast’iu," 2012). The economic and financial ministries opposed these proposals, however, insisting that the mandatory savings system be preserved. Deadlocked, the government missed its own deadlines for reaching agreement.

Putin initially refused to intervene, demanding that the competing wings of the government hammer out their differences. In November 2012, however, he sided with the social bloc and approved a compromise decision to lower the rate of the mandatory savings contributions from 6% to 2% of earnings and to allow individuals to choose whether to contribute the remaining 4% to a private pension fund or the pension insurance fund (Vedomosti,"Novyi pensionnyi povorot," 2013). Meantime, through late 2012 and early 2013, the government continued to develop its point scheme to replace the defined-benefit pension insurance system. The idea was to calculate annual pension payments based on length of years of contributions, volume of contributions, and the balance of Pension Fund resources relative to the number of eligible recipients. The economic and social blocs agreed on keeping the same overall contributions rate (22%, with a 10% surtax on earnings above a certain threshold) and to divide those contributions between a base portion and an individual insurance account. Divisions within the government over details of the proposal (such as how to convert points into ruble equivalents) delayed final agreement (Bashkatova, "Pravitel’stvo teriaet kurs," 2013). The government again missed the deadline Putin set for settling the issue.

In late 2013 the need to agree on a budget for 2014 forced closure. The fiscal crisis made reform urgent. Tax revenues were dropping. The finance ministry proposed a 5% across-the-board cut in government spending. Ministers in the social bloc sought new resources to meet their own spending needs and to reduce the annual subsidy to the Pension Fund. Deputy prime minister Ol’ga Golodets persuaded her colleagues to make all of the mandatory savings plan voluntary, even dropping the remaining 2%, and using the contributions of those who did not opt to contribute 6% of pay into a private pension plan into the individual accounts.
through the social pension insurance system. The new system would take effect on January 1, 2015. Thus for the large number of people who had not chosen a private pension fund for their required pension savings, allowing the VEB to manage the accounts, their money would go into the pension insurance system. Golodets argued that from their standpoint there would be no difference.

Meantime, the finance and economic ministries recognized the need for an audit of the private pension funds. Some had already gone bankrupt and the Pension Fund was finding it difficult to recover their assets and obtain the names of the contributors (Biianova, "U obankrotivshikhsia NPF," 2013). There was general agreement in the government on the need to guarantee private pension savings, and a recognition that the funds needed to undergo review. The economics and finance ministries proposed diverting the contributions that would have gone to the private funds into personal accounts at the VEB until the funds had been certified and placed under the guarantee system. The social bloc proposed that the diverted funds be used for other social programs. The respective vice-prime ministers, Shuvalov (representing the economics-finance bloc) and Golodets (the social bloc) thought that an agreement had been reached. Unexpectedly, however, the labor and finance ministers sought Putin's agreement to a different arrangement: all the savings contributions for 2014 that would have gone into the private pension funds would be diverted to the Pension Fund to reduce its deficit; they would not be used to fund other social programs. Many referred to the maneuver as a confiscation of the private savings contributions (Kuvshinova and Sterkin, "Kak i zachem," 2013; Kuvshinova, "Pensionnaia formula," 2013; Kuvshinova, "Kak Gosduma," 2013; Polit.ru, November 19, 2013).

Some actors outside government played a role in the decision process. The public was largely unaware of the issue and uninterested in the details, although surveys revealed strong opposition to raising the retirement age coupled with deep mistrust of the system. (Nonetheless, the number of people putting their

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12 The implication is that the government will continue to use the notional individual accounts to pay pensions to current pensioners, in effect preserving a PAYG system but infusing more contributions into it.

13 A report in July 2013 found that one survey found that only around a third of Russians were aware of the coming pension reform; and of them 14% of them were unaware they had pension savings. Polit.ru, July 16. 2013. Surveys conducted by the labor ministry in July about pension reform showed that over half the population said that they did not know the details of how their pension benefits were calculated. And only about half were receiving only white (fully reported) pay, although 90% knew that their pension depends only on official pay. "Vedomosti, "Ot redaktsi: Khotiat li russkie na pensiiu," 2013.

A VTsIOM survey found that a third of the population were indifferent to pension reform. This was especially the case among youth (of 18-24 yr olds, over 60% were unaware of moratorium on sending contributions to the savings system; of those near pension age, about half were unaware. Polit.ru. October 22, 2013. Overall, 57% of respondents were unaware of the moratorium; 60% were
mandatory savings contributions into the private pension funds rose rapidly, to almost 27 million by the end of 2013; their collective pension savings amounted to one trillion rubles.) The trade union federation was largely a bystander. However, parastatal think tanks were active. The Public Chamber weighed in with a report (Bashkatova, "Rabotaishchim," 2013). The Central Bank issued a report opposing the diversion of savings contributions (Yakovleva, "'Molchnov'," 2013). Representatives of the social bloc met with the Tripartite Commission, expert panels convened by the "open government" ministry, and United Russia to present their proposals and build support. President Putin met with the "Popular Front Action Forum" to deflect criticism of the proposed point system and defend the need for action (Biriukova, Glinkin and Zheleznova, "Pensionnuiu reformu," 2013). When the proposal went to the Duma, the government made further minor concessions (Kuvshinova, "Kak Gosduma," 2013). United Russia loyal ly supported the legislation; as is usual when the government proposes politically painful legislation, United Russia's spokesmen urged the Duma to pass it in first reading so that all the flaws could be straightened out before the second reading. By then of course the essential details have been settled and the legislation passes. However, the government's eagerness to broaden support and deflect popular opposition to the pension reform, with its new and untested point system, is suggested by the unusual step of allowing several opposition parties not represented in the Duma to present their views in floor debate (Kuvshinova, "Pensionnaia formula," 2013; Kuvshinova, "Kak Gosduma," 2013; Kommersant, November 19, 2013). The legislation moved through the legislative process quickly: the government proposed it on October 17, 2013; the Duma passed it in first reading on November 19 and in third reading on December 23; the Council of the Federation passed it on December 25; and Putin signed it on December 28 (Vedomosti, Gosduma priniala," 2013; Mart'ianova, "Ideeia," 2014); Vedomosti, "Putin podpisal," 2013). The fast pace of parliamentary deliberation shows that the major policy decisions had been worked out over the previous two years within the government.

Note that there were multiple other decisions affecting the pension system proceeding through the policy process at the same time. These included a choice over whether the Tax Service or the Pension Fund should collect the contributions (the Pension Fund won out); how to certify the private pension funds; and what the time period should be for giving citizens a choice whether to continue making voluntary contributions or not; and others. Some less immediately related questions, such as the budget allocations for each ministry, also had a bearing on pension policy. As options were framed, each was backed by a particular advocacy coalition. At times, coalitions joined forces and agreed to bundle issues by exchanging concessions. In the case of the maneuver to freeze contributions to the non-state pension funds for a year, an unexpected alliance arose between the

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14 Interview with expert, Moscow, December 2013.
15 The text of the law on pension insurance may be found at: <http://www.rg.ru/printable/2013/12/31/strahpensii-dok.html>
finance minister, who sought to minimize government transfers to the Pension Fund and to audit non-state pension funds, and the labor minister, who wanted to protect the Pension Fund. Their last-minute alliance circumvented a number of the other government bodies participating in the decision: the vice-prime minister for social policy who wanted to increase spending on medical insurance and other ministers sought to avoid spending cuts and to use pension savings for their own investment projects (Liutova and Papchenkova, "Pensii zakataiut," 2013). The labor ministry proposed raising social contributions rates, but the finance and economics ministries objected. The president wanted to avoid provoking a protest movement on the part of deceived contributors if pension funds failed, and to keep raising defense spending, so backed the proposal of the labor and finance ministers.

The diversion of mandatory savings contributions to pay current pension obligations continued in 2014 and again in 2015. The government originally planned to use the funds to reduce the annual transfer of federal budget funds to cover the Pension Fund deficit. In early 2014, however, the money was used instead to raise pension benefits for newly-annexed Crimea (Vedomosti, "Pensia solidarnosti," 2014). The repeated decision each year to freeze contributions to the mandatory savings portion of the pension system--2013, 2014, and again in 2015--meant that the shift to an entirely voluntary savings system did not take effect. As a result, policy-makers continued to debate the issue into 2014 and 2015.

2014-2015

Russia’s annexation of Crimea in March 2014 triggered another external shock. Western governments imposed sanctions that included tight restrictions on Russian bank borrowing in Western capital markets. As a result, the Russian government faced severe strain in raising long-term investment capital for the large-scale infra-structure projects it considered necessary to boost economic growth. The first round of US sanctions on March 6 was followed by additional sanctions by the US and other countries in March, April, July and September 2014. The effect of this impetus is evident in another shift in pension policy in late 2014 and early 2015 that reversed the reversal of 2012-2013.

In June 2014, the finance ministry proposed a plan to use the accumulated pensions in private pension accounts for infra-structure investment (d'Amora 2014). The ministry of economic development called for restoring all the diverted pension savings from 2014-2015 back to the private pension fund accounts. The finance ministry pointed out, however, that the money had all been spent on Crimea and anti-crisis measures (Sinitsyn, "Pensiia solidarnosti," 2014). The government increased pressure on the private pension funds to invest in the real economy, (Yakovleva, "Pensionnernym den’gam," 2014). The pension funds argued, however, that pension investments demanded both security and a high return, which only bank securities provided. The earlier debate over the the mandatory pension savings system resumed. Several public sector trade unions called for restoring it on the grounds that they lack corporate pension plans and opposed the diversion of their contributions in 2013-2014. The social bloc stepped up its calls for replacing mandatory pension savings with voluntary plans. Several financial industry
associations wrote Putin to oppose eliminating mandatory pension savings. The
national association of pension funds objected that the decision to freeze mandatory
pension savings contributions again in 2015 was adopted without consulting the
Tripartite Commission. The deputy ministry for economic development apologized
on his Facebook page for the government’s decision to continue to freeze the
savings contributions through 2015.

Meantime in fall 2014, as fiscal stresses mounted, the finance ministry
argued that the point system would not solve the problem of pension finance and
that indexing pensions to inflation would be ruinously expensive (Bashkatova. "Indeksatsiia," 2014). It pointed out that the government budget faced a severe
revenue shortfall in 2015 that required substantial reductions in expenditures
choices: raising social taxes, cutting spending, raising the pension age, cutting
pension benefits. The economic development ministry and the Central Bank pressed
for the reestablishment of mandatory private pension savings as a source of long-
term investment capital (Yakovleva, "TsB i Minekonomiki," 2014). The solution
proposed by the social bloc was to continue through 2016 and 2017 to divert
pension savings contributions into the Pension Fund to pay for current obligations
(Manuilova and Butrin, "Pensionnyi vopros," 2015). It also proposed reducing
convened a group of experts to consider the implications of raising the pension age
(Bashkatova, "Ekonomicheskoe razvitie," 2015).

In March 2015 the government held a session to decide whether to make the
pension savings system voluntary or mandatory. The economic development
ministry argued that making it purely voluntary would remove about 500 billion
rubles from investment. Putin sided with the liberals, telling the RSPP business
association in March that he would not eliminate mandatory pension savings
(Vedomosti, March 20, 2015). The government quickly fell in line. Opening the April
23 session of the government, Prime Minister Medvedev informed the government
that Putin had decided to retain the mandatory pension savings system and to use
the funds for long-term capital investment in the economy (Polit.ru, April 23, 2015;
Liutova, "Medvedev ob"iavil," 2015). The finance ministry began work on proposals
that would induce the private pension funds to invest in big state infra-structure
projects. The ministry’s premise was that in return for restoring mandatory
pension savings, the government expected "maximum loyalty" on the part of the
funds (Rodionov and Papchenkova, "Pensionnye nakopleniia," 2015; Biianova,

The terms of the 2015 bargain are clear. Facing the sanctions-caused
tightening of global credit markets, the government restored the mandatory private
savings contributions as a way to ensure a steady flow of long-term investment into
the private pension funds. In turn, the government would pressure the funds to
contribute to high-risk state infra-structure projects. What were ostensibly private
retirement savings became another source of capital that the government could
mobilize for its needs.
China

1980s

In contrast with Russia, pension system reform in China has been gradual and progressive, without swings and reversals, and at each point has been accompanied by pilot programs. Reform of state-owned enterprises (SOEs) and liberalization of labor markets impelled policy-makers to replace enterprise-based state-financed social benefits with social insurance. Since many enterprises maintained their own pension funds (some still do), the regime sought to shift responsibility for funding pensions to local funding pools so that SOEs could concentrate on rationalizing operations. The responses of enterprises varied, however. Some enterprises preferred to retain their own funds, however, as a source of leverage vis-a-vis workers and local governments. Others, particularly weaker enterprises, were eager to unburden themselves of pension obligations. The same logic applies to local government insurance pools: localities with younger populations run surpluses, those with older populations face deficits. The former resist pooling their funds with the latter.

Experiments with social pooling of pensions began in the 1980s. Some localities took over enterprise pension funds, while others tested schemes for individual pension savings accounts. In 1984 the government set the goal of building a three-tier system for urban state sector workers (Song 2009, p. 10). In addition to a minimum defined-benefit system for all, there would be a mandatory notional-defined contribution (NDC) system of individual accounts, and an option for a voluntary pension savings system. Progress toward meeting this goal has been slow, however. A number of industrial ministries created their own pension funds and resisted local pooling by their enterprises. The central government tolerated considerable diversity in pension systems as local governments worked out their own arrangements with state-owned enterprises over the level of contributions and the management of funds. The method for combining social pooling and individual NDC accounts varied widely across regions.

1990s

The central government reaffirmed its commitment to a nation-wide three tier system in the 1990s. In 1995, under premier Zhu Rongji, the State Council issued a circular that extended the three-tier system to the non-state sector for urban workers and employees (Shi 2011, p. 48). The government still did not specify how the individual accounts were to be related to the social pool used to pay

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16 Recall that I am focusing on the pension arrangements for the urban workforce. Pension plans for the rural population (ie those with rural residency registration), employees of the government and auxiliary organizations (shiyi danwei), and non-employed urban residents are separate. However, as indicated below, the government is taking measures to unify them with the basic urban employee system (yanglao jiben baoxian).
current pensioners, however, with the result that local governments could divert contributions to the individual notional accounts into the PAYG system. The central government allowed local governments to choose between two basic models, one promoted by the bloc of economic and financial ministries that emphasized individual accounts and individual responsibility, and the other a plan advocated by the social bloc that gave priority to pooling and state redistribution. Each bloc sponsored local programs using its own preferred model.

Meantime the central government collaborated with international experts to design a national model. The World Bank issued a report in 1997 that the central government followed closely in developing its own plan for comprehensive coverage of the urban working population, but state and private sector (Shi 2012, p. 374; Jing Lin, 2011; Cai, "Rethinking," 2010, p. 139). The World Bank did not impose its model on China or finance its adoption. Policy-makers tapped the World Bank’s expertise and used the World Bank as a third-party platform for hammering out the inter-bureaucratic differences that have been a persistent feature of policy-making on pensions (Lin 2011). The State Council issued a circular in summer 1997 that set out the government’s goal for a three-tier plan to cover all urban workers and employees, with pooling of funds at the provincial level (Gu 2001, p. 129).

The government’s decision did not overcome the problem of slow implementation, however. Among other things, the great majority of rural migrant workers in the cities were not covered. SOEs continued to resist turning over their own pension funds (or, before doing so, they sometimes raised pension benefits so as to increase the funding burden on local governments). Some played off their ministries against local governments (Gu 2001, p. 135). In other cases, local governments allow state or private to determine their own contributions rates. Some governments subsidized private enterprises so that the latter could contribute, at least in part, to the local pension fund (Frazier 2010, pp. 139-41; Huang, 2013, p. 78). Fragmentation of pension pools, with wide disparities in coverage and benefits, continued across cities and provinces. Richer local governments continued to resist pressures by poorer ones to merge their pension funds (Shi 2011, 48).

In 1998, the government assigned responsibility for administering pension policy in a new ministry of labor and social insurance (today the Ministry of Human Resources and Social Security, or MOHRSS) and tasked it with overseeing the process of pooling funds across localities and ultimately unifying rural and urban pensions (Shi, 2011, p. 50). The ministry of finance, which supports the NDC system and is wary of broad pools on the grounds that they increase moral hazard and adverse selection, was directed to form a working group together with the new social security ministry to find a solution to the problem of pooling pension funds (Shi, 2011, p. 50).

Despite high-level attention, however, most provinces continued to lack province-level pooling. Many were reluctant to assume financial responsibility for the deficits of lower-level governments. Faced with massive lay-offs of workers in rustbelt industries in the northeastern provinces of Heilongjiang, Jilin and Liaoning, province leaders turned to the central government for help in funding to social insurance programs. When Bo Xilai was party secretary of Liaoning Province, his adept lobbying won substantial transfers to the provincial pension fund (it was
reported that 75% of its budget was made up of central budget transfers), but other provinces were less successful (Shi, 2011, pp. 50, 57). Today all three northeastern provinces’ pension balances are in the red due to their unfavorable demographic structure (Zheng, 2012, p. 3).

In 2000 the government created a national social security fund to offset deficits in the pension funds of provinces. It has not been able to prevent the problem of rising deficits in some provinces (Zheng, 2012, p. 90). The fragmentation of pension funds persists. There continue to be over 2000 different pension fund pools covering employees in different regions and employment categories, with little evidence of unification and significant inequality in benefits levels (Frazier 2010; Watson 2009). More than bureaucratic inertia explains the sluggish movement toward higher-level pooling, however. Some bureaucratic interests, particularly the finance ministry at the national and local levels, actively oppose merging pension pools at higher levels (Zheng 2012, pp. 15-16). At the same time, localities regularly divert contributions from the NDC individual accounts to pay for current obligations. This practice exacerbates the redistributive conflict between localities with pension fund surpluses and those in deficit.

**2000s**

The 1997 policy has remained in force for urban workforce pensions. As the numbers of contributors and recipients rose, the government turned its attention to extending pension coverage to the rural population and urban non-working population, and merging the pension system for civil servants and public sector employees into the system for urban workers. The latter has become a sensitive point, judging by the number of press articles devoted to it. What is often termed pension dualism --generous benefits for public sector and civil service employees funded out of the state budget, as opposed to low benefits and high payroll taxes for urban workers employees--occasions resentment and serves to induce many to seek public sector rather than private sector employment. From 2008 some local governments experimented with pilot programs moving public sector workers into contribution plans. One problem with doing so is that the public sector workers lose a portion of their pay to the contributions, so that they resist joining the private sector system unless their pay is supplemented to offset the contributions. Another is the difficulty in defining who is an eligible public sector employee. The numbers of civil servants and employees of auxiliary public enterprises (the *shiye danwei*) are supposed to be strictly regulated, but in fact they often hire many more people than they are formally allowed.17 This complicates the reform because their employment status must be clarified before they can be enrolled in the contributions system.

In 2010 the National People’s Congress passed a law on social insurance affecting all categories of social insurance--pensions, medical care, work injury,

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17 In Henan province, for example, the total number of employees of government offices and public service organizations exceeds the quota by over 10,000. (Information from source in Henan Province, summer 2015.)
unemployment, and maternity.\footnote{18}{http://www.ssf.gov.cn/flfg/gjflfg/201205/t20120509_5142.html} It came into force in 2011. Consistent with the 2007 law on labor contracts, it required that all employees, whether part-time or short-term, be covered by social insurance (Gallagher and Dong 2011). It reaffirmed existing law rather than breaking new ground. It required that employers and employees both contribute to social insurance funds; that pension and health care contributions be divided between NDC individual accounts and a social fund; that benefits be portable across jobs; that employees became eligible to collect benefits after at least 15 years of employment; that urban and rural residents were both to be included in pension plans; and that funds be pooled at the province level.

Like the previous government acts on pensions, the new law was brief, providing only broad guidelines for lower-level governments. The law ran a total of 6349 words in transliteration, of which only 720 words were devoted to the pension insurance system. By contrast, the analogous law reforming the pension system in Russia in 2013, on pension insurance, consisted of almost 20,000 words and specified in fine detail the formulas to be used to calculate pension benefits. China’s law mandates no details of social insurance, providing only that province-level administrative units are responsible for implementing the reform and finding ways to combine individual accounts with social pools.

Like previous central government policy acts, the 2010 law both codified existing practices and set out long-term goals. It encouraged local governments to broaden coverage of urban and rural residents and to unify rural and urban plans. A number of provinces then acted to implement the law.\footnote{19}{http://www.mohrss.gov.cn/page.do?pa=402880202405002801240882b84702d7&guid=2d7be513f96a48f6ab14470fd8088ab1&og=8a81f0842f8ffbb7012f95d25a1c0553} In 2014 the State Council set a target date of 2020 for the unification of urban and rural pension systems.\footnote{20}{http://ccnews.people.com.cn/n/2014/0828/c141677-25554709.html} In January 2015 a State Council decision called for equalization of pension benefits for public sector employees and urban employees. The pooling was all to be done at the province level. For provinces that had not begun the process earlier, this was a large-scale process (in Henan province alone, it affects 3.6 million civil servants).

This review of the history of pension reform in China confirms several points. First, the process has been far more continuous than the analogous process in Russia, where major reforms followed exogenous shocks (the Putin electoral landslide of 2000, the 2009 crash, the 2014 sanctions). Whereas Russia saw three wide pendulum swings, China saw slow but consistent movement in a single direction--toward comprehensive coverage for all sections of the population in a three-tier system of defined minimum benefits, defined contributions to notional individual accounts, and voluntary savings plans. The process spread from the core--state sector urban workers--outward to non-state sector urban workers and employees, rural residents, urban residents, and civil servants. At each point, the central government signalled the general policy objective and encouraged local governments to test programs implementing it. Then, having observed the results
of the experiments, the government issued a policy act, such as a State Council circular or legislative statute, that confirmed the policy and instructed all subnational governments to implement it. In both countries, roughly the same bureaucratic blocs lined up on either side of the basic philosophical cleavage line separating left and right: the left bloc favoring broader, deeper and more equal pension benefits, the liberal bloc seeking to use the pension system to reduce fiscal drag on the state and to encourage individual responsibility. The result is an inconclusive stalemate with which neither side is satisfied: subnational governments raid individual NDC accounts to meet current pension needs; higher level governments must do more to bail out lower-level funds in deficit; and disparities across regions in levels of pension benefits are severe. Pension experts argue that the only solution in the long run is to reduce the reliance on pension pooling by shifting more toward funded individual accounts but to use a national pool to overcome disparities in benefits across regions and categories of the population (cf Bingwen Zheng 2007, 2012).

In Russia, all the relevant decision-makers were central-level bodies, most of them state or para-statal entities. Their alignments determined the policy decisions. As one coalition or another gained wider power due to exogenous circumstances, Putin was the final arbiter. Once he backed a particular policy idea, the government fell into line. However, he avoided intervening until the arguments had been made and the evidence on each side marshalled. Moreover, policy remained in place until an external impetus upset the environment by creating a particular problem or opportunity. At that point, policy entrepreneurs from within the government took advantage of the moment to champion an initiative and to build support for it.

Substantial dispersion of agenda and veto power across government characterizes both cases, although China’s greater administrative decentralization adds more bureaucratic centers of power to the policy-making process than is the case in Russia. It is striking that both countries feature a similar left-right divide in their bureaucracies, with a social bloc seeking a greater role for government in controlling the collection and redistribution of social insurance contributions and a liberal bloc advocating for greater individual responsibility and lower social insurance tax rates. More than in Russia, however, this divergence of perspectives in China remains unresolved. As a result, China’s policy actions in the area of pensions, although consistent over time, are no more conclusive nor coherent than Russia’s. Both countries continue to face dilemmas caused by the cumulative effect of long-term demographic and economic change.

This account makes it clear that the despite the continuity of leadership in Russia, policy direction has swung back and forth in response to external circumstances. In contrast, China’s top leadership has turned over every ten years, but the direction of policy remained steady. Even though the Hu-Wen leadership paid more attention to social welfare issues than did the Jiang-Zhu leadership that preceeded it, the overall trend of policy in the area of pensions shows remarkable continuity. The notable difference between the two countries is that China’s administrative structure is significantly more decentralized, resulting in wide diversity of pension arrangements across provinces. This allows localities to form
alliances with central-level actors enabling it to resist a loss of control over local funds. It is this inherited institutional difference, more than any other factor, that has determined the difference in the outcomes of the policy process.

V. Conclusions

Reform of pension institutions in both countries depended primarily on cooperation among power- and policy-seeking bureaucratic actors. In this respect, state bureaucracies resemble parties in a democracy. They pursue power by advocating for their policy goals and forming coalitions. They develop policy proposals, cultivate broader support among experts and parastatal organizations, exploit opportunities to advance their agenda, and offer compromises and side-deals. They work to win approval for their proposals from the top leadership. If the policy orientations of the leaders at the top diverge, entrepreneurial officials at the central and lower levels can take advantage of the opening to pursue their initiatives locally. The slow consensus-building policy process gives them openings for maneuver. In both countries, bureaucratic actors use the media to make their case to other state and quasi-state actors, but are careful not to appeal to the general public or stir up popular protest; their strategies are entirely "insider" rather than "outsider" (Gais, Peterson and Walker 1984).

Both institutional and non-institutional circumstances constrain the policy process. Policy-makers must face the cumulative effect of population aging and the pressure of global competition in financial and product markets. They are aware of the political risk inherent in eliminating popular social welfare entitlements as well as the fiscal risk of maintaining unsustainable commitments. Fiscal pressures stemming from the need to bail out PAYG pension plans limit their ability to achieve other goals. They are also hampered by their inability to compel full compliance with contributions requirements on the part of employers and employees. The inherited institutional environment shapes their political strategies as well by determining the rules for decision-making and the distribution of power across potential allies and opponents of their policies. Reengineering the institutional environment is costly compared adapting to it for more immediate policy purposes. The institutional legacy in Russia and China continues to influence the path of policy choice: pension policy in China has been incremental and consistent, but allows wide inequalities in pension benefits to persist across regions and categories of the population. In Russia, pension policy has been centralized but subject to sharp reversals in response to exogenous shocks. In both countries, the quasi-partisan divide between left and right blocs lasts over time.

The policy process traced here resembles the accounts of incremental institutional change described by scholars of Western democracies more closely than it does the stylized models of selectorate theory. It places the weight of explanation for policy outcomes on the play of leaders’ policy goals, institutional constraints, and the distribution of influence and interests on the part of the bureaucratic agencies that are responsible for implementing policy. Success in achieving large-scale policy reform requires overcoming the dispersion of authority across a complex bureaucracy and aligning state actors around a
coherent set of policy objectives. Crude tools such as coercion and rent distribution only go so far in accomplishing these tasks. Like their counterparts in the advanced democratic world, decision-makers in Russia and China must rely on the political arts of coalition-building and policy coordination to achieve their aims.
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