

Chaos in Russia

Bob Arnot reports on the background to the nationwide protest strike in Russia on 5 November

OVER the course of the last twelve months, if the western media are to be believed, Russia has made huge steps towards democracy, with the completion of presidential and Duma elections. The economy is beginning to stabilise. The monthly rate of inflation is now down to almost zero, and the collapse in production has at last been arrested. If Richard Layard, an academic from LSE and economic adviser to the Russian government, is to be believed in his recent book, then there is to be a boom in Russia!

In fact, recent events have provided yet another twist in the continuing disintegration of the Russian economy and society. Russian democracy, trumpeted as such a great success, has been further exposed as a hollow sham. Yeltsin's election win was only possible because of his massive misuse of state funds, his extravagant promises, his vice-like grip on the media and the odiousness of his neo-Stalinist, anti-semitic, nationalist, Communist Party opponent, Zyuganov. But, as Yeltsin has been increasingly sidelined by his illness, it has proved necessary for the real power that lay behind him to become ever more obvious. The strata of the old ruling elite who have done so well out of the transition process have begun to position themselves for the inevitable demise of Yeltsin. For example, Chubais, who as architect of Russia's privatisation process presided over the grabbing of state assets by sections of the old ruling elite, has now manoeuvred into a position where he can place his own business cronies directly into positions of political power.

The most recent move has been the appointment of Boris Berezovsky as Deputy Secretary of the Security Council, and much has been made of the fact that this was done without Yeltsin's knowledge. If this is the case it simply confirms how far removed Yeltsin has become, but it is largely irrelevant.

Yeltsin, after all, is (was) the populist figurehead of a social group, and his replacement is inevitable at some stage. What Berezovsky represents is precisely that stratum of Russian society that has done well out of the transition process. Berezovsky has become extremely rich from car dealerships, banking, and his media interests, which include newspapers, magazines and television. How he gained control of the privatised public television network (ORT), and how he has used that control, is a particularly instructive example of the development of the new ruling group.

Yeltsin charged Chubais with running the privatisation process. This was supported by western neo-liberal economists who thought that what was being created was the necessary institutional framework for a liberal, democratic capitalism. Chubais restricted access to the sale of shares in the TV company and

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Berezovsky's company LogoVAZ emerged as the majority shareholder. In the presidential election campaign, Berezovsky's control of ORT and Chubais' membership of its board meant that it showed the president in a favourable light while exposing the Stalinist credentials of Zyuganov and reminding Russians of the 1930s, the camps, and the purges. So Yeltsin wins the election but becomes a lame-duck president, and Berezovsky is appointed to the security council.

As a recent *Financial Times* article points out, Berezovsky is one of seven business leaders who, on some estimates, between them control almost 50% of the Russian economy. Interviewed by the *FT*, Berezovsky explained: "Before the elections, business realised that if business is not consolidated — if we are not strong and decisive — we will not have a chance... It is not possible to have this [market] transformation automatically. We need

to use all our power to realise this transformation."

The net result has been a peculiar conjunction between the old *nomenklatura* and the new financial elite, who to a large extent are one and the same, and they are now firmly entrenched in government.

And what is happening in the real economy? Even if the official level of inflation fell to 0.3% in September, the reality for ordinary working people is that price rises for essential goods and services continue. With over 2,000 commercial banks, many in a parlous state and some even of the biggest, like Tveruniversalsbank, collapsing, it is difficult to talk of stabilisation. And then there are the spectacular stories of embezzlement and misuse of funds that are beginning to emerge in the Russian press. For example, US investors have accused Inkombank's administrators of

embezzling \$62 million, alongside misuse of company credit cards, the lavish spending by the ex-prostitute mistress of a vice-president of the bank, and the re-routing of customers' money into private offshore accounts.

The supposed halt in the decline of production simply has not happened. GDP fell 6% in the first half of 1996, and industrial output by 8 or 9%. Output of a

wide variety of industrial goods collapsed even further, with production of trucks down almost 20%, tractors down almost 40%, and combine harvesters down 66%. Light industry declined by a further 20%, and agricultural output also continued to fall.

To satisfy the imperatives of western financial institutions, the Russian Central Bank has continued to control stringently the money outflows. However, the control of the money supply has meant a cash crisis for industrial enterprises which can no longer get credits from government, or indeed payments for government orders which have been completed. So enterprises cannot pay their suppliers. There has been a massive growth in inter-enterprise debt. Wages have not been paid in wide sectors of industry. And enterprises do not pay their taxes; for example, in October 1996, only about 45% of planned taxes will be collected. That in turn means that the government

does not pay teachers, health workers and miners. If workers do not have cash incomes, they cannot purchase goods and services, and the whole cycle of decline is reinforced.

Those that have prospered, the supposed "New Russians", operate in the areas of trade and finance. The export of raw materials and semi-finished products has continued unabated, and that has provided the basis for the importation of western consumer goods for a small proportion of the population. Trade and finance flourish as the real economy and production languish. Russia proves that a restrictive monetary policy can provide apparent stabilisation, but only at the cost of a collapse in production and the immiseration of large sections of the population.

The situation of pensioners is particularly acute. The Gaidar "shock therapy" of early 1992 saw inflation rates reach almost 3,000%, and that effectively destroyed any meagre savings pensioners may have held. Pension increases since then have been inadequate, but, more important, the pension fund is currently owed 40 trillion rubles by enterprises and 13 trillion by the federal government, and so owes pensioners 17 trillion in unpaid pensions. Pensioners' demonstrations and marches are a common occurrence in many Russian towns and cities.

The wage arrears problem is potentially even more explosive. Real incomes for the majority of Russian workers have fallen about 50% since the early 1990s, but by mid-October workers were owed approximately 43 trillion rubles in unpaid wages, and the armed forces another 6 trillion. About 16 to 18 million people, a quarter of the workforce, have not been paid for work they have done. According to *Izvestiia*, a gravestone has been unveiled in the city of Krasnoyarsk inscribed, "Wages, RIP. We Remember You. Date of death October 1995." Some workers in the city have received no wages for 12 months.

The combination of low pay and no pay, and the breakdown of the old structures of social support through the enterprise, has led conferences of labour collectives in a number of rayons and cities in the Kuzbass to establish "Salvation Committees". In an open letter to Chernomyrdin, one such committee argued: "Most families in this city are living in poverty. People are starving without going on hunger strike. They simply do not have any money to buy food. Miners, power industry workers, construction workers, teachers and doctors, not to mention pensioners, are having to fight for their survival."

A brief survey of some of the strikes in October gives an idea of the extent, both geographic and sectoral, of the actions taking place. In early October one million civilian defence sector workers were placed on pre-strike readiness. They are owed around 10 trillion rubles in unpaid wages and have not been paid for three or four months. Workers in the plants that build and dismantle Russian submarines have been picketing the finance ministry, and workers at a military communications production plant in Belgorod not only went on strike but threatened to block the main road to Moscow.

Teachers' strikes and protest actions occurred in almost 2,000 schools on 4 and 7 October, as their wage arrears in some regions now amount to seven months. Employees of the Academy of Science also took strike action in a number of cities and one Institute Director, on the eleventh day of a hunger strike, pointed out that over half the scientific institutes could be closed in the next three or four months if funding for wages was not forthcoming. Engineering workers from the giant Uralsmash plant have set up a picket outside the home of the regional governor of Sverdlovsk to protest wage arrears and new tax laws that might bankrupt the company. Nuclear power workers, medical workers and miners have also been on strike or protested during the month. There have even been reports from a psychiatric hospital that the patients are preparing protest actions because their hospital has received no funds since April of this year. The poverty and desperation has also led to reports of self-immolation, suicides, and even cannibalism.

OVER the first three quarters of this year, Goskomstat reports that nearly 4,000 enterprises have participated in strikes, and that clearly underestimates the number participating in all sorts of protest. The groundswell of protests was at last taken up by the Federation of Independent Trade Unions (FNPR), with a nationwide protest strike on 5 November. At the time of writing, several features are clear from the reports available. Protest actions occurred in more than 50 regions of Russia, and the unions claim more than 15 million people participated. The Ministry of the Interior claims that only 320,000 people participated actively in street demonstrations. About 40,000 marched in Moscow, but in St Petersburg the local TV station reported only 8,000 demonstrators. Participants in the Moscow demonstration

report that not only pensioners, but also considerable numbers of younger people, were involved. Participation has clearly been higher in regions and sectors with a record of strikes in the past. Some of the biggest demonstrations were in Primorsky Krai, in the Russian Far East, where strikes and protests have been particularly sharp since the summer. Union leaders estimate that more than 160,000 people participated in meetings and protest actions. More than 20,000 demonstrated in Vladivostok, and 15,000 in Khabarovsk. In the mining industry it has been estimated that 290 out of 350 pits joined the action.

The government has argued that enterprise directors and regional administrators have caused the wage arrears problem by mismanagement or misuse of funds — but this does not explain why the problem should be so generalised and growing; and they have promised to pay the wage arrears — but that is precisely what they have done on every other occasion when they have been pressed.

Russia is trapped between the political economy of the old system and the ruling group's desire to break through to the market. The transition to some form of capitalism can be achieved only at the expense of the working population. Even given the decline in living standards, that requires further attacks on the position of workers in the enterprises. The wage arrears problem is simply the phenomenal manifestation of the form that the attack has taken. Rather than casting whole sections of the workforce out of jobs, the regime has opted for the apparently easier strategy of non-payment. However, the crunch must eventually come.

The new forces entering government know only too well that workers in the crumbling productive sector can be paid only if taxes are imposed on and collected from the successful trade and finance sectors, something that they will surely resist. That is why Chubais has already begun to argue that bankruptcy and closure of ailing enterprises are the only route forwards.

The demonstrations and strikes on 5 November should not be viewed as the disappointing end to the strike waves of 1995 and early 1996. What they could and should represent is the beginning of a growing struggle against the ruling group. An enormous onus now passes to the FNPR and the nascent left in Russia to begin to think through the strategy and tactics of the coming period. Their responses will not only influence events in Russia, but also resonate throughout the world economy.