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Russia

Russia in Crisis: the Agonies of the Oil Empire

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Everyone understands that the coming year will see Russia immersed in an economic crisis, one which will almost inevitably entail a social and political crisis. It was already over a year ago that Vladimir Putin, while taking part in his favorite genre of television, “direct association with the people,” assured viewers that the crisis was a matter of temporary difficulties which would be successfully overcome within a year or two. These assertions are not simply a propagandist’s device, but a reflection of deeply-rooted elements of the consciousness of Russia’s ruling elite, accustomed as they are to switching out strategy for tactics and reacting to challenges as they arise. This consciousness is the result of an unbroken decade of increase in oil prices during which the entire domestic economy was tightly bound to the export of natural resources.

The windfall from oil sales both created the sense that Russia’s foreign policy muscle was strengthening and guaranteed a constant rise in state spending. The army, the bureaucratic apparatus and the murky system of government procurements received the bulk of this beneficence. Nevertheless, the growth in spending in the social sphere was seen as more of a residual effect, and education and medicine have always been regarded as the first things to sacrifice when money is short.

The years of oil prosperity fostered the growth of an ugly social model in which the inflation of energy resource prices on speculation compensated for the decline of production, a phenomenal level of social inequality, corruption, and increasingly systemic authoritarian political power protecting the interests of the elite. Vladimir Putin’s popularity rested (and, for now, still rests) on this uncertain foundation. Key to this popularity was the widespread notion that because of his ruthlessness, Putin is the one person who is capable of guaranteeing “stability,” an enduring trajectory of national growth protected from any risk of shake-ups.

The most valuable insight here for the majority of Russia’s residents is that “Putinist stability” is now most definitely a thing of the past, and that the Russian elite has no backup plan for redeeming the situation. By last year it had already become clear that the government’s anti-crisis politics boils down to a local variety of austerity outdoing even the current politics of EU governments in its ruthlessness. It consists of sharply reduced social spending, forced pension reform (a proposed increase in the retirement age to 65), the refusal on principle to index salaries to the rate of inflation (12.9% last year) and more taxes and fees collected from the population. The weakening of the ruble, restrained with the help of currency reserves introduced onto the market and increased interests rates at the Central Bank, made loans inaccessible to small- and medium-sized business and contributed further to the economy’s collapse.

The state budget for 2016, in accordance with this crisis, is based on calculation that set the median price of oil at \$50 a barrel, but it has already fallen below \$30. Although the government has not yet publicly considered revising it, the Minister of Finance has already recommended that all other departments reduce spending by 10%.

The situation is exacerbated by the current system of revenue distribution between Moscow and the regions, in which all revenue becomes part of the federal budget, only then to be recounted into local budgets. The result is a growing tension between the government and regional authorities, who must bear responsibility for these “austerity measures” before the people. At the same time, in an effort to maintain his popularity, the president publicly demands from them demonstrations of “social commitment,” putting them in an impossible situation.

The sharp decline in government revenues exposes the vulnerability of Putin’s “power verticals,” that is, the complete

political dependence of local powers on the center combined with their economic “autonomy” (that is, responsibility for fulfilling budget responsibilities). The political losses incurred from austerity must be shouldered by the federal government headed by Dmitri Medvedev or local governors—anyone but the president, whose popularity should not under any circumstance suffer as a result of a reduction in the quality of life of the people who support him.

The figure of Putin as a “national leader” is the main basis of legitimacy for those in power in the eyes of the majority. The irony of the situation lies in the fact that people trust their president, but they don’t trust the state he represents. In these catastrophic conditions the Putin political machine is preparing for parliamentary elections, which are set to take place in September 2016. Like all previous elections, they will have to conform to the script written by the Kremlin. It currently appears to name “United Russia” as the majority in Parliament, while casting Medvedev as the victim of growing passive dissatisfaction. The “independent” candidates, as well as the kept opposition (including the communists and Zhirinovskiy’s party) will attack the government for its antisocial austerity measures, but the president will remain beyond the reach of critics.

This guiding script may get out of control and provoke a wave of public disturbances (as happened in December 2011, after the previous parliamentary elections). The principal difference today may turn out to be the combination of political protests against an antidemocratic system and social protests against poverty and the government’s neoliberal policies. 2015 saw a serious uptick in local protests in connection with delays in the disbursement of salaries, job cuts and unnecessary new taxes. In December demonstrations by truck drivers indignant at new, extremely high road tolls took place in nearly half of all regions of the country. In some cities, there were protest actions against harsh limitations placed on state medical coverage. On the whole, experts estimate that there have been 409 protests in the past year linked to the violation of workers’ rights (168 of which took the form of work stoppages). That’s 76% more than the average for the period 2008-2013.

The economic crisis along with the regular political cycle (parliamentary elections in 2016 and presidential elections in 2018), will unavoidably provoke and strengthen divisions within the elite. The possible battle lines can already be faintly seen: between Moscow and regional powers; between government finance experts and army lobbyists, who will insist on an increase in the defense budget in the face of “external threat,” and among state corporations, demanding all new subsidies from the state budget to finance their huge debts.

In the attempt to maintain the existing balance of forces, the regime must revisit their foreign policy of the past two years, including the war that is still dragging on in Ukraine, conflict with the west and the developing military engagement in Syria. Moscow is already taking active steps toward the removal of US and EU sanctions. For the first time since the moment that Russia annexed Crimea, direct negotiations over the fate of Donbas began in Kiev in between Ukrainian president Poroshenko and Russian representative Boris Gryzlov (a member of Putin’s inner circle of “friends”). This meeting was followed by an hours-long consultation between the Kremlin’s main “facilitator” of Ukrainian affairs and Assistant US Secretary of State Victoria Nuland. The repeal of the sanctions is necessary for the Russian government, among other reasons to enable large-scale foreign loans to augment depleted national financial resources. Dependence on oil prices could soon be completely replaced by another dependency—this time on international creditors.

All of this means that Russia is on the threshold of serious changes, which in the short term indicate an end to “Putinism” as a system—at least as we have known it during these “fat” years.

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