

THE RUSSIAN MIDDLE CLASS AS POLICY OBJECTIVE

An NCEEER Working Paper by

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TITLE VIII PROGRAM

Project Information*

Principal Investigator: Thomas F. Remington
NCEEER Contract Number: 825-06
Date: December 14, 2010

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* The work leading to this report was supported in part by contract or grant funds provided by the National Council for Eurasian and East European Research, funds which were made available by the U.S. Department of State under Title VIII (The Soviet-East European Research and Training Act of 1983, as amended). The analysis and interpretations contained herein are those of the author(s).

Executive Summary

This paper reviews recent social science literature on the Russian middle class. The topic is contentious, with active debate about how the middle class should be defined and measured. Some of this debate is grounded in long-standing ideological disputes over the transition from the Soviet system, and some in the fact that expanding the share of the middle class in Russian society is an objective of the current Russian political leadership. Therefore the subject matters to scholars and policy-makers alike.

Several empirical facts are now well-established. In Russia, as in the United States, at least until the 2008 economic crisis, income inequality has risen in recent years while poverty has declined. In both countries, the growth in inequality reflects the concentration of income increases (both in pre- and post-tax and transfer incomes) in the highest income strata. In neither country has the middle class expanded at anything like the same rate as the growth in average incomes.

Russia differs markedly from the United States, however, in the fact that half or more of middle class individuals depend on the state for their livelihoods. However, both the Russian and current American leaderships recognize that the development of a larger middle class would be beneficial: by reducing the polarization between rich and poor, it would improve the provision of growth-enhancing public goods, reduce social tension and increase stability, and would make government more effective and accountable. Whether it would also enhance the prospects for democratization is a fundamental question underlying this research.

In Search of the Middle Class

Three approaches to studying the middle class predominate in the Russian literature. First is to define it according to individual or household position on one or more scales marking social status, the most common of which are income and material well-being, occupation and education, and self-identification.

A simple and illustrative example of this approach is used by the state insurance company, Rosgosstrakh, whose researchers define the middle class as those households that can afford to buy their own apartment or at least their own car.¹ Of course, most sociologists tend to combine multiple indicators.

A second usage, overlapping with the first, is to imbue the middle class with agency, that is, to treat it as a coherent and self-aware social collectivity. The third is to conceive the middle class not as a concrete social group but as a syndrome of values and behaviors.

Let us take these up in turn.

Middle Class as Social Stratum

In a series of works, Tat'iana Maleva, director of the Independent Institute for Social Policy in Moscow, has defined and measured the middle class as the group lying at the intersection of three sets of categories (represented as a Venn diagram): level of income and material well-being; occupational and educational status, and self-identification. In a 2008 book, she reported that 45% of the population could be classified as middle class on the grounds of income, 52% by possession of durable goods, and 30% by self-identification. On the other hand, only 19% were middle class by occupation and education, and only 5% could be classified as middle class if middle class status is restricted to those exhibiting all three properties. Another 15% share at least two sets of middle class traits.²

Natalia Tikhonova of the Institute of Sociology of the Academy of Sciences uses a similar but slightly different set of criteria: material well-being; self-identification; and social-professional status and resources, including general and specific human capital. She finds that when all these are used, no more than 20% of population can be called middle class. However, if a more purely occupational status-based approach is used, the number rises to one third, and has grown in recent years.³

On the basis of a 2006 survey, the veteran sociologist Ovsei Shkaratan found that some 22% of the population could be classified as “middle strata” either by possession of property or access to power. Another 4% are “upper middle class,” i.e., top managers and wealthy individual proprietors.⁴

Estimates of the number of people who consider themselves to be middle class vary considerably, depending on how the question is posed in surveys: what the alternatives are, for example, and what scale is suggested--whether by income, social status, housing, or some other marker. Some studies find that a large majority of the population consider themselves to be middle class. Liudmila Khakhulina, head of the Social and Economic Research Department at the Levada Center, says that some 80% of the population consider themselves to be middle class, and that this figure has held steady for some years.⁵ On the basis of RLMS (the Russian Longitudinal Monitoring Survey), Olesia Yudina also notes that some 80% of households can be considered middle class using self-identification criteria (self-assessment of own social status and its security). But only 29% can be classified as middle class by education and occupation and 23% by quality of housing, and only 9% if all three criteria are applied simultaneously.⁶

The criteria people use for identifying themselves as middle class are not self-evident. The thresholds people apply in defining the lower and upper bounds of the middle class category

are quite elastic, and depend on their own circumstances. Khakhulina notes that the two key criteria people use in placing themselves or others in the middle class are housing (this criterion is generally in the top or second place) and income. But the higher one's own income, the lower the lower bound assigned for threshold of middle class status, whereas the lower one's own income, the higher the threshold posited. Moreover, the higher the income, the greater the desire to improve one's own income; only half of those in the middle stratum of middle class want to achieve specific mobility goals and improve their incomes.⁷

Mikhail Gorshkov and Natalia Tikhonova, in a 2008 book based on three waves of surveys (1999, 2003, 2006), estimate that 20-22% of the economically active population of cities--i.e., excluding pensioners--can be called middle class using the combined approach, i.e., one defining the middle class as those sharing all three characteristics of middle class status.⁸ This is equivalent to 18% of the total working population of Russia. Another third of the urban population form a "periphery" of the middle class.⁹ These are people who lack one qualification to be considered middle class, usually income; usually these are people in the budget sector, whose incomes lag behind other groups.¹⁰

It might appear that there is a broad agreement among social scientists both in their definitional approaches and in their estimates of the size of the Russian middle class. But there are several reasons for questioning how secure this seeming consensus is. First, there is little co-variation among the various measures of middle class status. For example, using the "combined" approach--i.e., defining the middle class as that segment of the population that shares all the specified characteristics of the middle class (income, possessions, housing, self-identification, and the like)—Tat'iana Maleva and her colleagues reported that some 23% of the population could be considered middle class. Their report was based on an unusually large and nationally

representative survey sample (N=11,117) conducted in mid-2007 by the Independent Institute of Social Policy in 32 regions.

But the researchers noted that the measures of income and investment behavior were themselves very weakly correlated (income and savings were correlated at only .237) and that the size of housing and the ownership of personal possessions were *negatively* correlated.¹¹ They noted that the middle class defined by income alone had grown to 43% of the population since 2000, but that only 30% were saving any money out of current income, and only 2.6% held any investment assets (securities, pension savings, or other forms of appreciating assets). Therefore the growth in incomes was not being translated into a commensurate increase in the behavior considered characteristic of the middle class.

In short, the estimates of the size and composition of the middle class are consistently inconsistent depending on the criterion chosen to measure it. We might well wonder in such a case whether we have merely failed to find a valid measure of a theoretically sound concept, or whether perhaps the concept itself is faulty.

The stipulative approach to identifying and measuring the middle class also raises other serious questions about the use of these definitions of the middle class where the only theoretical rationale for setting cut-off points and attributes for assigning class membership is the observer's own judgment.

One problem is that when we define the middle class by its location on a given distribution, there may be substantial differences in its social, economic, and political behavior from one society to another. An analogy would be the difference between the quality of a "C" student in a class where grading is based on a strict normal curve--where a C student is at the median of the distribution--and one in a Lake Wobegon world where the median grade is a B.

Then the C student is well below average. If we say that 20-25% of the Russian population belongs to the middle class according to some arbitrary judgments about minimum and maximum thresholds on one or more hierarchies of status, we have little reason to suppose that that group is similar to some equally-arbitrarily defined middle class stratum in Western Europe or East Asia in its outlook, behavior, and political role.

Likewise, using the middle bracket of a hierarchy or cluster of hierarchies to define the middle class conceals important information about the nature of the distribution of the given value: for example, is the distribution of income normal, bimodal, or heavily skewed toward the rich or the poor? As in many cases in the social sciences, the properties of the distribution itself may more important for understanding the society than identifying the mean or median point.

Another problem arises when we draw inferences about the dynamics of economic and social change from examining the distribution of status. Imagine that, on the basis of a cross-sectional survey, we observe a monotonic positive relation between the values of a scale such as income and some outcome variable of interest, such as worldly optimism (will I be better off in five years than I am now?) or a preference for democratic freedoms over authoritarian rule, or some other set of orientations and behaviors. Should we then suppose that as mean income rises in a society, so will the proportion of optimists or democrats? Not necessarily. It is a fallacy to assume that as income rises, so will the prevalence of “middle class” behavior.

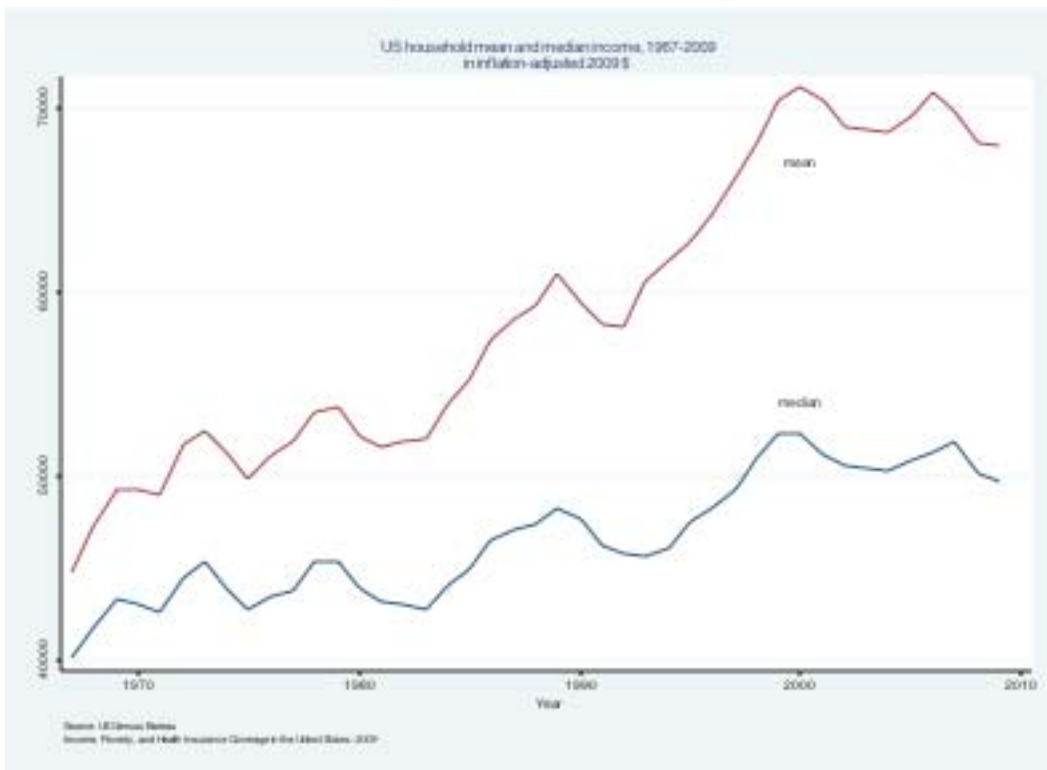
This problem is exacerbated by the tendency to confuse the mean with the median point on a scale such as income. The central tendency of growth in a country is almost always reported in terms of *mean* income or *mean* GDP per capita. Suppose we observe an increase in mean income in a developing society, and infer that the middle class is growing. We might (and often do) then say that such a country is becoming developed, that it is becoming more “middle

class” in character, hence a better candidate for democratic transition and consolidation, and so on.

But to assume that the mean is in some way representative of a significant social collectivity is incorrect. For that purpose, the median would be a better expression of the central tendency. After all, mean income can rise and leave the median income lagging far behind. The fact that mean income is rising tells us nothing about how the income growth is being distributed: the additional income might, as in the United States in the last few decades, be going overwhelmingly to the top 1% or .1% of the income distribution. This raises the mean but not the median.¹²

Figure 1 below illustrates this point on the basis of US Census data about US household incomes.¹³

Figure 1:



The growing divergence between mean and median income--a fact of considerable theoretical salience in recent political economy literature¹⁴--suggests that the American middle class has in fact not improved its relative standing. Indeed, in many ways its security and material well-being have declined and its size has not expanded,¹⁵ points that the present US administration has highlighted in its effort to promote the interests of the middle class.

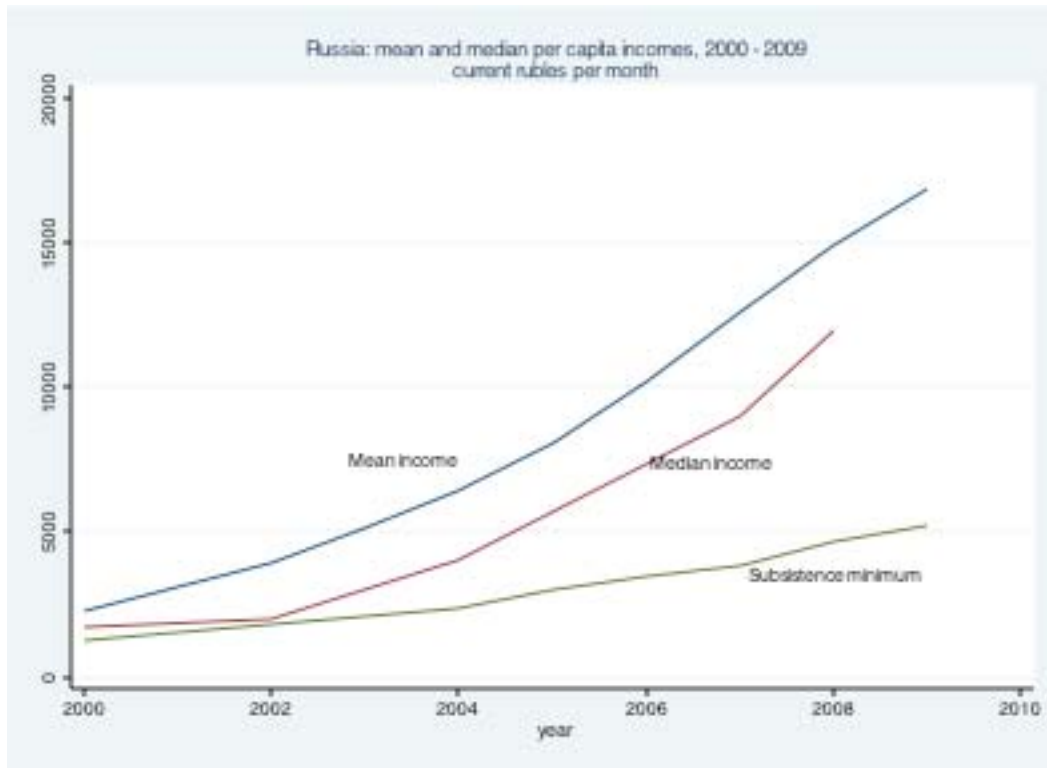
How do these logical fallacies pertain to our understanding of the Russian middle class? Has it in fact grown under Putin? According to some Russian researchers, the answer is yes. Elena Avramova finds substantial growth in the middle class in the Putin era.¹⁶ She reports that in 2000, survey research found that only 10% of families were middle class by all three of the standard measures (education and occupation, income, and social identity). On the basis of a survey in spring 2007 in four regions, she found that around 25% of families possessed all three attributes.

But this apparent increase is owed to the way individuals who in the Soviet society had some middle class attributes were treated by post-transition research. Many of those who held middle class status as defined by education and occupation lost a considerable amount of ground with respect to income. This means that if income is the principal determinant of class status, then there has been substantial growth of the middle class in the 2000s as real incomes have risen. Avramova notes that the great majority of those with at least two of the standard three attributes of middle class status reported experiencing improvements in living standards since the 1990s. But she also notes that the rising incomes benefited people in different branches of the economy very differently--in management and financial and legal services, about half the employees are middle class, while the figures are much lower in other branches. For example, in retail trade, security and law enforcement, the rate is less than 20%, and it is only 11% in

manufacturing except for energy (21%).

Compared with the United States, Russian median incomes have probably not lagged as severely behind mean incomes over the last decade. Unfortunately Rosstat, unlike the US Census Bureau, does not report both median and mean income and earnings series. I have tried to construct a crude median income series by taking Rosstat's figures on the distribution of the population by income bracket between 2000 and 2009 (i.e., what was the income level at which half the population fell below and half above) and comparing this with the Russia-wide figures for mean per capita cash income. In this way we can obtain a rough estimate of the relationship between the trends in mean and median income. Figure 2 presents the results:

Figure 2:



However, these are very crude estimates, based on the shares of the population that fall into relatively wide income bands; we have only an approximate indication of where the median income falls. Moreover, there is some evidence that, as in the United States, incomes rose

fastest--before the crash--for those in the highest income brackets. A survey conducted by the state insurance company, Rosgosstrakh, found that in 2007, the fastest-growing income group comprised those with household incomes of \$125,000-\$250,000 per year (roughly 300,000 to 600,000 rubles per month--an astronomical level of earnings), and that 200,000 families (about .37% of all families) had annual incomes of over \$1 million. When we consider that only 6.7% of individuals had incomes over 30,000 rubles per month, it is evident that we are dealing with an extremely small segment of the population. Its rapid growth reflects not broad-based income growth, but income growth that is disproportionately benefiting the super-rich--exactly as in the United States at the same time.¹⁷ This inference is reinforced by the fact that the stratum with incomes of \$16,000-\$25,000 per year (40,000 to 62,000 rubles per month) grew more slowly than did the segment receiving more than \$25,000 per year.

In addition, the rise in incomes in the 2000s affected different sectors differently. If the mean wage in 2007 was 13,500 rubles (and the median income about 9000), in the minerals extraction sector it was more than twice the average (28,000) and two-and-a-half times the average (35,000) in the financial sector.¹⁸ Meantime, the average wage in agriculture was 6100 and in education 8800, and in health care and social services 10,000. Shkaratan notes that cleaning ladies in banks were earning more than university professors.¹⁹

Moreover, as noted above, by some indications it appears that the middle class has not increased in size in recent years. Russian studies indicate that even though both mean and median incomes have risen in the 2000s, the orientations and behavioral patterns associated with a middle class, such as long-term financial strategies (savings, investment, educational upgrading), rational calculation in the use of resources, and civic activism, have lagged well behind.

For example, a survey conducted by the Fund for Public Opinion found that between 1997 and 2008 there had been essentially no increase in the number of individuals who saved a portion of their monthly incomes--24% in 1997, 25% in 2008.²⁰ Another study found that the number of those who saved had risen from 20% to 24% between 2006 and 2008 but there was a 50% jump in the total amount saved in the same period (21% of total income as opposed to 14% in 2006).²¹ Evidently while the number of savers was returning to the pre-1998 level, the amount of disposable income those savers were able to put away grew much faster. Meantime, as we will detail below, other aggregate indicators of the future-oriented chrematistic behavior associated with middle class status in other societies--such as investment for retirement or investment in education for oneself or one's family--are evident of only a small minority of those who can be considered middle class by the standard criteria.

The very diversity of plausible definitions leads a number of leading scholars to the conclusion that there is no "middle class" as such, but that there are multiple "middle classes." Note that this was also the conclusion that Harley Balzer reached in reviewing the Russian literature in the 1990s.²² Indeed, Valerii Radaev goes so far as to say that the middle class is "neither middle nor a class", but rather, represents a "normative model."²³

Summing up, although we can certainly locate the middle class by stipulation as a group of households whose incomes and other attributes, such as education, occupation, and self-characterization, qualify them to be considered a middle class, we may doubt whether their behaviors and orientations resemble those of middle class groups in other societies and whether their numbers have grown in recent years.

Middle Class as Agent of History

This leads to the second major usage of the term, by which the middle class is understood as coherent social collectivity and an agent of historical change. In this theoretical approach, not only does a rising middle class reduce class polarization and redistributive pressure, but it also provides support for modernization and democracy.

Seymour Martin Lipset, in his classic 1959 article on the “Social Prerequisites of Democracy,” compared developmental levels by examining mean incomes, but emphasized the importance of how incomes and wealth were distributed for the political consequences of development; rising incomes could raise instability by sharpening the gap between have and have-nots, or it could alter “the shape of the stratification structure from an elongated pyramid, with a large lower-class base, to a diamond with a growing middle class.”²⁴ Such a middle class would be expected to temper extremism and class conflict, and therefore foster the conditions favorable to democracy. This theme was echoed by John Londregan and Keith Poole, who cited the example of Spain under Franco, where the growth of a “middle-income paunch of bourgeois affluence...made it much less likely that the Spanish electorate would exercise the option of voting for confiscatory redistribution.”²⁵

The political importance of the middle class as a collective agent of history was perhaps summed up most forcefully by Barrington Moore in his magisterial account of paths to the modern era in the West, when he observed: “no bourgeois, no democracy.” Even if such a middle class does not act “for itself,” it may exert latent pressure in defense of its common interests or be mobilized to vote for parties that will protect them.²⁶ Often Russian sociologists and political leaders argue that the middle class, whatever its size or composition, is of crucial importance to the country’s modernization because it tends to set the standards and aspirations

for other members of society.²⁷

In this vein they can wax lyrical. German Diligenskii concludes his study of the orientations and behavior of the middle class in Russia with this vision:²⁸

Russia resembles a person with an outstanding brain, who is not, however, capable of regulating his organism's vital functions. People of the middle class that is being born are, possibly, one of those forces that could overcome that gap, and restore the lost connection between thought and social-historical action.

Or consider the recent comments by Igor' Iurgens, head of the Institute for Contemporary Development [INSOR]), who called attention to the formation of "a middle class that is small, mobile, and comparable with Western ones" and that "also is oriented to Russia, and not to foreign representatives of the elite, and comprises a sufficient resource to begin the progressive processes of which the president has spoken."²⁹

But whether the Russian middle class that sociologists have identified has sufficient commonality of interests and orientations to enable it to play the ambitious historical role that theory assigns to it remains a serious question. This problem is directly analogous to the analysis of the pre-transition Soviet society. There was, and continues, a deep debate over how to classify those who belonged to the "Soviet middle class" or at least the "proto-middle class" of Soviet society, based on educational, occupational, aspirational, and self-definitional traits.

In the late 1980s many saw this group as constituting the social base behind Gorbachev's reforms. Many observers argued that Gorbachev's democratizing reforms represented an accommodation to the demands of a rising class of educated urban groups whose tastes and aspirations were oriented to a Western standard of living and that exerted latent pressure for more freedom for public expression and association, and channels for the articulation and aggregation of demands. For example, to the historian Moshe Lewin, Gorbachev's program of political liberalization was best understood as a "sequel" to the transformation of Russian society

over the course of a few traumatic decades from a peasant to an urban and industrial society.³⁰

The consequence of this process was the creation of a large body of self-aware, educated, “middle class” groups whose continued commitment to the regime’s well-being required recognition of their rights as participants and not merely subjects of the state. Seweryn Bialer described Soviet society as one “socially dominated by a large new middle class, which may be politically fragmented and powerless but which sets the lifestyle for the society at large.”³¹ Brian Silver, analyzing the results of the Soviet Interview Project, argued that the leaders were acting out of a concern for the “apparent disaffection of the educated class as a whole....This is the middle class for whom the Big Deal was arranged. This class is growing in size and importance to the Soviet economy, but with its increasing political sophistication comes increasing disaffection.”³²

Stephen White posited that “the middle class is typically more active and better informed than the mass of industrial workers” and linked to this feature of social stratification the relative success the authorities enjoyed in activating at least nominal participation in public life in the late 1980s.³³ Jerry Hough identified a new urban administrative class aspiring to enjoy Western cultural values.³⁴ Vladimir Shlapentokh characterized the broad social stratum of those in late Soviet society who were characterized by high education, a modest but comfortable living standard, and self-identification as middle class. These included not only white-collar and professional strata, but some high-paid blue-collar workers as well.³⁵ Indeed, a survey in the late Soviet period found that 43% of the population considered themselves to belong to the “middle stratum.”³⁶

The problem with this kind of argument, positing a causal relation between the characteristics of an imputed social collectivity and the Gorbachev political reforms, is its failure

to consider the implications of the fact that all those who were classified as middle class were dependent on the state for their jobs and security. How interested many of them were in a system of private property and liberal democracy, depriving them of security and status, is an open question. The record shows that many of those who supported the breakup of the communist regime and the union state took advantage of the changes by acquiring monopoly rents over state-owned or state-controlled assets.³⁷ The theories of a burgeoning reform-minded Soviet middle class of the late 1980s appear doubtful at best twenty years later. The fact that in Soviet conditions, and still to a large extent today, the groups that were defined as middle class by income and material status, education and occupational status, and self-identification were dependent on the state for their livelihoods should have prompted a far more careful analysis of the way social status affected political interests.

The large Soviet proto-middle class was, after all, extremely diverse. It comprised the educated professionals who ran state enterprises and provided technical and scientific expertise, as well as teachers, doctors, social service employees and cultural sector employees whose salaries are paid by the state budget; career officers in the military and other uniformed services, some elements of the skilled working class, and legions of state and municipal officials. Even today, by most counts, about half of what can be called the middle class is people still tied to the state for employment. Presumably their calculations about whether they would be better off in a market economy vary widely. As our own research in the regions confirms, the divergence in outlooks between those groups that remain dependent and vulnerable and those that would welcome greater market competition remains a profound cleavage within the post-Soviet middle class.

The significance of this point is that there is an implicit conflict of interest between these groups. Alexander Auzan points out that the interests of the “private sector” middle class and the “state sector” middle class diverge: the state sector wants to tax the private sector more to support it.³⁸ Similarly, whereas the upper income strata might be expected to oppose a change from the flat 13% income tax to a progressive scale, those farther down the income hierarchy, and those dependent on the state budget for their livelihoods, might well support it.³⁹

At the same time, however, we should not draw too sharp a line between these two sets of groups. In practice, they are often overlapping and interconnected. For example, within the same household it is often the case that one person is employed in the state or quasi-state sector, and another in the private sector.⁴⁰ And many who are employed in the state sector moonlight in the private sector.

Some Russian sociologists have made the dualistic character of the post-Soviet middle class fundamental to their analysis. Ovsei Shkaratan, Natalia Tikhonova, German Diligenskii, and others, have all pointed out that the transition from the Soviet system of social stratification in which status directly depends on the intertwining of state power (*vlast'*) and property to one of capitalist class relations, based on private property, has been tenuous and incomplete. As a result, access to income and material status for the predominant share of those who by objective stipulative criteria can be treated as middle class continues to depend on their position in hierarchies of power.

Those who derive their social status, i.e., their income and material well-being, their opportunities for advancement, and their long-term security, from their position in a system of private property-based class relations still constitute no more than half of the stratum that can be called middle class, and, by other definitions, much less than half.⁴¹ This point helps explain the

fact that the estimates of the size of the middle class vary widely depending on the particular measures used. Many who considered themselves middle class in Soviet society, where status depended far more on education and occupation than on income, experienced a sharp decline in their living standards as their earnings lagged far behind inflation. For example, Tikhonova reports the startling finding that 21% of those in Russian society who are in the poor or disadvantaged categories have higher educational degrees.⁴² Yet despite the sharp and humiliating sense of social degradation, some still account themselves to be middle class based on their perceived value to society.⁴³

Still, the loss of status, indeed often of livelihoods, brought about by the transition resulted in a significant drop in the number of people calling themselves middle class. A series of surveys by Sergei Balabanov in Nizhnii Novgorod found that in the early 1990s, 70% of the respondents considered themselves to have been middle class before the Gorbachev reforms. This figure dropped to 52.7% in September 1993, 47.4% in February 1994, 43.6% in July 1994, and 38.2% by January 1995. Two-thirds agreed with the statement that “in Russia today it is only possible to make great wealth thru dishonest means” and only 18% disagreed.⁴⁴ Diligenskii, who generally seeks to emphasize the adaptability of the old “Soviet” middle class rather than its wholesale destruction, estimates that only between one-fifth and one-third of those who were middle class in Soviet society entered the new post-Soviet middle class.⁴⁵ But once again, such estimates depend on purely stipulative criteria--including the assumption that there was a group in Soviet society that could be called middle class.

Middle Class as Normative Model

Taking seriously the argument that the category that can be called middle class is too divided and too heterogeneous to be considered an agent of social and historical action leads us

to the third major conceptualization of the term. That is to treat the middle class as a “metaphor”⁴⁶ or a “normative model.”

As Valerii Radaev puts it, the middle class is “not a statistical category, but a condition to which we want to move”.⁴⁷ It is the embodiment of a particular behavioral and attitudinal syndrome. Usually there is a strongly positive normative and policy cast to this usage. As Radaev put it, the state should support not “statistical groups, but behavior.” The state should invest in “that into which people want to invest their time and resources, directions that can become vital interests in their own right.”⁴⁸

What are these behavior patterns that the state would wish to encourage? Renal’d Simonian quoted Ludwig Erhard, the former chancellor of postwar Germany who is often considered to be the architect of Germany’s economic miracle, based on the model of a “social market” economy. Erhard in 1954 described the middle class as “people whose qualitative characteristics are a feeling of self-worth, independence of view, self-reliance, social resilience, daring to make their existence dependent on the results of their own labor, and with the desire to assert themselves in a free society and free world.”⁴⁹

Simonian also paraphrases the first prime minister of independent post-Soviet Estonia, Edgar Savisaar, who painted an even more expansive portrait of the middle class. According to Savisaar, the middle class is characterized by a relatively high standard of living; a sense of assurance of stability in its standard of living; a high level of education; good preparation for employment and a high level of competitiveness in the labor market; a high level of informedness about events in society; a skeptical attitude toward politics; the ability to analyze and generalize information independently; the ability to achieve self-realization in society; an active impact on major social processes; feeling of civic responsibility; and a concern with the

well-being of the self and family as well as the society as a whole. So in the classical sense, the middle class refers to not just possession of a given amount of property, but also is the bearer of basic values of civic and social-self worth, independence, and civic activity. It is the foundation of civil society.⁵⁰

Such paeans of praise are not unique to social engineers in young democracies. Allowing for differences in inflection, this rhetoric is familiar in the United States as well. President Obama, who two days after taking office created a presidential task force on the middle class, spoke of the problems the middle class was facing in the United States:⁵¹

Now, we all know what that American Dream is. It's the idea that in America we can make of our lives what we will. It's the idea that if you work hard and live up to your responsibilities, you can get ahead—and enjoy some of the basic guarantees in life: A good job that pays a good wage, health care that'll be there when you get sick, a secure retirement even if you're not rich, an education that will give our kids a better life than we had. They're very simple ideas. But they're the ideas that are at the heart of our middle class—the middle class that made the 20th century the American Century.

In its report in February 2010, the president's Task Force defined the concept of the middle class a bit more concretely but still aspirationally. Based on an analysis by the Commerce Department it concluded that:⁵²

Middle-class families are defined by their aspirations more than their income. The Commerce report assumes that middle-class families aspire to home ownership, a car, college education for their children, health and retirement security, and occasional family vacations.

Families at a wide variety of income levels aspire to be middle class and under certain circumstances can put together budgets that allow them to obtain all six items above, which are assumed to be part of a middle-class lifestyle.... The estimates range from about \$51,000 for this type of family at the 25th percentile of the income distribution to about \$123,000 for those at the 75th percentile.

The Task Force showed that many households in this income bracket were blocked by stagnating incomes from fulfilling its desires, particularly the goal of home ownership. The

report listed a variety of ways in which the administration was working to bring about growth in the size and incomes of the middle class, asserting that this was a high-priority goal.

Strikingly, the same goal has been repeatedly articulated by Vladimir Putin and Dmitrii Medvedev and the United Russia Party, as well as by a number of high-profile strategists associated with the current leadership. Like Erhard, Savisaar, and Obama, Putin and Medvedev regard spreading the virtues associated with the middle class--a well-developed work ethic, the habit of saving and investing for the future, modesty in consumption, an orientation toward stability and security--as normatively desirable and as important policy objectives. Moreover, as in the United States, they recognize that recent economic trends (including growing income inequality combined with the severe recession in recent years) have left the middle class severely strained.

For example, in his address to the State Council on February 8, 2008, President Putin declared that the current level of income differentiation (referring to the 15-fold gap between the highest and lowest income deciles) was “absolutely unacceptable” and should be reduced; he also called for measures that would bring about an expansion of the middle class. Its share, he declared, should reach 60 or even 70 percent by 2020.⁵³

The leaders of the United Russia Party consistently speak of the middle class as a force for stability in society and as their natural constituency. Party chairman Boris Gryzlov declared that the party “prefers social conservatism, relying on the middle class and acting in the interests of this class, defending the interests of those who need no revolutions, either financial, economic, cultural, political or orange, brown, red, or blue.”⁵⁴ In the current economic crisis, the party’s leaders declare, their task is to protect the middle class, “the foundation of the future society.” The co-chair of one of the party’s study clubs referred to “the so-called office plankton and

ordinary working stiffs, who are the first victims of the crisis; but in fact they are the guarantee of the future of Russia as a normal European country, a country in which there are no longer any rich or poor.”⁵⁵

Vladislav Surkov, deputy chief of the presidential administration, often stresses the importance of state efforts to build and protect the middle class. At a forum for leaders of the United Russia party on November 28, 2008, Surkov said that the middle class comprises “owners of ordinary housing, modest cars, and small companies” as well as professionals, office workers, and state employees. He called them the country’s “silent heroes.” “They put aside thousands of rubles to buy a new refrigerator or apartment, and now are losing everything in the economic crisis. Now the state’s main task is to protect them during the recession.”⁵⁶

The head of INSOR, Igor’ Iurgens, has been particularly active in promoting the idea that the middle class is the key to the achievement of the goals articulated by President Medvedev for economic and political modernization. At a conference devoted to the problems of developing the middle class sponsored by INSOR in April 2008, he referred to the government’s official “Strategy for the Long-Term Social-Economic Development of Russia to the year 2020” (“Strategiia 2020”). This document posits as a state goal raising the share of the middle class in the society to 50%.⁵⁷ Iurgens noted several steps the state had taken to build up the middle class, such as the higher levels of state bank deposit guarantees (raised to 7000 rubles) and the increases in salaries for budget sector employees. Defining the middle class as a group with the habit of savings and investment, education at least at the specialized secondary level, an inclination to protect their health and raise their educational qualifications, and active in civic life, Iurgens acknowledged that no more than 15-20% of the population fit this description.

To meet the government's goal of bringing the share of the middle class up to at least half, Iurgens declared that the number employed in small business should be raised from 20% or so, as at present, to at least 60%. Government must therefore free business of needless administrative burdens and encourage self-initiated associations. But as Evgenii Gontmakher, deputy director of IMEMO, pointed out at the same conference, the middle class is not growing. Current trends will not bring its size to the desired 50 or 60% of society. Above all, the middle class needs a sense of security, particularly retirement security.

The normative model is employed by empirical sociologists as well. For example, Gontmakher, Grigor'ev, and Maleva argue that that Russian middle class is important politically because, as in other societies, it sets the moral standards for society and is the source of pressure for political freedom. However, at present, they warn, the middle class is threatened by rising inequality as incomes are increasingly concentrated in the top few income brackets while the incomes of lower brackets are stagnant. Moreover, part of the middle class belongs to a bureaucratic stratum and is politically passive.⁵⁸

Complementing the normative model of the middle class are empirical studies that detail the characteristic orientations and behavior patterns of the groups that can be described as middle class. German Diligenskii conducted a series of in-depth interviews with individuals who represented characteristic segments of the Russian middle class. Although he does not claim scientific representativeness for his subjects or try to estimate how many people in Russian society share these orientations, he does find some consistent patterns in the thinking and behavior of the few dozen people whom he studied.

Generalizing, he observes that members of this group feature a sense of agency in their own lives, and, more than members of other strata, a sense of optimism about the future.

Diligenskii also reports that they tend to value personal freedom. However, it is difficult to place much weight on this finding, because generally sociologists find that the value of freedom when projected onto society as an organizing principle tends to be evaluated by the trade-offs required to attain it.

For example, Gorshkov and Tikhonova found that asked to choose between two alternatives, a society of social equality and a society of individual freedom, only 36% of the urban middle class preferred the latter, while 60% chose the former. Only among those whose incomes per family member rose above 10,000 rubles--a segment well above the median--was a majority inclined to favor the society of individual freedom.⁵⁹ To be sure, members of middle class strata tend to rate the value of freedom more highly than lower income strata, but only by a margin of 10%.⁶⁰ And likewise, the middle class respondents are only 10% more likely to prefer equality of opportunity over equality of incomes and living conditions (70% of the potential middle class compared with 60% of all urban residents).⁶¹

Diligenskii and other studies also find that representatives of the middle class tend to be non-ideological and pragmatic in their politics. Gorshkov and Tikhonova, on the basis of their survey, also find that there is relatively low interest in politics, and almost no identification with the standard political ideologies, although over time, their support for United Russia has risen.⁶² Nor did Diligenskii find any sense of conflict with the political regime. On the other hand, he and other researchers found a high level of expressed support for a strong role on the part of the state to provide for social welfare. The model of a European-style welfare state has broad appeal among middle class strata, as do European institutions more generally.⁶³ This is particularly the case among the younger cohorts of the study. Both Diligenskii and Gorshkov and Tikhonova also tend to find a higher level of ethnic and religious tolerance among the middle class than

other strata of society.

On the other hand, Diligenskii also finds that his subjects have little interest in joining associations in society and have very few ties to anyone outside their immediate circle of family and friends. Only 15-20% of his respondents have any ties to organizations. Most tend to condemn the existing array of organized associations as “nomenklaturist” (*nomenklaturnye*).⁶⁴

Similarly, Gorshkov and Tikhonova find that over half of the urban middle class consider it futile to engage in collective action to defend their interests.⁶⁵ They report that only 4% of urban middle class take part in public-political life directly (compared with 3% of the urban population generally) although they follow politics at a higher rate (25% vs. 18%). The number of urban middle class groups who would be willing to resort to protests such as demonstrations and hunger strikes in case of a sharp downturn in their personal fortunes is only 7%, whereas 42% would look for additional sources of income. Still, Gorshkov and Tikhonova note the rise in the number of self-organized social movements focused on particular causes, such as the interests of automobile owners, based on developing group identities.⁶⁶

Is the middle class a force pressing for the rule of law? Here the findings are somewhat contradictory, perhaps reflecting the gap between the perceived desirability of the rule of law in the abstract and the pragmatic recognition of the realities of social life. On the basis of a set of in-depth interviews, Shastitko, Avdashev, and Ovchinnikov find that the middle class expresses a desire for a competitive social milieu and respect for the principle of the rule of law.⁶⁷

Perhaps the most striking set of findings to emerge from the survey research and in-depth interviews that Russian social scientists have conducted with representatives of middle class strata is the low sense of assurance about the future and the low level of personal effort to make the future more secure. For example, between 2003 and 2006, Gorshkov and Tikhonova note

that the number of people in the urban middle class who were personally upgrading their own skill levels and knowledge decreased while the number who were doing nothing along these lines rose from 28% to 34%. The numbers who were spending money on education for themselves or their children fell from 42% to 32%. Fewer than 10% in this group have investments in the form of land, housing, securities, commercial bank savings, or commercial loans. Fully one-quarter of them spend all of their current income, and another third use any income not needed for immediate consumption to purchase durable goods. Only 16% have any bank savings; only 6% have land or housing as investments; only 2% hold securities.⁶⁸ Tat'iana Maleva reports that only about 5% of the population holds home mortgages.⁶⁹

As Maleva observes, the middle class is highly insecure. On average, Russian citizens can anticipate losing about three-fourths of their incomes upon retirement. This is because the replacement coefficient--the percent of current income that a person can expect to receive from retirement pension income--is only 27%.⁷⁰ Under a program announced by Prime Minister Putin, the state will match savings contributions to private pension plans on a ruble-for-ruble basis if they contribute a minimum of 2000 rubles, but as of mid-2009, only 1.6 million people (out of a total of some 70 million who are employed) had declared their intention to participate. Of those, only a small minority had actually contributed any money.⁷¹ As Maleva and others have noted, only a very small number of people are actually able to take any real benefit from such savings schemes. The average sum that people can contribute to private pension savings is 4500 rubles--nowhere near enough to ensure a decent income in retirement.⁷²

Similarly, Ol'ga Kuzina (director of the National Agency for Financial Research [NAFI]), which conducted a national survey in June 2008, found that most people are not accumulating savings for retirement: only 9% plan to live on their own savings; 4% plan to live

on payments from private pension plans; and 59% plan to supplement pensions with other income. Three-fourths plan to continue working; 14% plan to grow their own food; and 26% plan to live on the income of their spouses or children. Only 7% of the population understood clearly what private pension funds are. She found that models of “income-smoothing” financial strategies simply did not apply in Russia.⁷³

One reason for this pattern of behavior is the extremely short time horizons with which middle class households operate in their daily lives. Although middle class individuals have slightly longer time horizons than the average Russian citizen, these are still extremely short. Kuzina reports that only one-fifth of respondents (in a national sample survey) claim to know what their income will be in one year; one-third of the population do not plan their expenses even one month ahead. Only 39% feel confident that they know their income even six months ahead. Only three percent can project their income ten years out. There is some variation in levels of time horizons by income bracket (i.e., by self-ascribed level of material well-being); of those who are well off, half say they can project income six months out, while only 20% of those are not making ends meet can do so. (The corresponding figures are 27% vs. 11% for projections one year out.)⁷⁴ 45% of the population identified themselves as middle class, but of them only 8% could confidently predict what their income would be in three years. 85% of them plan their expenses no more than a half year ahead.⁷⁵ Of those 100 individuals of 1600 who share three traits of “middle class,” only 11% use credit cards.⁷⁶

In comparative perspective, it appears that the Russian middle class (at least as defined in purely income terms) shows some similarities to its counterpart in other countries. On the basis of the data from the global survey in spring 2007 conducted by the Pew Global Attitudes project⁷⁷ I analyzed two sets of attitudes of Russian respondents and compared them with

responses to the same questions by among the American, German, Polish, and Chinese samples. Figures 3 through 9 below present the results.

Figure 3:

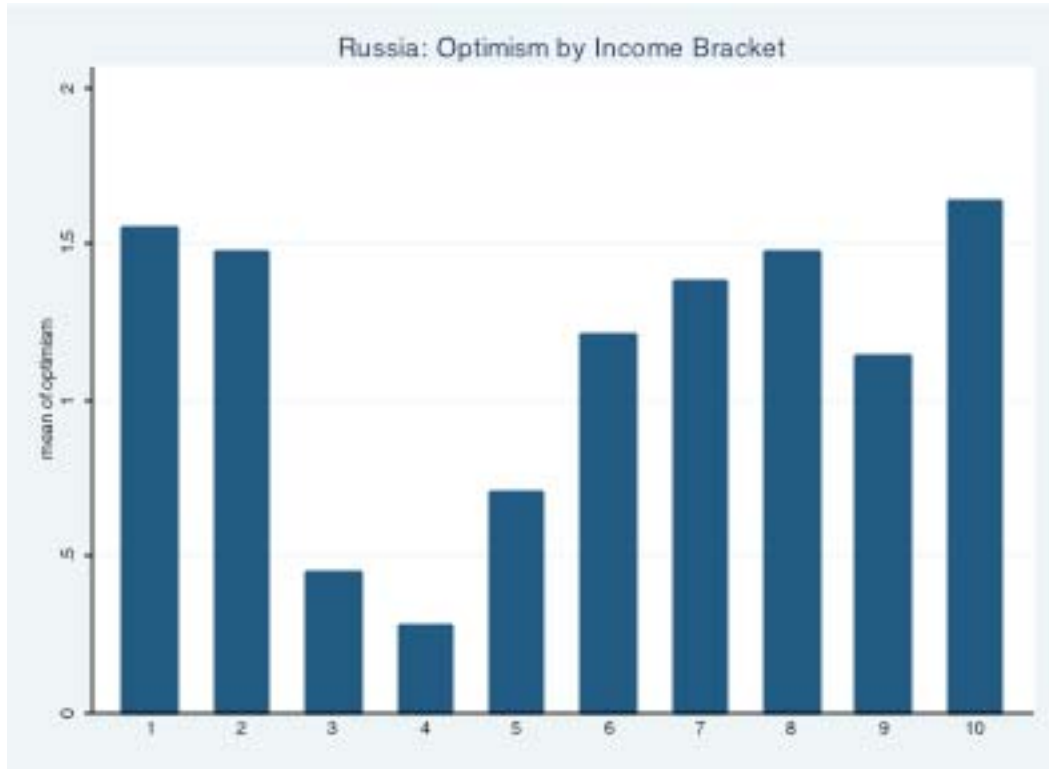


Figure 4:

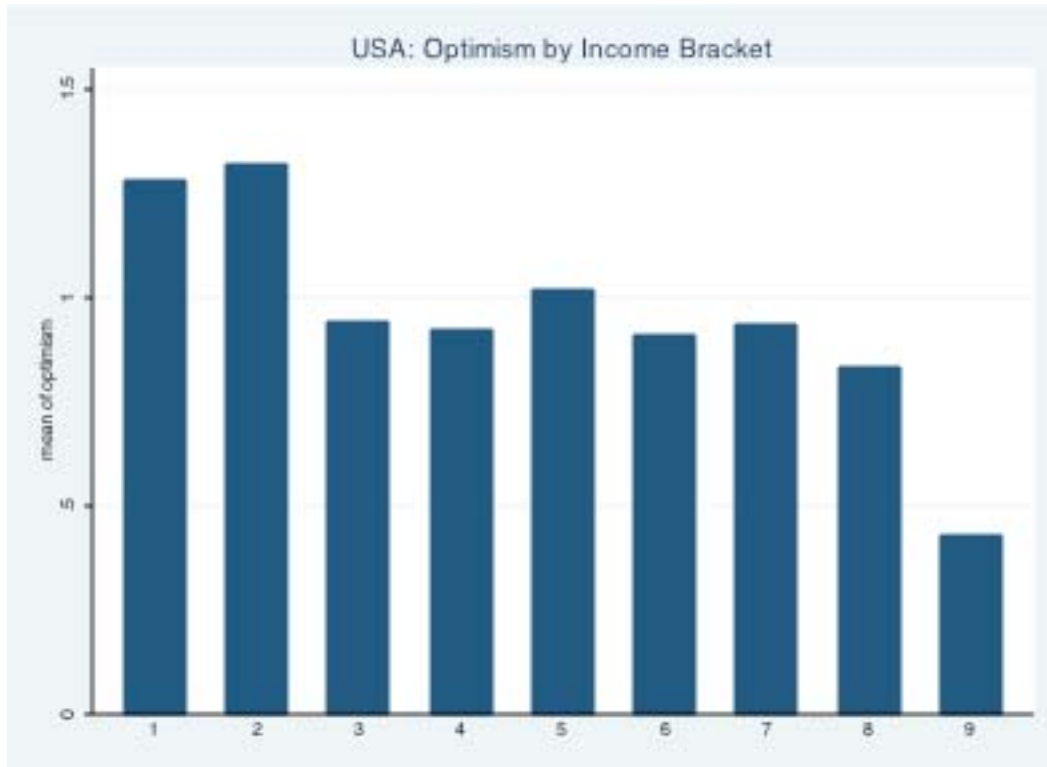


Figure 5:

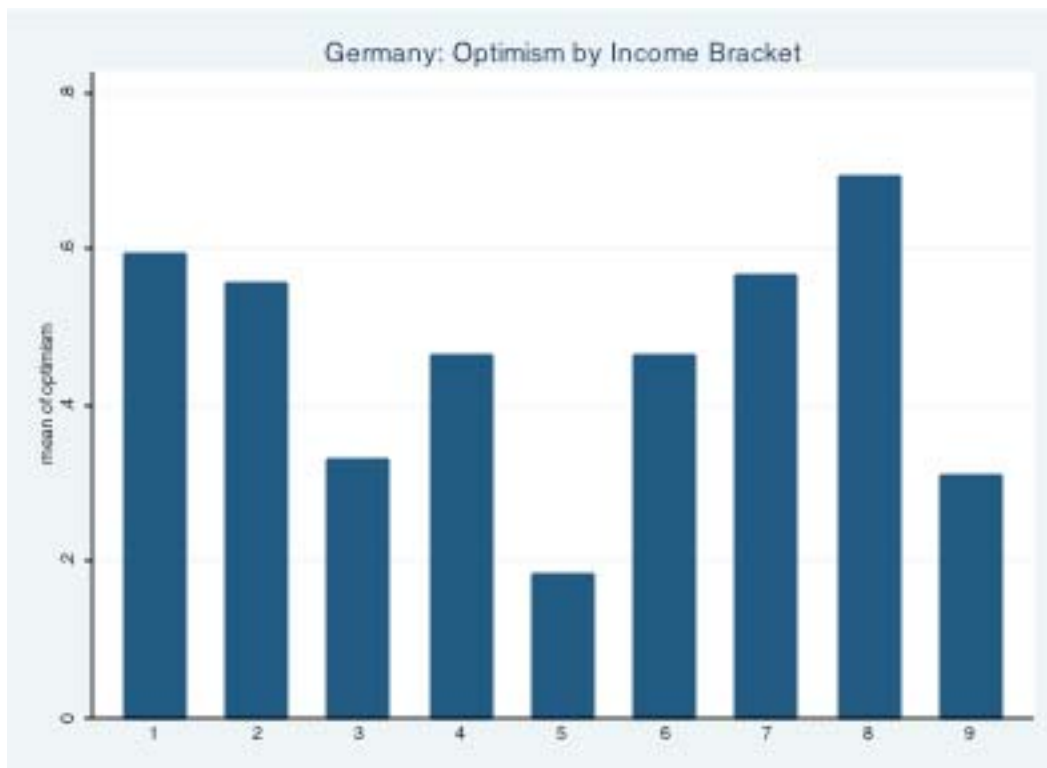


Figure 6:

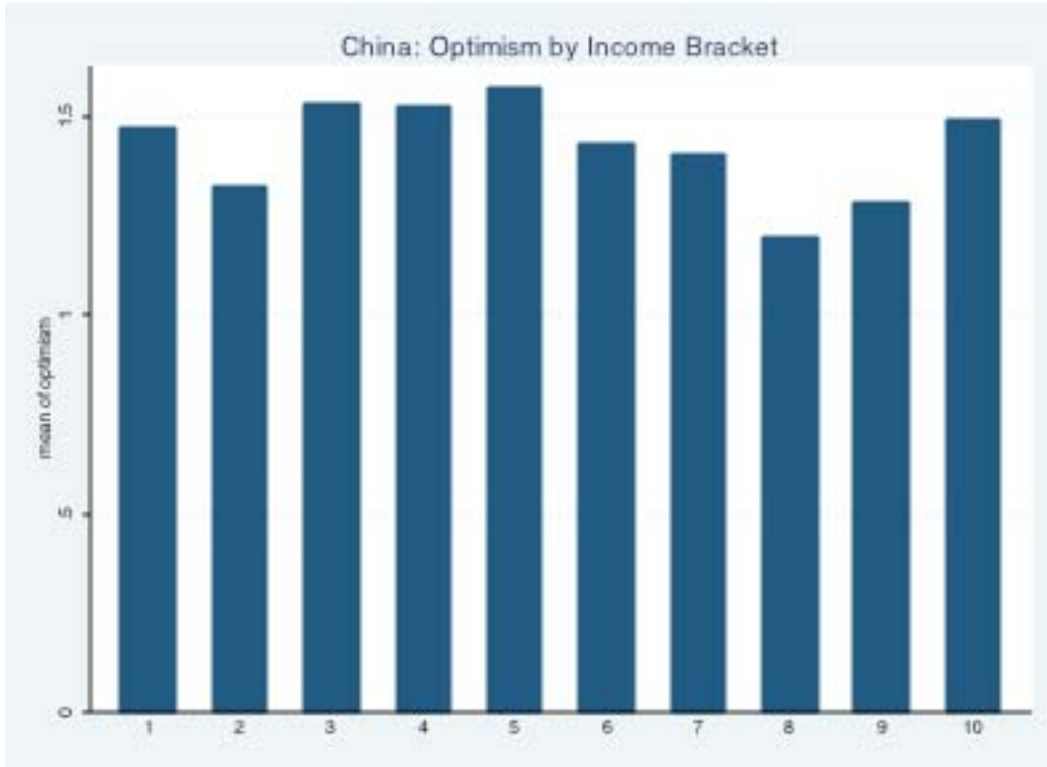


Figure 7:

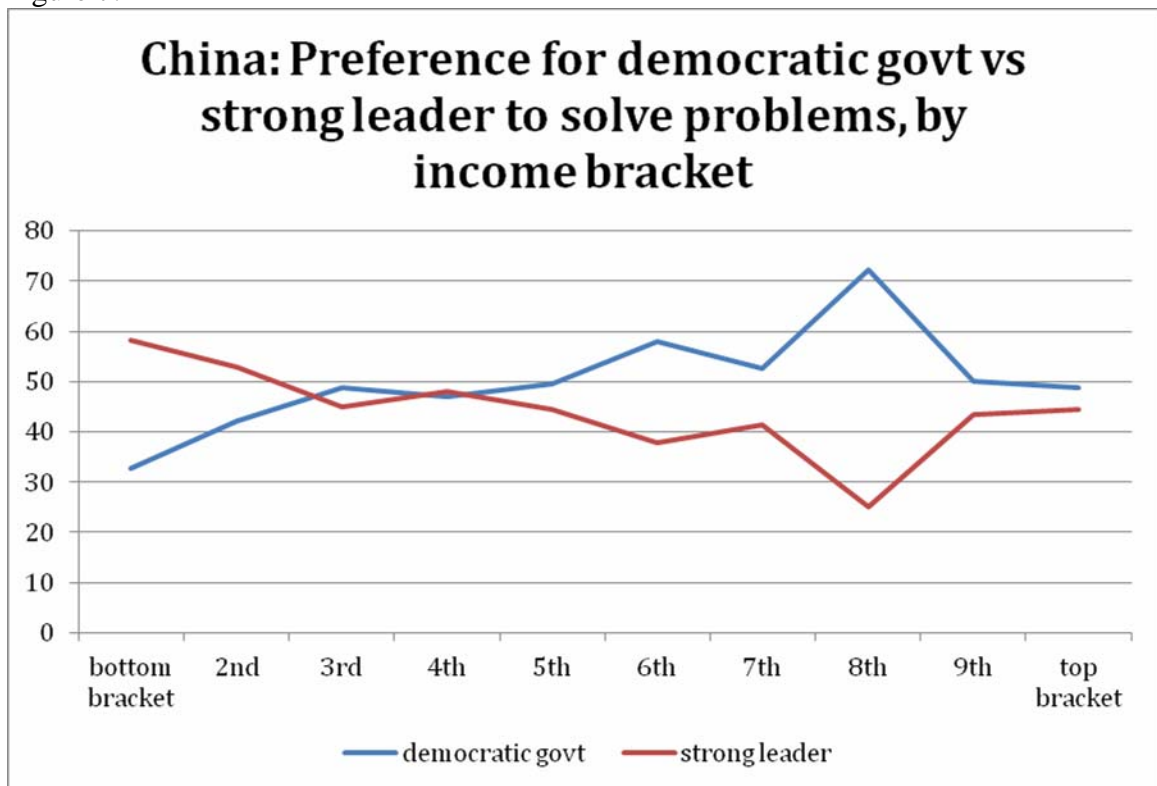


Figure 8:

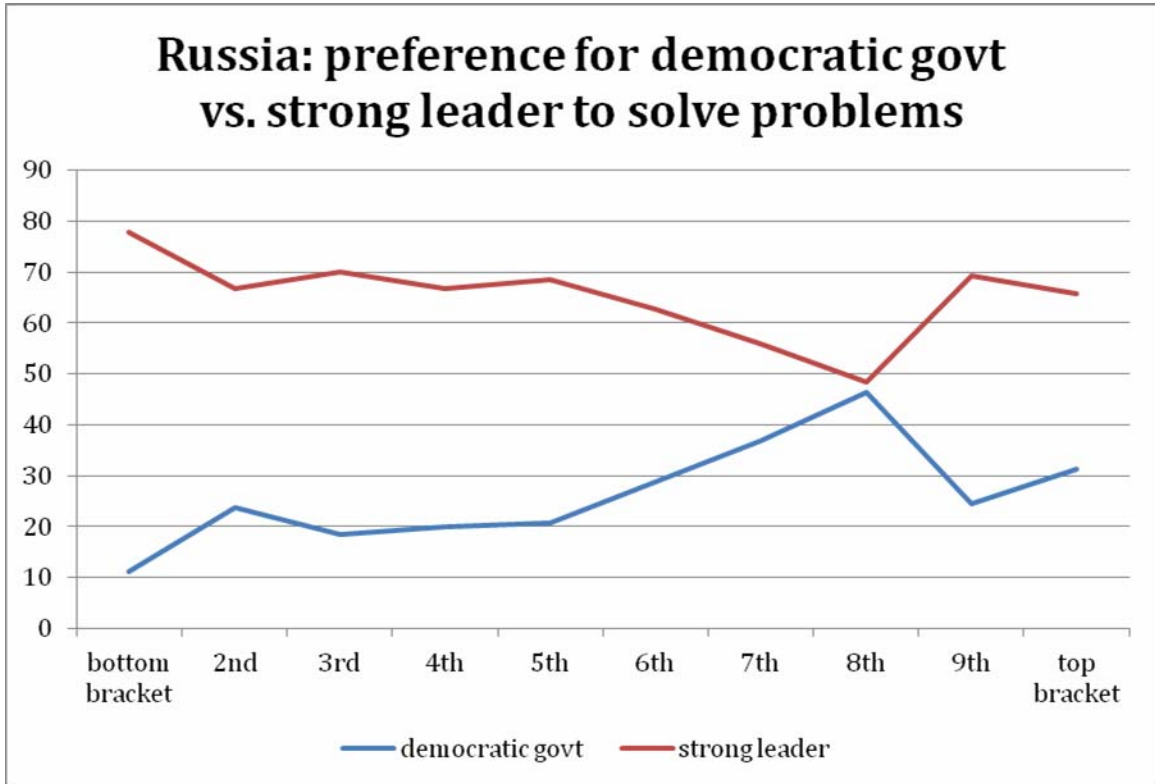
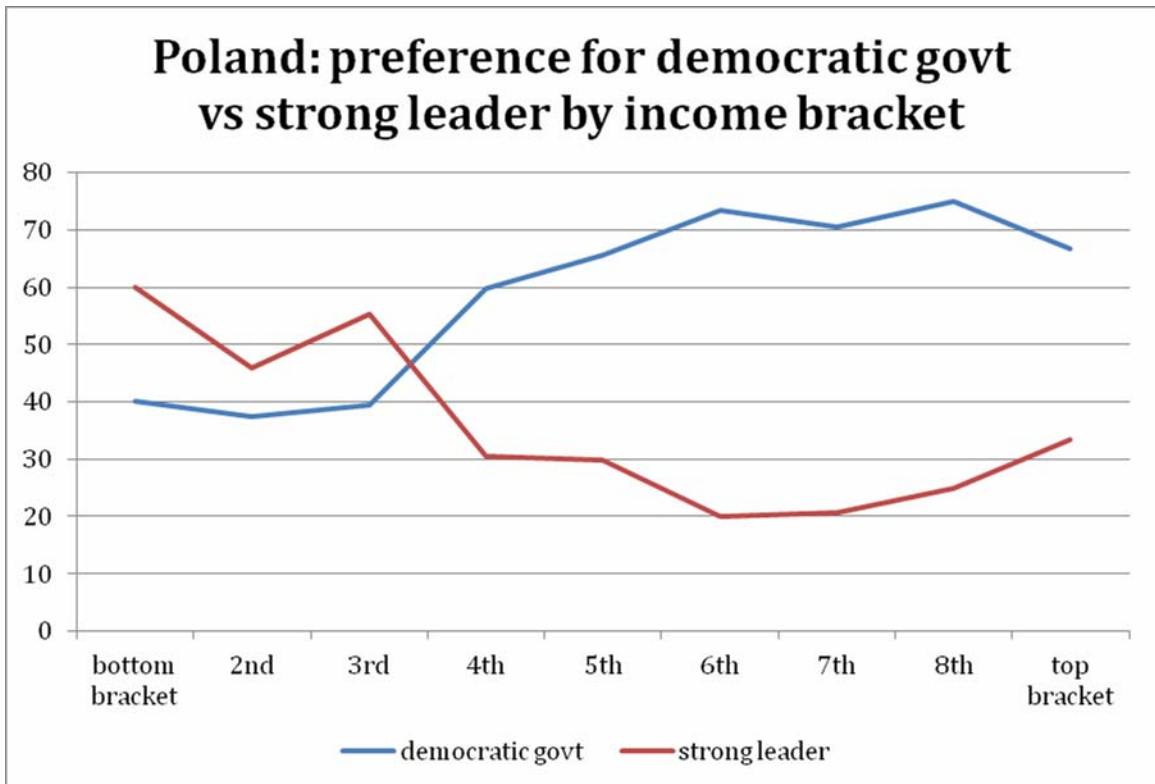


Figure 9:



“Optimism” is measured as the difference between the position on the “ladder of life” that respondents expected to occupy five years hence and the position they said they stood on at present.⁷⁸ Overall, most respondents thought they would be better off in five years than they were now. Figures 3, 4, 5, and 6 break down the expected net improvement in life position by self-ascribed income bracket. German respondents generally foresaw very little change (with those in the middle of the income distribution foreseeing the least change), while Chinese respondents, regardless of income, all expected to be considerably better off (about one and a half rungs higher on the ladder). While Americans in the lowest income brackets were the most optimistic and those at the top end least optimistic, Russians in the middle and upper income brackets tended to be as optimistic as Chinese.

Figures 7, 8, and 9 display the results of another question, this one asking whether the respondents believed that democratic government or a strong leader with a firm hand was likely to be best able to solve the problems of the country.⁷⁹ Again, the results are displayed as the percentage giving each response by income bracket. Among Chinese respondents generally, support for the democratic principle runs about even with the strong leader, but those in the upper-middle income bracket are markedly more sympathetic to democracy. Among Polish respondents, support for the democratic response outpolls the strong leader among all the brackets above the lower middle.

In Russia, preference for the strong leader tends to run well ahead of democracy in almost every income bracket. But, again, the upper middle bracket appears to be most sympathetic to democracy, while the wealthiest segments are about as favorable to the strong leader alternative as are the poorest brackets. These results give some small degree of support to the proposition that, compared with both the poor and the wealthiest strata, middle class strata may be

characterized both by a greater sense of agency over their own lives and support for democratic government.

The Recession and the Middle Class

By all accounts the recession that began in 2008 hurt the groups that constitute the middle class much as it hurt both low-income and high-income groups. Using its consumption-based definition of the middle class--i.e., those who can afford to buy a car or an apartment are considered to qualify--the researchers for Rosgosstrakh found a significant drop over the 12 months from October 2008 to October 2009, from 15% of the population to 11%.⁸⁰ Another survey by a private market research firm found that the number of households that could afford to buy an apartment with a bank loan fell from 27% to 10% in a matter of several months.⁸¹

As incomes at the top of the distribution leveled off or fell, inequality stopped rising for the first time in many years. Average real incomes fell in late 2008 and 2009, so that real money income was 6.7% lower in January 2009 than January 2008.⁸² As incomes fell, interest rates rose and purchases of durable goods plummeted. The savings rate fell from 72% in February 2008 to 68% in February 2009.⁸³

Small business was hurt, partly because of the sharp decline in aggregate demand and also because of tightening credit. The head of OPORA (the All-Russian Public Organization of Small and Medium Entrepreneurship), Sergei Borisov, reported in September 2009 that before the crisis about 36% of small businesses used bank credits but that interest rates had risen and many small businesses were forced to close (some 100,000 had closed in 2008, another 25,000 in 2009).⁸⁴ As inflation continued, real earnings fell, some in absolute terms, many more in real terms.

A survey of 185 firms in several sectors in early 2009 found that the biggest drops in earnings were in the sectors that had seen the greatest increases in recent years, such as finance (from an average of 285,000 rubles per month for the head of a financial institution down to below 230,000 between February 2008 and February 2009), retail trade (down 40% on average), and information technology and telecommunications (down 30%). In firms where compensation levels were rising, the increases came at the expense of lay-offs.⁸⁵ At the same time, pay increases in the budget sector and the levels of state pensions were keeping the incomes of lower-paid strata steady or slightly higher. Overall, therefore, the effect of the recession was to halt, at least temporarily, the rise in income inequality that has been marked over the 2000s--at least in officially reported incomes.

Yet other consequences of the recession give us reason to question how well official figures are capturing real trends in wages and incomes. This is because, at least according to some reports, the recession prompted a return of some of the informality that had characterized the Soviet economy and had remained prevalent into the 1990s. Informality takes many forms, including practices such as paying a portion of earnings “under the table” (“*v konverte*”) or in other forms, such as special bonuses.

In the Soviet economy, informality was manifest in the common practice of dividing wages into the regular wages owed according to the national wage scale (the *setka*) and another portion consisting of special supplements (*nadbavki*). For many individuals supplements comprised as much as half of total earnings.⁸⁶ The reason that informality is significant to the issue of inequality is that there is considerable circumstantial evidence that informality exacerbates inequality of earnings and (because much of the stream of informal income is neither reported nor taxed) still more to total income inequality.

For example, Shkaratan reports that over a third of pay bonuses (*pribavki*) go to the 10% top-paid individuals, while the lowest-paid 10% get only 1.5% of the total.⁸⁷ As money flees into the shadow economy, prices continue to rise but the provision of public goods is squeezed.⁸⁸ There is therefore some reason to suppose that as incomes begin rising again due to the recovery in world energy and commodity prices, there will not be commensurate growth in the size or security of the middle class.

Institutional Drift: Income Inequality, Social Welfare, and the Middle Class

We have surveyed evidence from Russian studies of the trends in the development of the Russian middle class in the post-Soviet period. The middle class is an elusive target; its size and shape shift depending on how it is conceptualized and measured, to the point that there is substantial doubt as to whether there is any single social group that merits to be classified as a middle class at all or whether instead we should be looking for indications of orientations and behaviors that can be compared with those of middle classes elsewhere. Whether it is treated as a meaningful label for a set of groups characterized by a certain level of social status in one or more status hierarchies, or as one or perhaps two distinctive and relatively cohesive groups of actors, or as a bundle of aspirations and values, it appears clear that several features of the institutional inheritance of the Soviet system inhibit formation of the kind of confident, chrematistic and civic-minded bourgeoisie that the Russian leadership declares desirable. Its development appears to be arrested despite the stated goals of the Russian leadership.

The Soviet legacy of social welfare institutions leaves the system of social security closely intertwined still with employment. It is still through the workplace that many people receive their housing, access to health care, pension rights and other benefits, not to mention the

cash wages and supplements that come in unreported forms. Those in the private sector are often outside the state social benefits system and depend entirely on the cash economy of the marketplace to provide them for themselves, family members, and employees; often this means that they resort to informal transactions to do so.

Almost no one expects that either state pensions or private savings will secure them a dignified existence in retirement. Therefore most people expect to continue working into retirement. The lack of opportunity to secure their own futures outside of employment in the state sector is one several factors inhibiting the growth of a private sector that would complement the state social security system and encourage individuals to invest in human capital formation and other future-oriented strategies without fear of losing everything if they change employment.

The continuing insecurity that is the legacy of a state-based system of monetary and non-monetary compensation and social benefits also inhibits collective action. The fact that Russian workers tend not to mobilize for collective action except when it is in the interest of political elites to mobilize them has been well-documented.⁸⁹ But the same point applies as well to middle class strata. A consistent theme in the empirical work done on the middle class is the unwillingness to organize or even to participate in associations--to condemn those that do exist as "*nomenklaturnye*."

To be sure there are movements of individuals protecting their status as consumers, such as the numerous associations of automobile owners. But the unwillingness of middle income groups to form and join associations in defense of their common interests cannot be ascribed to the dead hand of cultural incivism inherited from the Soviet period. There are far too many other types of organizations that have sprung up to defend other collective interests to put much stock in purely cultural explanations. Rather, it seems likely that the lack of security inhibits collective

action. Instead of investing time and energy in civic movements, many whom we would call members of the middle class rely either on ties to the state sector or on informal (or illegal) practices to secure their private interests. A more effective system of state-plus-private social security (retirement savings vehicles, educational and training institutions, national health insurance schemes) would tend to encourage collective action by groups that have been shy about engaging in it.

The high level of inequality in the labor market also contributes to the low level of collective capacity on the part of middle class groups because it starves the public sector of the resources needed to build robust institutions of social protection. Those at the top of the income pyramid benefit enormously from the flat 13% income tax and enjoy disproportionate political influence.

A recent legislative episode illustrates the point (and suggests once again how similar the US and Russia are in the concentrated political power they grant the wealthiest strata). The United Russia Party came out against consideration (not just passage, but even debate) of a bill that would have instituted a tax on the purchase of luxury goods (the Spravedlivaia Rossiia, Communist, and Liberal Democratic parties all supported it). United Russia argued that the bill would hurt middle class but leave rich unaffected. UR refused to vote on the bill when it came up in 1st reading in May 2010.⁹⁰ It was telling that United Russia claimed to defend the middle class by shielding those wealthy groups whose luxury purchases would have netted the highest tax payments.

Therefore there is a great deal of merit to the argument made by Shkaratan and others that Russian social stratification remains heavily influenced by the marriage of power and property that was cemented by the Soviet regime and remains dominant still. We need to go further,

however, in explaining the distinctive behavioral patterns that sociologists have documented. This has to do with “institutional drift,” the continuing reliance on state workplace paternalism instead of other institutions that could guarantee security, and the incomplete transition to a fully capitalist system of social welfare.

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- ¹³ Graph based on figures from Table A-1, US Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States, 2009*, September 2010, P60-238., p. 33.
- ¹⁴ Beginning with the Meltzer-Richard model of the political economy of tax rate policy, economists’ approaches have emphasized the potential for stronger political pressure for redistributive policy the more that mean income exceeds median income. Allan H. Meltzer and Scott F. Richard, “A Rational Theory of the Size of Government,” *Journal of Political Economy* 89:5 (1981): 914-927; Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy*. (Cambridge: Cambridge University Press, 2006); Carles Boix, *Democracy and Redistribution*. (Cambridge: Cambridge University Press, 2003).

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