

## New approaches to social security provision in the USSR

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### Introduction

Social security plays an important social and economic role in the Soviet Union. All the main forms exist – old-age pension, disability and survivor benefit, maternity and child benefit, temporary incapacity benefit, compensation for employment injury, and social and welfare services for the elderly and the disabled whether in social security institutions or at home. Some idea of the scale of the coverage provided can be gained from the fact that in 1990 there were 62.4 million persons in receipt of pensions alone. In addition, under the state health system, free medical care is provided for the entire population of the Soviet Union – some 289 million persons. Pre-school facilities for children are another important feature, but organizationally they lie outside the social security system, as also do the employment services currently operating in many areas of the country.

In 1989, 78.6 billion roubles, or 8.5 per cent of the USSR's GNP, were spent on social security as defined by official statistics, and if expenditure on state health care financed out of the state budget is included, the figure rises to 103 billion roubles. Moreover, these figures do not include the considerable expense involved in providing concessionary benefits for some categories of pensioners and other persons in the form of tax relief, free or subsidized medicine, free transport, rent rebates, pre-school facilities and the like. Nor do they take into account children's homes and residential establishments for handicapped children, or the benefits paid by enterprises out of their social and cultural funds to persons unfit for work. The implementation over the period from 1990 to 1993 of the new Soviet Pensions Act, passed in May 1990, will call for additional expenditure of 47.6 billion roubles a year, and the reform of the pension system as a whole will cost 53.5 billion roubles a year. Major steps were also taken in 1989 and 1990 to increase state assistance to families with children. Expenditure of an additional 13.3 billion roubles a year will be required to implement the Decree of 4 April 1990 of the Supreme Soviet on urgent measures to improve

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the situation of women, protect mothers and children and strengthen the family, and the Decree of 2 August 1990 of the Council of Ministers on additional measures for the social protection of families with children during the transition to a regulated market economy.<sup>1</sup>

## Shortcomings of the traditional system

In order to improve social security provision, it is, however, necessary not only to increase expenditure substantially, but to ensure better organization; not only to raise the level of minimum social protection for persons in need, but also to overcome levelling effects in the system. This in turn means that certain underlying principles will have to be rethought, that beneficiaries will have to contribute to the cost of certain types of benefit, and that in many cases there will have to be a shift away from the attitude that social security is a form of state assistance provided free of charge, entailing no reciprocal obligations, which has become firmly entrenched in public consciousness and has influenced the development of social security in the USSR to a considerable degree.

When Soviet experts write in the specialist literature about social security, and the benefits and services it provides, they tend to regard it as just one of the uses to which social consumption funds are put. As a rule they are not interested in how it is funded. Failing to make any connection between funding and expenditure, they have tended to view social security benefits as handouts, ignoring the fact that the ultimate source of funding is the product of the nation's workers; and since the prerogative of state bodies to decide on matters relating to the country's economic and social life was seen as one of the most important achievements of socialism, most experts have felt – and continue to feel – that it is fully justified for the State to consider only its own priorities when determining the level of benefit provided to various categories of persons unable to work. They have attached little importance to the fact that workers (or former workers) whose labour has helped to finance such benefits may have their own priorities, which may be no less valid than those of the State. The historical reason for this attitude is that the procedure for distributing the social product, as sketchily delineated by Karl Marx in his *Critique of the Gotha Programme*, was considered to be an inherent feature of socialist distribution. In practice, however, Marx's model served as a convenient cover for an arbitrary distribution policy that would only have been justified if the product extracted from workers had been used to meet the immediate basic needs of sections of the population unable to provide for themselves. In fact, however, until recently, the practice of using the value produced by some categories of

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<sup>1</sup> The expenditure estimates cited above are based on 1990 prices. In April 1991 all prices were drastically increased and benefits raised accordingly.

the population to meet the needs of other categories was not confined to such special cases but was widespread, though concealed. All state enterprises paid a percentage of the wage fund to the State as social insurance contributions, with the contribution rate varying from one sector to another – and about half the cost of pensions was paid out of the state budget.

Now, however, our country is coming to a deeper understanding of the underlying causes of the various distortions in Soviet society. It is being realized that first and foremost the relationships between commodities and money – the exchange relationships – must be strengthened. It is the lack of such relationships in the economy of the USSR that is also the cause of distortions in the distribution of social funds – in particular social security – owing to the absence of a link between the level of benefit paid to different categories of persons and the source of funding. To illustrate some of these distortions: within the one social security system, benefits for various categories of workers are allocated on differing criteria, which have nothing to do with how much they contribute to funding. Thus there are different entitlements for various categories of workers as regards pensionable age, amount of benefit or right to work while receiving a pension, and under the temporary incapacity benefit scheme, entitlements are lower for persons without a sufficient total period of employment or those with interruptions in their period of employment, however long it may have been in total. In other words, social security benefits are going to certain categories of workers at the expense of others, and experience shows that the redistribution of value is not always socially advantageous. In order to achieve a more efficient distribution of resources, it is therefore necessary to eliminate, as far as possible, the existing imbalance between financing and expenditure and to establish the closest possible correspondence between the value extracted from particular categories of workers and the social protection they receive in return.

## **The historical background**

Historically, a similar shift in policy from social security to social insurance did in fact occur in 1921 at the time of the New Economic Policy (NEP). The Decree of 31 October 1918 on workers' social security was superseded by the Decree of 15 November 1921 of the Council of People's Commissars on the social insurance of persons engaged in wage labour, under which social insurance was funded out of contributions paid by all institutions, enterprises and firms using wage labour. During the greater part of the 1920s social insurance remained one of the main forms of social security, funding all the main benefits, including survivor benefit, unemployment benefit and permanent or temporary incapacity benefit. (In the latter case, however, direct state-financed social security was also available.)

From the outset, however, largely owing to the application of differential rates, the system adopted lacked the essential link between funding and expenditure, i.e. between the direct or indirect contribution levied on the different population groups and the level of social protection they received in exchange. In the early 1920s the possibility of introducing a single insurance rate for all branches of the economy had indeed been mooted; but this proved extremely difficult to put into effect in a situation where direct barter and market relations prevailed.

Moreover, in a country where all property relations had undergone revolutionary changes it seemed ideologically unacceptable even to consider the need for any such link. On the contrary, social insurance was increasingly seen as out of step with the ideological aims of the administrative-command system of management which was then coming out more and more strongly in favour of arbitrary distribution of resources in the social sphere. Consequently, in the late 1920s and early 1930s social insurance was restructured and brought into line with the ideological aims of the system. Such basic tenets of social insurance as the concept of social risk, and of employers' or enterprises' contributions as socialized wages came in for especially strong criticism. All this coincided with a change of leadership of the People's Commissariat for Labour and the social security bodies in 1930, and the merger of the People's Commissariat for Labour with the All-Union Central Council of Trade Unions in 1933. The relationship between funding and expenditure was finally severed, practically speaking, as a result of the reorganization of social insurance financing in 1937, under which medical care, child-care institutions, pensions of non-working old-age pensioners and some other categories of expenditure were removed from the social insurance budget and began to be financed directly from the state budget on the basis of estimates drawn up in the relevant ministries and departments – without regard to the source of funding.

Since then, however, there has been a gradual movement towards elimination of the most glaring discrepancies between levels of contributions and benefits received by certain categories of workers, and the 1990 Pensions Act provides for pensions to be financed exclusively out of social insurance contributions, with enterprises contributing 37 per cent of their wage bill and workers 1 per cent of their salaries. Disparities continue to exist, however, concealed behind the practice of arbitrarily providing certain types of social insurance benefit to the trade union committees representing different occupational groups, under the preferential pension system. All these inherited problems are now coming to the fore in connection with the wish of the republics to set up their own social security systems.

It seems clear that with the present transition from administrative-command methods to a market economy there should be a further shift away from social security as a direct redistribution system, financed out of general state resources, towards a more consistent use of social insurance methods. Social assistance is likely to be retained only to provide a minimum level of

benefit for certain limited population groups. The rather tenuous connection between financing and expenditure means that there are still major differences between social security in the USSR and in Western countries, where the link is more clear-cut.

## **New legislation**

It is against that historical background that one must assess the recent legislation introduced in the Soviet Union. The 1989 Act on urgent measures to improve the provision of pensions and social services abolished all the remaining arbitrary differences between pension rates for collective farm workers and other blue- and white-collar workers. Minimum pensions were also raised. Old-age pensions, which had been 40 roubles a month for collective farm workers and 50 roubles for other workers, were increased to 70 roubles a month across the board.<sup>2</sup> Supplements for disabled servicemen were exempted from the ceiling on old-age pensions, and entitlement to cut-price medicines and free public transport, originally introduced for veterans of the Second World War, was extended to other categories of people. The Act also removed restrictions on the payment of pensions to all categories of manual workers and foremen who continue working.

The Soviet Pensions Act, passed by the Supreme Soviet in May 1990, builds on the progress achieved by the 1989 legislation. It does away with the regressive method of basing pensions on wage scales – hitherto prescribed by law but hardly ever followed in practice since many salaries as specified in the 1956 scale did not reflect actual current pay levels. Basic rates of pensions are increased from 50 to 55 per cent of average remuneration after 25 years' employment for men and 20 years for women; the average is calculated on a new basis: five consecutive years out of the last 15, instead of the last 12 months or five consecutive years out of the last ten. Some restrictions regarding overtime pay and types of bonuses previously not taken into account have also been lifted. Pension calculations take up to 45 years' employment into account, with 1 per cent of average earnings added to the pension for every year worked in excess of the minimum period of employment giving entitlement to the basic rate of pension. The upper limit had previously been 35 years for men and 30 years for women, with a maximum supplement of only 10 per cent. Moreover, any period of secondary and tertiary education or of study in vocational schools may now be included in the period of employment, without any restrictions.

Previously old-age pensions were subject to an absolute ceiling of 120 roubles a month – or slightly more for certain categories of workers. The new Act has the effect of substantially raising that ceiling. Remuneration up to four times the minimum wage is now fully pensionable, while thereafter, for each successive multiple of the minimum wage, 15 per cent is knocked off.

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<sup>2</sup> They were further increased to 135 roubles in April 1991.

Thus 85 per cent of the fifth multiple is pensionable, 70 per cent of the sixth, and so on. Any earnings in excess of 700 roubles a month are not taken into account in determining pensions.

Under the Act, pensioners aged 80 or over and living alone receive a care supplement equal to 50 per cent of the minimum pension. The Act also amends the provisions governing disability and survivor pensions. The pensions of category I and II disabled persons (those completely unable to work and, in the case of category I, also requiring care) with up to 15 years' employment are increased from 50 to 55 per cent of average remuneration, while those in category III (partial incapacity to work) are entitled to pensions equal to 30 per cent. Category I disabled people, and some in category II who live alone, receive care supplements of 50 per cent of the minimum pension. Survivor pensions are fixed at 30 per cent of the wages of the deceased breadwinner for each dependant. For many categories of workers whose occupation may cause them to lose working capacity before normal pensionable age, the Act provides for a length-of-service pension on completion of a given period of employment. The Act also retains preferential pensions for certain categories of workers employed in arduous, unhealthy or dangerous jobs. Workers who have completed the required period of employment under such conditions are entitled to a pension five or even ten years before normal pensionable age, which in the USSR is 60 years for men and 55 years for women. The Act also provides for proportionately reduced occupational pensions for workers with an incomplete career, and "social" pensions for persons who are not entitled to occupational pensions. In addition, it provides that pensions shall be increased by at least 2 per cent per year in line with changes in earnings and the cost-of-living index. Finally, the Act grants the republics, local soviets of people's deputies, enterprises and public organizations the right to fix higher pension levels payable out of their own funds.

This outline of the Act's basic provisions shows that it goes much further than its predecessor to ensure that size of pension is related to the pensioner's financial contribution, although the need to provide subsistence to all who are no longer able to work is also recognized by fixing minimum occupational and social pensions.

The Act also seeks to strengthen the direct link between financing and expenditure by setting up a pension fund, by requiring enterprises to pay 50 per cent of the cost of certain types of preferential pensions, by giving enterprises the right to pay complementary pensions to their employees out of their own resources, and the like. None the less, there is still insufficient awareness of the need for the level of pension to correspond more closely to the size of the recipient's financial contribution. There is still a widespread tendency, including on the part of legislators, to regard pensions as direct state assistance, financed out of state resources, to persons unable to work. This largely explains why the general pension system laid down in the Act continues to apply different standards to certain categories of workers, for

example, by granting preferential pensions as compensation for unhealthy working conditions, or by giving manual workers and foremen the right to work and still receive a full pension, while denying such rights to retired non-manual workers.

This attitude also explains why industrial accident benefit is included in the general scheme; its exceptional nature is not recognized – enterprises only pay the social security bodies compensation by subrogation for damage caused when the enterprise itself is at fault – and the link that should exist between an enterprise's financial contribution and its accident and sickness rate is not established.

Work on standards for social security provision increasingly recognizes the need for a closer link between the manner in which social security resources are spent and the manner in which they are funded. The disparity between the amount spent on social security by the various republics and the amount of grants by central Government to the republics for such purposes, taken together with differences in national traditions, and local economic, social, demographic and other conditions, has led some republics to announce their intention to set up their own social security schemes. A number of republics – including the largest one, the Russian Federation – introduced their own pension legislation before the 1990 Act has even been fully implemented, set up their own pension funds and refused to participate in Union-wide income redistribution through the social security system.

## **Ensuring common minimum standards**

This brings us to the burning issue of how responsibility for social security should be divided between the central, republican and local authorities. In the context of the transition to a market economy and at a time when the Union republics are entering into new relationships as sovereign States, the USSR Ministry for Labour and Social Affairs is looking for ways to secure the legal consolidation of the fundamental rights of citizens to various types of social security, and the adoption of Union-wide legislative guarantees for the exercise of those rights. Draft Fundamental Principles for social security legislation in the Soviet Union and the Union republics have already been elaborated, but in the new political situation it is difficult to say what legal form these Principles could take.

The Principles set out first and foremost to define the concept of “social security”, to which widely different meanings are often attached. As defined in the draft, the term covers a broad range of benefits, including old-age, permanent disability and survivor pensions, medical care, temporary incapacity benefit, unemployment benefit, social and vocational rehabilitation, social services, lump-sum payments and other types of social assistance. These forms of social security, on the whole, correspond to the generally accepted meaning of the term internationally.

The main purpose is of course to establish a number of social security principles. These include: the statutory nature of social security schemes; universal coverage of all citizens in the USSR; comprehensiveness, ensuring the provision of all types of benefit; equality of entitlement for all citizens without exception; differentials based on need and on work contribution; participation of public organizations representing different population groups in the elaboration and implementation of social security legislation; and constant improvement of benefits as economic and social conditions change, including rises in the cost and standard of living.

Central Government is to fix the minimum levels of protection in all forms of social security, leaving it to the republics to set their own social security standards over and above the minimum Union-wide levels and to implement the Union-wide and republic legislation. There are also provisions covering matters relating to the financing and management of social security, liability for damage to workers' health and working capacity, and procedures for the settlement of disputes.

The draft Fundamental Principles provide a comprehensive blueprint for social security legislation, but to give effect to their provisions, detailed legislation at the Union and republic levels on specific problems will be required.

One such problem is disability. Many disabled and chronically sick persons are prevented by existing social and physical obstacles from realizing their full potential and exercising their legal rights. To remedy this situation, the USSR Act on the basic principles of social protection for disabled persons, passed in December 1990, establishes a legal framework for the elimination of such obstacles and for provision of equal opportunities for the disabled. Under the Act, state authorities, enterprises, institutions and organizations, irrespective of their ownership, are obliged to provide disabled persons with access to buildings (residential accommodation, workplaces and cultural or consumer facilities) and all forms of transport, communications and information, and to satisfy their needs and requirements with regard to work, education, physical culture and sport and a variety of social, consumer, commercial and other services. Enterprises are given incentives to ensure that disabled persons enjoy satisfactory working, living and leisure conditions and are provided with special goods, transportation and technical aids and a wider range of services. Social guarantees for disabled persons will be provided by including them in Union-wide, republic and local social and economic development programmes and in the relevant legislation.

The Act also contains detailed legal provisions on the procedure and conditions for granting social assistance to disabled persons and on the activity of bodies providing such assistance. It lays particular emphasis on medical, social and vocational rehabilitation, and on education and job provision as means of integrating them into society. Under the Act, it is envisaged that all disabled persons will be eligible to follow a rehabilitation programme, adapted to their individual needs, with the aim of restoring their



ability to participate in various forms of activity, of compensating for their disabilities and ensuring that they can exercise their rights with regard to work, education, health protection, etc.

A system of guarantees is laid down to ensure implementation of these measures in practice. These include quotas reserving for disabled persons at least 5 per cent of all jobs in enterprises employing 20 workers or more; tax concessions for enterprises where disabled persons make up not less than 30 per cent of the workforce; and exemptions from tax and other payments if they make up over 50 per cent. Provision is also made for fines on enterprises failing to employ disabled persons.

In conclusion, it should be stated that, throughout the USSR, the task of rethinking and reorganizing the entire structure of the social security system is being actively pursued with the object of establishing an efficient and viable working relationship between centralized and decentralized forms of management on the one hand and between statutory and non-statutory schemes on the other. The latter relationship has become particularly crucial because, for many occupational categories, the statutory schemes do not provide a level of protection commensurate with the high rates of contribution paid into them, but at the same time, the high contributions already paid to the statutory schemes prevent these groups from organizing non-statutory occupational schemes as provided for under the new Pensions Act.