

Putin's welfare address

Iwona Wiśniewska, Jadwiga Rogoża, Witold Rodkiewicz, Maria Domańska

On 20 February, Russian President Vladimir Putin gave his annual address to the Federal Assembly (the combined chambers of parliament). The President's speech was short and focused on social problems. Putin referred to the citizens' most important problems, including low incomes, the operation of the health service (the availability of medical services and the shortage of personnel, especially in the provinces), environment (problems with landfills and the high costs of waste disposal), and the role of the state in resolving them. The President suggested that there could be increases in spending on social policy over the coming years, including on the pension fund, health, science and education. This state support is primarily expected to benefit Russian families in the form of a reduced tax burden or preferential mortgage loans. Some of these suggestions contained detailed cost calculations and dates of implementation: for example, an increase from 2020 in benefits for first and second children up to the equivalent of twice the official 'minimum subsistence level'; a twofold increase in the allowance for a disabled child as of 1 July this year; lowering the mortgage rate, first to 9% and then to 8% (in 2019, this will require funding from the budget amounting to the equivalent of US\$115 million, reaching US\$500 million after two years). Putin also called for the retroactive introduction (from 1 January) of benefits for families who have three or more children. The President also stated that the problem of insufficient places in nurseries should be resolved by creating 270,000 new places by the end of 2021, including 90,000 this year. Putin also stressed the need to raise pensions to the official 'minimum subsistence level' retroactively, starting from the beginning of this year. However, many of the President's proposals just consisted of vague appeals: for example, while stating the need to guarantee access to health care for all citizens by the end of 2020, Putin did not mention any specific guidelines or costs. This policy is to be financed mainly from the reserves the state has saved over recent years. In his speech Putin quite sharply criticised the executive authorities at various levels who are responsible for implementing his initiatives.

Foreign policy issues took a back seat in Putin's speech. Putin spoke primarily about Russia's cooperation with Asian countries, especially China. In terms of Russia's relations with Europe, Putin expressed the hope that the EU countries would decide to restore "normal political and economic relations" with Russia. The president devoted most space to the "aggressive policy" of the US, which in his opinion is forcing Russia to build up its arms in order to defend its sovereignty.

Commentary

- This year's message saw a distinct change of emphasis compared with that of last year, which was dominated by anti-Western messages and assertions of Russia's world power status, and whose highlight was a demonstration of the country's offensive military potential. This year's message was primarily social in nature; the President's message boiled down to reassuring the public that the state has accumulated large financial reserves, and intends to use them to improve the situation in sensitive social spheres. This was Putin's response to the problems which have caused the most active social discontent in recent years: insufficient social security, environmental problems and the arrogance of officials.
- This change in the Kremlin's rhetoric is a response to the shift in the Russian people's attitudes and demands, including a marked decline in approval for Putin himself. This decline has cancelled out the rise in Putin's approval ratings after the annexation of Crimea. Moreover, public support for Russia's foreign policy which for years boosted the Kremlin's ratings is now falling. Over the last year Putin's approval rating has fallen, distrust of the president and other state institutions (except the army) has intensified, and street protests concerning economic, social and environmental problems have regularly been held. The polls have also indicated rising public demand for change and justice, the latter not only in the sense of material equality but also in terms of equal treatment of citizens by the state. By changing the narrative, the Kremlin is trying to halt and reverse these trends, and to demonstrate that the President is addressing the public's demands for social and financial improvements as well as its expectations of more dignified treatment. This new rhetoric suggests that we can expect not only increased funding for selected social programmes, but also the intensified disciplining of corrupt and arrogant officials. This might improve the authorities' image to some extent, despite their failure to implement the material promises they have already made.
- However, announcing increases in social spending and excessively raising the public's expectations could prove dangerous for the Kremlin, especially if the public understands that this is happening under the influence of falling support for the authorities in the polls. We may expect public pressure on the government to increase in the future. Hitherto, the Kremlin's policy since the crisis in 2014 has been based more on an ostentatious refusal to bow under social pressure; that attitude was part of the logic of an authoritarian regime, wherein a government cannot afford to show its weakness.
- In his speech, Putin returned to his habit of shifting the responsibility for any failure to implement the social package onto the government and the lower levels of the executive branch, although he did so in a different manner than in the case of the unpopular pension reform. It is possible that the quality of administration in certain areas of the public sphere will improve, but it will be extremely difficult to change the government officials' mentality and behaviour towards the citizens in the short-term.
- The current state of Russia's public finances does allow it to increase government spending. In the past few years, despite rising oil prices, the government has pursued a restrictive fiscal policy, including cutting social spending. The surplus revenues derived from exporting raw materials were saved in the National Welfare Fund (NWF); at the beginning of 2019 it held over US\$58 billion (c. 3.8% of Russia's GDP). However, in the last two months of 2018, nearly US\$17 billion of this fund was used to balance the

Pension Fund. In 2019 the NWF will receive the majority of the surplus from oil and gas revenues in 2018 (c. US\$65 billion). Consequently, the NWF's liquid assets should exceed 7% of Russia's GDP by the end of this year, which will allow the government to invest additional funds in the economy. At the same time, the Central Bank of Russia's foreign currency and bullion reserves amounted to US\$478 billion as of 1 February 2019, which represents an increase of over US\$45 billion since January 2018. In the past 10 years, the financial reserves have twice allowed the Kremlin to stabilise the country's socio-economic situation during economic crises. However, the increase in social spending just announced would mean that the Kremlin will be forced to deplete those reserves, which constituted an 'airbag' in case US sanctions against Russia are extended (still a real possibility) and served as a source of income for certain members of the country's political and business elite.

- For the first time since 2014, i.e. when Russia entered into the phase of acute conflict with the West, issues of foreign policy and defence took a back seat in Putin's speech, and took up proportionally much less space than issues of domestic policy, especially social issues. This appears to be the Kremlin's response to Russian society's fatigue at the conflict between Russia and the West, and the growing aversion to intense Russian involvement in international politics which have been emerging over the last few months in opinion polls. The part of the message devoted to foreign policy was mainly intended to show that Russia is now being forced to confront the US's attempt to achieve military superiority, which aims to deprive Russia of sovereignty; and that the weapons systems Russia is developing are nothing more than a response to American rearmament. In this context, Putin devoted much time to the collapse of the INF treaty, blaming America alone for this state of affairs. At the same time he stressed very emphatically that Russia would not allow the US to obtain strategic advantage; and that Russia already has or is developing weapons systems which, if the US deploys medium-range missiles in Europe, will allow it to create a 'mirror' threat, not only to the missile sites, but also to command and decision-making centres located in the United States. Putin stressed, however, that Russia was not threatening anyone, and is not interested in confrontation, but desires friendly and equal relations with the US.
- Putin hinted that at present Russia's priorities involve cooperation with China and Asian countries in general: India, Japan and the ASEAN states. His message to Europe was a repeat of what foreign minister Sergei Lavrov had signalled a few days earlier at the Munich Security Conference: Russia is interested in normalising relations with Europe (which will bring the latter economic benefits), but that European countries should make concessions on contentious issues and distance themselves from the US's "aggressive" policy.
- Putin's rhetoric is conditioned by his domestic political tactics, and does not indicate a revision of Russia's foreign policy. We should expect Russia to continue its current aggressive policy, while avoiding any excessive escalation of the conflict with the US (in order not to trigger further sanctions). Rather, the Russian government will focus on consolidating the gains it has achieved, while ruling out any concessions. At the same time, Russia will intensify its attempts to play off divisions between Western Europe and the US. These will include building up the appearance of a common agenda with Europe

against the Trump administration's policies, suggesting that there will be business benefits from cooperation between Russia and Europe, while threatening the latter with closer relations between Moscow and Beijing.