

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

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SOCIAL POLICY DURING THE CRISIS

Moderator:

Igor Jurgens, Chairman of the Management Board, Institute of Contemporary Development

Panellists:

Alexander Zhukov, Deputy Prime Minister of the Russian Federation

Lord Charles Falconer, Chairman, the John Smith Memorial Trust

Anton Drozdov, Chairman of the Board, Pension Fund of the Russian Federation

Neville Isdell, Honourable Chairman and CEO, The Coca-Cola Company

Antoine de Saint-Affrique, Executive Vice President, President, Central and Eastern Europe, Unilever

Sergey Vybornov, President, ALROSA Co. Ltd.

Scott McHugh, Senior Vice President, Global Asset Protection and Security, Wal-Mart Stores, Inc.

Martin Jaeger, Head of Global External Affairs and Public Policy, Daimler AG

Discussion participants covered a range of issues, with the following key points emerging:

Without a sustainable community, we can have no sustainable society. Governments during the crisis, while facing shrinking budget incomes, have to deal with more challenging social issues. Participants considered whether, after a few years of steady growth in real disposable income, the Russian government should continue spending on the social front, or cut social expenditures proportionate to the decline in budget income. The government, it was noted, is committed to increasing social guarantees during the crisis, keeping social expenditures unchanged at the pre-crisis level (with a 30% increase in wages for public sector employees executed in 4Q08). Simultaneously, the interaction of employers, large corporations and trade unions has increased during the crisis, and participants noted that this should provide additional incentives to develop a legislative framework between business and trade unions.

Russia has faced a significant increase in unemployment during the crisis, having added 1mn over the 1.25mn recorded in Oct 2008. It was noted that the Russian government has reacted by increasing unemployment subsidy 1.5x, and allowing an additional RUB44bn from the 2009 budget to: provide training to the unemployed and offer new job opportunities to

216,000 people; create temporary jobs, including social jobs, to motivate people (about 50,000); and provide initial capital (currently, a fairly small RUB60,000 per entrepreneur). Supporting small and medium-sized enterprises is, it was considered, another way for the government to implement socially responsible policies during the crisis.

From a corporate perspective, saving jobs is of vital importance during the crisis. Cutting the fat may mean cutting the muscle, and it was put forward that the way forward is not to cut, but to make business more efficient, healthier and stronger – to save jobs and provide security for employees. Instead of increasing taxes on corporates during the crisis, the government should support responsible businesses, and businesses overall, as they provide employment and social insurance (although layoffs have been a natural consequence of the crisis).

Without reforming pensions, education and healthcare systems, Russia will not emerge as a stronger economy from this crisis. A social safety-net should be created in the country, to allow for support that every member of the society can access at times of crisis, economic or personal. Looking at this issue from a business perspective, it is clear that business will be unable to turn the economy around if it has no access to human capital.

Before the crisis, the biggest social problem facing Russia was the increasing gap between incomes based on region and social status. Participants considered the idea that society has witnessed a growing differentiation, while healthcare and education systems have been commercialised. Russia is still characterised by many as having low life expectancy, and generally low standards of living, despite steep economic growth over the past few years. Russia has a 1.5-2x smaller share of GDP spent on improving standards of living than developed countries. These figures could, it was noted, imply that Russia has so far failed to develop a system of reallocating the wealth created by large businesses to the population.

The government has to start the overdue but important reforms of Russia's pension, healthcare and education systems. In essence, government expenditures on social support will eventually instigate the demand, which in turn will trigger and support economic growth.