

SOCIAL INSURANCE AND MANPOWER POLICY IN THE SOVIET UNION

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THE PRECISE ROLE which social insurance ought to play in a socialist state became a subject of hot debate soon after the Bolshevik revolution. In one of its very first official proclamations, the Bolshevik government restated the grandiose social insurance principles laid down by Lenin at the 1912 congress of the Bolshevik party in Prague. But the practical application of these principles in a highly disorganized economy raised many difficult problems. As a consequence, Soviet social insurance underwent constant reorganization for several years. Nevertheless, by 1921, at the beginning of the NEP period, some of the controversial issues, like the character of the administrative structure, had been temporarily settled. The principal objective of the system was then what it is primarily in Western capitalist countries today, the income protection of wage and salary earners and their families.

The advent of central planning, however, again raised certain fundamental questions regarding the objectives of social insurance. While the economy was being prepared for a basic reorganization aiming at swift industrialization and rapid productivity increases, every major economic and social institution was put to the test of how it could most contribute to this central goal. The test for the existing social insurance system was no longer its adequacy as a welfare

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measure but its efficiency as an instrument of manpower policy. In this respect it was found wanting and subjected to severe criticism. The party decreed (Directive of September 28, 1929) that social insurance resources be mobilized for the struggle for higher labor productivity and stricter discipline. Thus, in the Soviet Union social insurance became a lever in the state planning mechanism, a means to achieve goals only remotely related to individual and family welfare. To the conventional welfare tasks of social insurance, the Soviet leaders added the task of influencing the quantity, quality, and allocation of labor resources.

The purpose of this paper is to examine briefly in what ways Soviet social insurance can be said to have contributed to the drive for rapid economic growth. In a sense, this is asking to what extent social insurance in the Soviet Union has paid for itself. If it can be made to pay for itself, the Soviet formula may appear rather attractive to newly developing countries facing the social problems of industrialism. In the short time at my disposal, I naturally cannot attempt to analyze all the productivity aspects of a scheme as complex as a comprehensive social security system. The Soviet system covers pensions for old age, permanent disability, and survivorship; temporary benefits for sickness, accidents, and maternity; family allowances; special grants for births, burials, and rehabilitation, as well as subsidized passes to rest homes, health resorts, and children's institutions. I shall restrict myself to a survey of the labor-supply and productivity implications of some key areas of the system. These areas are (1) the choice of risks to be covered, (2) administrative practices, (3) the relation of social insurance benefits to capital formation, and (4) benefit scales and eligibility conditions. The economic significance of decisions taken in these areas, however, depends not only on the character of the insurance system, but to a considerable extent on the economic and political environment. It is appropriate, therefore, to preface the examination of the social

insurance system with an outline of leading features of Soviet institutions which tend to facilitate, or interfere with, the achievement of production goals through social insurance.

The first of these institutional features is a centrally directed economy. By eliminating the risk of mass unemployment, a centrally directed economy facilitates the institution of a social insurance system which penalizes irregular work habits. The state takes the position that it guarantees a "job" for anyone willing to work, and hence it can afford to penalize those who fail to become employed. Furthermore, where both wages and benefits are centrally planned, the planning authorities can treat them to some extent as substitute forms of remuneration. This enables them not only to pay higher wage and benefit rates in certain occupations, industries, and locations to which workers are to be attracted, but also to exercise control over the workers' saving-consumption pattern.

The second institutional feature to be noted briefly relates to social insurance financing. The Soviet method of financing makes it administratively easier to manipulate the system for productivity and discipline purposes than would be the case, for instance, under the American system. The American system is internally financed. This means that it has to be planned in such a fashion that benefits and administrative costs which have to be paid in any period are covered by past and current social security taxes and interest earned on accumulated funds. Moreover, in the American case the incentive problem is further complicated by the fact that the workers pay part of these taxes directly as a payroll deduction. The remainder is derived from a payroll tax on the employer, and the incidence of this tax falls probably partially on the worker in the form of higher prices. The Soviet system levies no social insurance tax on the worker and builds up no fund. Each year, the state provides the income needed, partly from general revenue, but mainly from a payroll tax on enterprises and establishments. This

tax need not affect work incentives since the state is theoretically free to allocate the costs as it sees fit. Because benefits are not tied to an earmarked source of revenue, the Soviet method of financing leaves the state more freedom to alter the level and structure of benefits and eligibility conditions to suit its purposes at various times.

The third institutional feature worth noting is the role of the trade unions. The major purpose of the reorganization of the administrative structure of the social insurance system in the early 1930's was to give the trade unions the power to adjudicate, administer, and regulate all social insurance benefits payable to employed individuals and their families. This was done at a time when the trade unions were deprived of their last vestige of independent power to regulate wages and working conditions, while at the same time, the party asked them to play a vigorous role in the promotion of a production zeal among the rapidly expanding industrial work force. It was clearly recognized that trade unions would not only be better suited than state organs to carry out the productivity and labor-discipline objectives of social insurance, but also that the administration of welfare programs would raise the unions' authority with the masses. In all matters relating to his welfare, the worker was expected to look first to his union, the same union which bore the responsibility for the promotion of productivity and labor discipline.

The fourth and last institutional feature to be mentioned is the ideological significance of Soviet social insurance. Officially, all welfare payments are treated as unilateral gifts of the state to which all citizens are entitled by law. Soviet spokesmen never miss an opportunity to argue that, in contrast to the contributory insurance systems of capitalist countries, their free benefits are striking evidence of "socialist humanism" and of the state's deep concern for the welfare of the individual. In a country where the state determines both wages and prices, it is meaningless to treat benefits as

a gift, since the state could just as easily pay higher wages and collect contributions. The question which has to be considered is the conflict between the productivity objectives and the ideological stress on "socialist humanism" and "free" benefits. Can the state use the system as means to push individuals to work harder and at the same time have them be grateful for a free gift? Heavy propaganda may help to achieve such divergent goals, but many of us will remain skeptical.

This ideological question only accentuates a limitation which is inherent in the attempt to use any welfare scheme for incentive purposes. In whatever way the system is shaped to stimulate incentive, it has to remain a meaningful form of economic protection. It is generally feared by those who reject manipulations of social insurance programs for noninsurance purposes, that benefit levels and eligibility conditions dictated by incentive considerations may have disastrous effects on the protective value of a program. The Soviet experience from the 1930's to the 1950's provides ample ground for such fears. Those who need protection most are often those least capable of earning it. In an all-out drive for higher productivity and stricter discipline, the welfare of individuals and families is easily relegated to a position of secondary importance, something which must not be allowed to stand in the way of the "greater" goals of the Party and the "People."

The institutional features I have just discussed are the general framework in which Soviet social insurance operates. Let us turn now to an examination of some specific aspects of the insurance system which are relevant from a labor and manpower policy point of view.

The first area is the choice of the risks to be covered. No sound social insurance system should provide opportunities for malingering, but neither should concern with potential abuse categorically eliminate legitimate forms of protection. A general principle which underlies the Soviet approach is

that no income-maintenance payments be made to any able-bodied person of working age, regardless of the cause of the loss of income. Stipends paid to students could be considered an exception to this general rule, which conforms to the citizen's right and duty to work as stipulated by Article 12 of the U.S.S.R. constitution. In practice, adherence to this principle tends to put the duty to work before other social considerations, such as protection of family life by keeping a mother in the home rather than in the factory. Its most obvious results are the abolishment of unemployment insurance, restricted survivorship payments, and the scaling of permanent disability benefits not to the income loss incurred but to a disabled person's capacity to help himself. The most important restriction placed on survivorship pensions is that these payments are made to able-bodied widows of working age only if they have in their care a child under age 8, as compared with age 18 in the United States.

Not all consequences of the principle cited above are negative. For instance, it is consistent with the payment of pensions to persons who qualify for retirement benefits but continue to work. Indeed, the Soviet government tries to keep aged persons capable of work in the work force by paying their pension in addition to their wages. This is one area where the Soviet concern with the retention of the work force contrasts sharply with the traditional American approach of using social security to help remove aged persons from the labor market and improve employment opportunities for younger people.

The abolishment of unemployment insurance requires brief comment. The Soviet Union abandoned its unemployment insurance program when it began the reorganization of its system in 1930. The reason given was that unemployment insurance was no longer needed since unemployment had been eliminated. At the time many criticisms were expressed over the existing system's alleged support of loafers and idlers. In most countries unemployment insurance is

designed not merely to maintain income but to enable the unemployed worker to hold out for what the law considers a suitable job in an acceptable locality. In this sense, unemployment insurance may be paid out, as a result of frictional unemployment, even when there is full employment and a general shortage of labor. The abandonment of the unemployment insurance program in the Soviet Union, especially since it came shortly after the enactment of severe measures against unemployed workers who refused job or retraining offers, was thus clearly a means to put pressure on workers who are between jobs and to discourage them from delaying re-employment. Lack of support while unemployed should increase labor mobility, both in the sense of stimulating the worker's desire to find a job and in the sense of lessening his resistance to accepting an undesirable job in an undesirable place. Lack of support also reduces the worker's ability to pay moving expenses, which might keep him from moving where the planners do not want him, and tends to keep him where they put him. This kind of pressure does not necessarily contribute to overall productivity, especially if skilled workers should be forced to take unskilled jobs. However, in the unstable Soviet labor market of the 1930's, it probably facilitated the state's recruitment and distribution of the many new entrants in to the industrial labor force.

Related to the choice of risks is the kind of services to be provided by the system. One of the outstanding characteristics of social insurance related programs in the Soviet Union is an emphasis on services designed to strengthen the maintenance, expansion, and utilization of manpower resources. This includes an emphasis on health care for industrial workers, rehabilitation and retraining of incapacitated workers, dietary meals at factories for special groups, free and partially free passes to rest homes and resorts, and provision of factory nurseries, kindergartens, and summer camps for children. These services for children are essential if many mothers are to be full-time factory workers, which is the case in

the Soviet Union. The other services are part of the effort to "mobilize all labor reserves for the production battle." Although there is good evidence that in many instances practice falls far short of stated ideals, in time many of these services are likely to improve considerably.

The area of social insurance administration also provides important opportunities to carry out manpower policy objectives. This is done in two major ways: first, through the discretion left to the trade unions in awarding the benefits provided by law, and, second, through the coordination of social insurance administration with measures taken in the areas of industrial relations, industrial safety, industrial medicine and sanitation, vocational rehabilitation and retraining, and institutions for children, aged, and invalids.

Social insurance laws are typically complex, and the Soviet laws certainly reinforce this general rule. As a result, administrators often have some discretion in the determination of a particular individual's eligibility, in the calculation of his benefit level, and especially in the promptness with which a given case is handled. Most countries make efforts to minimize this discretion, but the opposite seems to be the case in the Soviet Union. The Soviet leaders decreed in the 1930's that social insurance administration should aim deliberately at preferential treatment for shock workers and workers in certain essential occupations and should discipline unsatisfactory workers. Preferential treatment for favored groups was already built into the laws in the form of higher benefit rates, but the trade unions had further power to discriminate when it came to the distribution of passes to resorts and rest homes, and to pioneer camps for children. On the negative side, the unions were authorized in 1933 to withdraw the right to social insurance benefits from "drifters, trouble makers, and idlers." The trade union social insurance commission may also deny cash sickness benefits to any individual who does not adhere to the regime prescribed for

him by the doctor. There is no evidence readily available to indicate how much use has been made of these provisions.

There has been a significant shift in the objectives of Soviet social insurance administration in recent years. Under the unsettled conditions accompanying the influx of large numbers of peasants and other workers into rapidly expanding industries during the 1930's, the trade unions were directed to combat high turnover rates and to reward special groups, such as shock workers and workers in high priority industries. In recent years, with a more highly developed administrative structure, under more settled industrial conditions, and with a growing labor shortage, the stress has been mainly on the reduction of sickness, accidents, and absenteeism, and on the stimulation of productivity through the promotion of health and rehabilitation. A further sign of a maturing industrial society, with a growing shortage of labor, appears to be the recent urgent appeals to the trade union social insurance administrators to find ways to utilize the skills of retired workers. These tasks, in the Soviet Union, are carried out chiefly by the local social insurance activists. They carry on a vast program to keep the worker on the job and healthy—a program which ranges from putting pressure on doctors who are thought to be too free with sickness certificates to improvement of day nurseries so that working mothers will have no cause for absenteeism due to inadequately cared for children.

We come now to the role social insurance can play in the area of capital formation. One of the important aspects of a planned economy is public control of the rate of saving and capital formation. Social insurance can be fitted into this control pattern. Through its policy of low wages combined with rather comprehensive social insurance benefits, the Soviet state deprives the worker of the ability to save but to some extent, which is difficult to determine, relieves him of the necessity to save for old age, interruptions in the capacity to work, and similar circumstances. The state insists on doing

the saving for these exigencies on behalf of the individual through the social insurance system. This enables the state to increase the amount of saving possible in the economy, or at the very least it makes possible the achievement of a given rate of saving with less hardship than would otherwise be the case. If all the workers' income were in the form of wages, which for the sake of efficiency have to be related to work performance rather than need, the prevailing low wage policy would be extremely hard on families with many children, aged parents, or an incapacitated wage earner. By making direct payments to meet these exigencies, social insurance alleviates these hardships and makes a low wage and high saving rate policy more acceptable. This may be regarded as a method of income redistribution which makes more bearable the burdens of forced industrial growth. It is a system which keeps most people at a low income level but avoids the potentially dangerous extremes of social distress.

The last question to be considered is concerned with the incentive implications of the benefit scales and eligibility conditions in Soviet social insurance. This question has really two aspects. First, we may ask whether Soviet benefit scales and eligibility conditions induce individuals to work harder at any point of time and over their lifetime, whether they attract and keep people in the work force, whether they induce people to take jobs at times and places they would otherwise decline, and whether they encourage regular work habits. Secondly, we may ask whether this form of planning, that is, the direction of factors of production via manipulation of social insurance payments and promises is carried out in an economically rational manner. Benefit and eligibility differentiation may not have gone far enough; on the other hand, it might be more economical to treat everybody alike and to rely mainly on differential wages for incentive purposes.

Most Soviet benefit scales and eligibility conditions have clearly been designed to promote the incentive objectives

listed above, but the economic value of this approach cannot be readily estimated. The incentive to work is encouraged by relating the level of benefits to the level of wages, which is also partly the case in the United States, although there are some interesting differences between the two countries. Soviet retirement benefits for the average wage earner, even without various kinds of service supplements, are a higher percentage of wages than similar benefits under U.S. social security. This is made necessary in part by the low wage level in the U.S.S.R. Nevertheless, the Soviet system pays a lower percentage of wages in survivorship benefits than the American program. This reflects the Soviet pressure to keep individuals at work. Workers in industries that were thought to contribute most to the growth of social productivity used to be singled out for preferential treatment. Now, much the same effect is achieved by giving workers in difficult, hot, dangerous, and underground occupations preferential benefit scales and preferential eligibility conditions. To encourage workers to extend their working-life span, a benefit bonus is paid to those who exceed a specified number of years of work, the number of years depending on the industry. Temporary disability benefits are tied to the length of the overall service record as well as to the length of uninterrupted service. In this manner those who quit voluntarily and do not become quickly re-employed and those who get fired are penalized. Finally, workers who do not belong to trade unions are entitled to temporary disability benefits at only one-half the rate of union members. Refused admittance or expulsion from the union may be costly for the worker.

It is extremely difficult to evaluate the overall impact of Soviet social insurance. The fact that its aims and methods would not be acceptable in most Western countries is not a reliable guide. There seems, on the contrary, to be widespread approval of the system within the Soviet Union, and official pronouncements leave no doubt that the leaders take immense pride in the care they bestow upon the working population.