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World financial crisis undercuts Russia's economic boom

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The development of the world financial crisis over the last two months has revealed the immense impact of shifts in world markets on Russia's economy. The crisis has shaken the confidence of Kremlin leaders, who had come to believe that Russia was not only recovering from the devastation and chaos of the post-Soviet years, but had even achieved something approaching economic invulnerability.

At the same time, the crisis has revealed the class nature of the new Russian government. The leading bureaucratic and oligarchic clans that control the key sectors of the economy have shown their determination to devote the state's resources to saving themselves, without any consideration of the social consequence for tens of millions of working people. No significant relief is being provided to the broad layers of the population on whose shoulders the burden of the crisis will be placed.

The Kremlin's initial reaction to the developing financial crisis was characterised by nationalistic self-satisfaction and complacency. The regime's representatives proceeded from the premise that, thanks to the enormous revenues accumulated as a result of high prices for Russian oil, gas and other raw material exports, Russia was not threatened by the financial crisis that was sparked by the collapse of the housing and credit bubbles in the US.

As recently as September, statements were being made to the effect that precisely because of the financial shocks, Russia would be able to significantly strengthen its role in the world economy. Russia would serve as a "safe haven" for global investors and offer itself as one of the leading worldwide financial centers.

Even when the Russian stock market lost one fifth of its value on September 16-17, there were no signs of serious concern on the part of the Russian authorities. They announced large-scale measures to support the banking system and evidently felt that the problem was thereby solved.

But it soon became clear that their calculations, along with the Russian economy, were built on sand.

Neither the announcement of unprecedented state aid to the banks, in the amount of 1.5 trillion rubles (US$60 billion), nor statements by the Ministry of Finance and the Bank of Russia that they were prepared to pour up to 3 trillion rubles into the financial system were sufficient to halt the fall in stock indexes. In the space of about six weeks, they fell to the level of 1997, so that by the end of October all of the economic "achievements" of the presidency of Vladimir Putin had been wiped out.

On October 27, Bloomberg published a comparative analysis of the fall on stock markets in 48 of the leading developed and developing countries since the beginning of this year. Russia turned up at the very bottom of the list: Its stock market contracted by a factor of four, losing 73 percent of capitalisation since the peak achieved in May 2008.

The scale of the outflow of capital and the speed with which the nation's gold reserves began to disappear meant that the government's "stabilisation fund" could be exhausted towards the end of winter or beginning of spring.

Over the last four months, the ruble has been devalued by 15 percent in relation to the dollar. In August and September alone, more than US$30 billion was taken out of the country. The gold and currency reserves have declined from almost US$600 billion in early August to US$487 billion in early November—that is, by more than US$100 billion. In October alone, they shrank by US$71.47 billion.

Despite reassuring statements by the authorities, Russia's citizens have begun to withdraw their savings from the banks. In September, they removed 180 billion rubles (around US$7 billion) from their accounts in private banks. Some of this money has been deposited in state banks, which are considered more reliable because of direct budgetary support, but about half of these resources have been turned into cash and are being hoarded.

In October, the volume of deposits declined even more. At some private banks, according to data from Citibank officials based in Moscow, up to 30 percent has been removed. In addition, Russia's inhabitants have transferred rubles into dollars in their accounts in the amount of almost US$3.5 billion.

The tone used in addressing these problems in the mass media has changed noticeably. Signs of complacency have been replaced with expressions of nervousness and dismay. Thus, on October 7, the day after a big drop on the stock market, the newspaper Izvestia, a de facto official Kremlin source, wrote: "Yesterday what collapsed on the stock exchanges was not only the indexes, but the belief that the world financial crisis would 'pass by' our trading centers."

Alexander Lifshits is a former minister of finance under Yeltsin who now occupies a leading post in one of the oligarchs' organisations. On October 22, in his column in Izvestia, Lifshits wrote: "The global crisis has now drawn close to our industry. It is already pounding against it. And it is doing so painfully. It is striking from two directions at once. The first is financial, the second is the markets."

He continued: "…The crisis from beyond the oceans has dragged our stock market down. Then the banks followed. Along with their credits. The financial river has become much more shallow before our very eyes. This threatens to halt our entire economic ship."

At the beginning of November, the stock indexes stabilised somewhat. However, after six consecutive days of gains, on November 6, they fell once again: The index of the RTS fell by 6.3 percent to 777, and the MMVB fell by 9.62 percent to 700 points. November 7 witnessed another decline.

The financial crisis was identified as one of the primary reasons for moving the date of recently elected Russian President Dimitri Medvedev's speech before both houses of parliament. Initially scheduled to take place on October 23, the speech occurred on

November 5. Although as a whole, Medvedev maintained an optimistic tone in his address, one could detect in the remarks irritation over the fact that if the shocks on world financial markets continue, the Kremlin cannot feel secure.

Reproaching Washington for the crisis, Medvedev said, “I think the idea, which emerged after the collapse of the Soviet Union, that individual opinion is the only valid and uncontestable [opinion] led US authorities to a massive miscalculation in the economic sphere. Inflating a monetary bubble for the stimulation of private growth, they not only made it more difficult to coordinate their own decisions with other participants in the global market, but they also ignored an elementary sense of moderation. In addition, they ignored the numerous warnings of their partners (including, for that matter, ours). As a result, they damaged themselves and others.”

However, it is not difficult to demonstrate that the Russian authorities encouraged the actions of the American government in the financial sphere and took pride in the fact that a meaningful portion of the global financial speculation occurred on the Russian market.

Thus, on February 14, then-President Vladimir Putin joyously declared, “The net influx of private capital in the Russian Federation last year was $82.3 billion, two times greater than it was in 2006—two times!… The stock index increased by 20 percent, which is slightly less than last year, although last year was, in general, a record. And overall, Russia’s stock market is growing at a record rate: 20 percent—not a bad figure.”

What is this but boastful approval of the results of “the inflation of the monetary bubble” in America? This in itself reveals the hypocrisy of the Kremlin’s current reproach of the US and the global capitalist financial system.

Over the course of September and October, the government was forced to announce a series of new measures to save Russian industry and the banking system. The head of the Chamber of Accounts, Sergei Stepashin, estimates the government’s package of bailout measures at more than 4 trillion rubles (US$150 billion). According to other estimates, the overall size of the promised state support for banks and corporations is 6 trillion rubles (US$220 billion), or more than 13 percent of gross domestic product (GDP).

Of this total, the government dispersed 1.5 trillion rubles as bank deposits, 950 billion in the form of 10-year credits to the banks, 700 billion rubles in non-taxable credit from the central bank, 175 billion for the purchase of stocks of large companies on the free market, and 75 billion to the AIZhK fund to support mortgage-backed credit.

Despite this, according to the prognosis of the Ministry of Economic Development published at the beginning of November, the rate of growth of the Russian economy could fall from 9.5 percent to 6.5 percent in the fourth quarter, and GDP growth could decline to 7.3 percent as compared to 8.1 percent in 2007. Inflation is expected to be around 15 to 18 percent.

The problem is intensified by the fact that Russian banks and companies took on enormous debts on world markets, reaching up to US$450 billion. By the end of this year alone, US$50 billion has to be repaid.

The bailout plan announced by the Russian government at the end of this week entails centralised state support of whole sectors: airline companies, building and development firms, oil and other exporters, machine building, organisations of the industrial-trade complex, and agriculture.

According to the opinion of Nezavisimaia Gazeta, published on October 24, “Russian industry might lose up to one-third of small- and medium-size enterprises, while those that survive will be forced to cut production.”

A survey of Russian companies conducted by VTB Evropa revealed that in October the number of new orders sharply declined, in what appears to be a precursor to a decrease in the volume of production. Activity in the industrial sector in October fell for the third month in a row. If this tendency develops further, the present decline in industry could turn into a full-scale industrial slump.

Companies are reacting to the worsening situation with cuts in production, the lowering of wages, and layoffs. Significant staff reductions are occurring in finance companies. In the consumer sector, the X5 Retail Group, which is the largest in Russia and includes Piatiorochka and Perekriostok (large grocery chains), announced 1,000 layoffs.

Grigorii Kulikov, a representative of Miel’-Nedvizhimost, believes that stagnation on property markets could slash the number of real estate companies by one-third.

In the auto industry, KamAZ is planning a 10 percent cut in personnel, while the heads of the Gorkii auto factory decided to cease production of the Volga, the most prestigious car model of the Soviet period.

Top companies are reporting a possible 20 to 30 percent reduction in production for next year. Recently, the Magnitogorsk metallurgical factory reported plans for a decrease in production and the layoffs of employees.

According to experts, in 2009 the unemployment rate in Russia could double. In addition, utility rates are expected to rise significantly—by 25 to 30 percent.

All of this signifies a fundamental worsening in the socio-economic conditions of the broad mass of the population. At the same time that the government is directing billions of dollars towards the bailout of the oligarchic-bureaucratic institutions of the economy, it has no desire to aid ordinary people. Of all the various bailout measures, only one—an increase in the government guarantee of private bank deposits from 100,000 to 700,000 rubles—addresses the conditions facing broad social layers.

The strategic goals of the government are revealed in the instructions distributed to the ministers of finance of the regional administrations at the end of October. According to this document, “in 2009 it is necessary to limit new expenditure commitments, as well as to limit any increase in present commitments, including the raising of the wage fund for workers in the budgetary sphere, for which there is no guaranteed financing.”

This cynical indifference to the fate of the people and purely egoistic class policies in the interests of the “offshore aristocracy” and its corrupt partners in the government are delivering a blow to the carefully cultivated official ideology of the past 10 years, according to which the government, after the “wild 1990s,” made a turn towards ordinary individuals.

In reality, the development of the crisis demonstrates in the most graphic manner the role of the Kremlin authorities as instruments of the ruling elite—the oligarchy, the bureaucracy and the Siloviki (security apparatus)—whose interests directly conflict with the interests of the working class and society as a whole.

This reality will cut a path to the consciousness of wide layers of the Russian working class. Already, they are beginning to react differently to the economic problems of the new Russian capitalism. According to a survey carried out by the sociological center VTsIOM, around 79 percent of those surveyed think that government regulation of prices would help. Fifty-eight percent support the nationalisation of large enterprises. Half of the respondents think that the nationalisation of the banks would be positive.

According to VTsIOM, just 5 years ago there were notably fewer proponents of nationalisation and a reexamination of the results of privatisation. In 2003, less than half of those surveyed (48 percent) responded positively to a question about the public benefit of a reexamination of privatisation.

Almost 20 years have passed since the fall of the Soviet Union. Post-Soviet capitalism has proven unable to create a foundation for a development of the country in the interests of the broad mass of the population, and not simply a narrow group of semi-criminal businessmen. After the period of "fertile years," the Putin era of Russian capitalism has entered a crisis to which it will respond with ruthless attacks on the living standards and rights of the workers. Its parasitism is laying the basis for the reemergence in Russia of open class conflict.

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