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Russia

# Signs of change

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**There is nothing surprising in the fact that the economic revival in Russia which began in late 1998 is now giving way to stagnation. Even when the recovery was only just beginning, independent experts were pretty accurate in their predictions of how long it would last: if Russia's economy was going to develop by inertia, then the factors which brought about the economic upswing would play themselves out in about two to two-and-a-half years. And that's exactly what happened.**

## Economic growth halted

[<https://www.internationalviewpoint.org/IMG/jpg/puitnbush.jpg>]

Bush and PutinThe signs of an imminent downturn were already quite visible in the middle of 2000. Although the macroeconomic situation remained favourable (inflation was averaging no more than 1.5-2.0 percent per month, the money supply was slowly growing, the degree of monetisation of the turnover of goods and services was growing, individual incomes were growing in real terms, and companies' long-term debts were decreasing), there were dangerous symptoms building up in the production sector. There was a downturn in company profitability in almost every branch of the economy. The short-term investment boom -which in any case had not affected all industries - began to drop off. In a number of branches of manufacturing industry, particularly in the consumer sector, investment growth did not simply slow down, but actually started to decline. The decline in profitability and fall in investments were directly linked, because over two-thirds of investment in Russian companies' capital assets comes from their own funds.

At the end of last year, these alarming symptoms were dramatically confirmed. In the last two months of the year, economic industrial growth gave way to a small decline in production. Does this mean that all the opportunities for economic growth have been exhausted, and the Russian economy is heading for another downward spiral in the protracted crisis?

There is no simple answer. Events may take various turns. To understand what realistic prospects for economic growth remain in Russia, we need to examine the reasons for the upswing that has now come to an end.

### **Where did the recovery come from?**

In contrast to the stagnation now looming over us, the economic upswing of the last two years was truly unexpected. The catalyst was the abrupt change in Russia's economic policy in 1998, which external factors necessitated. The growing pyramid of domestic and foreign debt and the inability of the government to resolve this problem through a rational macroeconomic manoeuvre resulted in the financial collapse of August 1998. The fourfold devaluation of the rouble created highly favourable conditions for Russian exports (which were suffering at the time from an unfavourable world market) and adverse conditions for import. As a result, there was an increase in export incomes and economic growth in industries providing import substitution (mainly in consumer products) on the domestic market.

Primakov's government exploited this growth in export income by making it compulsory for exporters to sell all their hard currency proceeds, which enabled the government to stabilize the currency market and secure an increase in tax revenue for the budget.

A second factor was the general rise in world prices for oil and some other primary products, which began in 1999. This did not simply increase the inflow of export income and tax revenue, but also had a strong knock-on effect on the economy. In the fuel and primary industries there was a growing demand for pipelines, drilling equipment, construction equipment and other engineering products. Investment in the oil sector grew at an annual equivalent rate of more than 90 percent.

A third factor - which does not get very much coverage, but which had a major effect on the economic situation in most secondary industries - was the fact that wages were halved in real terms as a result of the August 1998 financial crisis. This considerably reduced companies' production costs, increased profitability and allowed them to increase investment in their capital assets. In addition, this reduction in real incomes was an additional factor governing the shift in consumer demand away from imported products towards domestically produced ones.

## The limits of market growth

This brief review of the factors influencing the economic recovery demonstrates that none of them was of a long-term nature. The world market is now gradually shifting towards a reduction in prices for fuel and primary products. Given the worsening economic conditions in the United States and the prospective depression in European economic activity, the trend towards a reduction in prices for these products will become even more marked. Import substitution in Russia's domestic market has already played itself out. It is not merely that the balance between imported and consumer goods on the domestic market has been restored: in 2000, as real incomes grew, there was a steady increase in the share of imported goods being bought by consumers.

A growth in incomes in real terms naturally creates a general increase in demand on the consumer market. However, this increase in demand mainly affects imported rather than domestically produced products. In addition, a growth in real incomes counteracts the advantages gained by a reduction in labour costs.

All these considerations were quite evident two years ago. In order to ensure long term and stable economic growth, the essential thing should have been to give the recovery an additional boost with some long-range strategies. The key one should have been to embark upon a modernization of the capital assets of the Russian economy.

## The "2003 problem"

This is the name given in Russia to the problem of the serious aging of the capital assets. This was already a problem before the radical market reforms even began. The reforms themselves, which led to a fourfold cut in investment in capital assets, greatly exacerbated this problem. Between 2003 and 2005 a considerable proportion of the capital assets in such sectors as agriculture, energy, pipeline transportation, and the housing and utilities infrastructure will urgently need replacing. The winter of 2000-2001 has seen major failures in the heating supply system, gas leaks and explosions, and prolonged power cuts in a number of regions; these were only the first warning signs of the impending problem.

Russia must face the fact that it has no option but to implement a massive overhaul of the capital assets in almost every branch of the national economy. However, even the growth in investment which accompanied the economic recovery of 1999-2000 was not nearly enough to redeem the situation in any meaningful way. The government's current economic policy simply ignores this problem. Officials responsible for the economy continue to speak smugly of an economic upturn. And even when the problem is acknowledged - as with electricity - hopes for a solution are

pinned on a market-based restructuring which is supposed to secure an influx of foreign investment on its own. For some reason the dismal results of the market-based restructuring of energy in California have not put our reformers off.

However, the secret to ensuring long-term economic growth lies precisely in resolving the problem of overhauling the capital assets. This is an extremely tough challenge, because the country is still suffering from a major lack of investment (both in terms of money and ideas). Mobilizing investment is of defining importance for the economy, because only a broad-scale modernization of the capital assets is capable of creating a rising domestic market for the manufacturing industry in the long term, and at the same time ensuring that Russian products become increasingly competitive.

## A year wasted

The Putin administration which came to power in early 2000 has done nothing in the last year - not only in terms of developing a strategy capable of providing for an overhaul of the capital assets, but also in terms of eliminating those economic threats which are visible today. This is universally recognized, and the influential business magazine *Expert* writes about this quite openly. But does this mean that the worst case scenario has been realized?

There are serious grounds for doubting that things would have changed for the better even had the Putin administration and the Kasyanov government adopted a more proactive approach. The government's and the president's existing draft solutions for a whole range of serious economic development problems (restructuring transport and energy, reforming the pension system and the housing and utilities infrastructure, and reforming education) are based on inertia and the single-minded liberal approaches which have already brought Russia seven years of harsh economic crisis. Applying them to the current situation would mean that instead of stagnation or weak, unstable growth, the country would be subjected to a new edition of the crisis.

All these reform projects have one feature in common. They all imply an increased burden on the end user, be it companies (as customers for electricity or rail services) or ordinary people (who will have to pay more for rail tickets, electricity and education, and make extra contributions to the pension system). Much we are told of the benefits of these reforms in the long run, however, their immediate effect will be a rapid and significant shrink in demand on the domestic market, which will have a depressing effect on the economy and will inevitably bring about a decline.

Engineering a decline is an easy trick - one our government is quite capable of. But the government failed to harvest the fruits of the recovery which caught it unawares, and failed to create the conditions necessary to allow it to allocate resources for an accelerated renewal of the capital assets. It did not even manage to balance the budget, when all tax collecting targets had been more than met. And again, all hopes are being pinned on the idea that the 'market will sort everything out' - all we need is a market-based restructuring of this or that industry, or this or that branch of the economy. The only good news is that neither the president nor the government seem to be in any hurry to implement these solutions.

## It's not all that bad

Are there any favourable prospects for the Russian economy? It is hard to believe so - too many problems have accrued. However, we should not paint too gloomy a picture. There is no crisis looming in the short term. The Russian economy probably faces a slow down in the rate of development, and a period of slight decline. Even the

mounting problems of upgrading equipment in various sectors of the economy will not in itself bring the economy to its knees. However, delaying their solution, in unstable market conditions, is fraught with risks. There is still some time in hand before these risks will pose a direct threat. This time could be used to find solutions.

## Strong authority

Although generally speaking there remains an adherence to democratic values and market freedoms, most Russians lean towards the idea of a strong authority capable of reviving Russia as a great power (this goal secured most support among respondents - 42.4%), using state intervention in the economy to correct the results of market reforms with a view to achieving greater social justice, and limiting the profits of private capital.

It is this socio-political tendency that determined Vladimir Putin's victory in the presidential elections. Voters saw in him a man capable of strengthening law and order, gearing the economy towards the needs of the ordinary people, and defending Russia's national interests, while at the same time preserving democratic forms of government and the positive results of the market reforms.

There is no need to demonstrate that Putin's ability to meet these demands is in fact very doubtful, and on certain issues totally illusory. The initially effective war against the Chechen guerrillas, which began with Putin's ascendancy to power, eclipsed in voters' minds many other acts of Putin's which went against the mood of the electorate.

However, it is now clear that Putin has a very selective understanding of law and order, that he is even more inclined towards compromise with the West than Yeltsin was, and that his economic policy thus far is geared towards radical liberal ideas. This means that the voters will not see the expected rebirth of Russia from Putin, and he will not even manage to maintain the temporary period of economic growth.

The question is, how long will it be before Russia's voters admit to themselves that they have once again become the victims of unfounded hopes? These hopes may in fact linger on for a very long time, if - as with Yeltsin's re-election in 1996 - the electorate is not offered a convincing, attractive political alternative.

## Where is the labour protest movement?

The Russian labour movement has of late been something of a mystery for political scientists and sociologists. The fact is that wages have more than halved in real terms during the years of market reforms, and even these wages are paid several months late: unemployment has risen to 12 percent in a country which just ten years ago provided almost full employment; enterprises are no longer in a position to provide their workers with most of the social benefits they offered in Soviet times; and the image and prestige of manual labour has fallen as low as it can.

Yet, despite all this, there is no visible activity in the labour and trade union movement. Even in the toughest years of 'shock therapy' (1992-93), the number of strikes actually fell. Moreover, after some increase in industrial action in 1995-97, the number of strikes again decreased. Notably, the vast majority of official strikes are held by teachers demanding that the state pay their salary arrears. In the eight years of reform a labour protest movement has not really taken hold. Yet not so long ago, in 1989-91, the country was rocked by miners' strikes, and the labour movement, which had suddenly made its presence felt after decades of silence, seemed poised to become one of the major factors in the social life of the new Russia. But those same workers, when faced with a dramatic decline in living conditions which has left one-third of Russia's population below the poverty line, have become astonishingly

passive. Why has this happened?

# The reasons for passivity

The low level of strike action in Russia is determined by a whole range of economic and social factors, all of which contribute to a decline in the level of labour protest. First, though workers' visible wages have fallen dramatically, there has not been such a catastrophic fall in consumption. The fall in consumption in real terms has been curbed by the fact that many workers have allotments on which they produce their own food, and by semi-legal and illegal moonlighting.

Second, strike action stands very little chance of success when the economy is in deep crisis and production is falling, and when many enterprises are working to less than a third of their original capacity. Industrial action is more successful in periods of economic growth than in times of crisis.

Third, the strike movement in 1989-91 met with unanimous public sympathy and support, and no resistance from the authorities. Since 1992 all the main media outlets have been unanimous in their condemnation of strikers. Management and the local and federal authorities have resorted to various means of putting pressure on the strikers - from prosecution and dismissal to acts of terrorism.

Fourth, workers have had no experience of organizing themselves in the struggle for their rights. The traditional trade union structures which have survived from Soviet times have gravitated, due to inertia, toward compromise with the authorities at all levels - from factory directors to the federal government; and the new alternative trade unions have turned out to be weak, small in number and prone to internal conflict. There is no tradition of mass demonstrations for solidarity by workers from different professions.

# The labour movement is changing

During 1992-93, protests by hired workers initially took the form of ordinary strikes, which at best brought temporary and partial success, the fruits of which were consumed by the ongoing economic crisis within two or three months. If workers were given a pay rise, any additional money would soon be devalued by inflation. If workers were paid the wages owed them in arrears, the delays would soon begin again. Then protest began to take the form of acts of despair. Workers, medics and teachers began to resort to hunger strikes, and sometimes even protest suicides. But the effect of these actions was equally short lived. Soon the authorities and management stopped paying much attention to their employees' hunger strikes and suicides.

Eventually, in 1996-97, the workers resorted to blocking transport routes, and in 1998 the miners organized a long-term picket in Moscow outside the government building, with political demands. At first these actions had wide repercussions, because they affected the interests of a large number of people (the blockade of the Trans-Siberian railway by miners, for example, which lasted for several days). The authorities were forced to seek a compromise, and management quickly made concessions. But here again, even when they had gained concessions, the workers soon felt that what they had won was slipping through their fingers. And the stance of the authorities soon became much harsher: They resorted to the regular use of force to free up the roads, and began taking legal action against the organizers of the blockades.

So the methods tried by the workers did not bring them any real success. When the economic situation in the country

was getting worse and worse, but the rich were getting richer and richer, these riches could only be growing at the expense of workers' income. If there is a fall in production, profits may be preserved either at the expense of workers' wages, or by selling off the enterprise's fixed assets (which, for the workers, also entails losing their job and their wages). No one was planning to part with their profits.

## The first signs of change

It is only now, in the eighth year of radical market 'reforms', that the first signs of change in the Russian labour movement have begun to appear. As yet there have only been a few illustrations of the working people's new approach to struggle for their rights, and these illustrations do not represent the face of the labour movement. As yet they are merely signs of impending change. Nevertheless, some things are indeed changing.

Above all, the tactic of passive protest against intolerable economic conditions is starting to be transformed into an active struggle to change these conditions - albeit as yet only in individual enterprises. The forms of the struggle are also changing in line with this. To prevent the plundering of assets at their workplace, employees have taken recourse to workers' control, and when they have met resistance from the management and owners of the enterprise, they have resorted to sit-ins. The actions of employees at the Yasnogorsk Engineering Plant in Tula oblast provides an example of the establishment of workers' control. This battle began back in 1998. The workers tried to gain full control of the plant - they practically ousted the old management and held a conference to elect their own directors. However, the courts ruled that the workers' actions were illegal, and the 'worker-directors' were arrested. Nevertheless, the battle did not end there. The workers succeeded in securing the dismissal of the previous director and several members of the previous management. The factory strike committee set up an organ of workers' control - a shipping commission - which monitored the sale of the factory's products. Under pressure from the workers, the management was forced to recognize this workers' initiative, which allowed the workers to block any illicit deals struck to the detriment of the factory or concealed from the accounts.

As for sit-ins, there have been individual cases in Russia before now. Previously, occupying the enterprise was merely a way for the workers to bring production to a halt in the face of resistance from the management, the private security companies they had hired, or local authorities which supported the owners. But the last year or so has seen a growth in the number of cases where the workers assert control of the enterprise not to stop production - production is often brought to a halt anyway through the fault of the new owners - but conversely to ensure that work continues. This is also the aim of workers' control, which may be established without the workers' having to occupy the enterprise. The second factor which has emerged in relation to sit-ins is the growth of sympathy strikes by workers of different enterprises.

## Workforce occupy factory

In Russia only about a dozen enterprises are effectively controlled by the workforce. It is nigh-on to impossible to find any information about them in the 'free' Russian press, but if such information should appear, it is usually reminiscent of the 'negative propaganda' designed to corrupt enemy troops during times of war. The more successful the workers' actions, the more resistance they encounter. The best example of this is the confrontation at the Vyborg Pulp-and-Paper Factory in Sovetskii in Leningrad Oblast. In 1993 the factory was privatised, with numerous violations of the law. Then the new shareholders and management bought the workers out, established almost full control of ownership and sold the factory on. This resale was also accompanied by numerous violations of the law. Suffice to say that the sale price was set at 4.5 times less than the book value of the factory, according to an audit by the Audit Office of the Russian Ministry of Finance. Ownership rights were transferred after a down payment of one-fifth of this

sum. As a result, the new owners paid just 3.8 million dollars for the ownership rights to a factory which it had cost in the region of US\$700 million to renovate in the 1980s, with help from Finland.

The other aspect of this deal was the absence of a genuine owner. The company which formally obtained the ownership rights was a typical 'dummy' company which provided false information. The company describes itself as British, but is not registered in Britain, nor are its owners British citizens. The effective owner was the 'vodka king' of Leningrad Oblast, a Mr. Sabadash. Naturally, they needed a pretext to sell the factory at a reduced price, so a pretext was concocted: In 1995-96, the factory was artificially bankrupted, and was put up for sale in 1997. The new owners announced their intention to retain just one lumber trans-shipment station from the factory. The Leningrad Oblast prosecutor challenged the result of the sale and ordered the suspension of the transfer of ownership rights to the new owners. But effectively the new owners continued to control the mill. At this point, the workforce occupied the factory, put its own guard in place, elected its own director and began to run the place independently.

## Gunfire in Sovetsky

[[https://www.internationalviewpoint.org/IMG/jpg/russia\\_02.jpg](https://www.internationalviewpoint.org/IMG/jpg/russia_02.jpg)]

Why did shots ring out in Sovetsky? The answer is very simple - because the workforce quickly managed to get the factory working. The factory emerged from bankruptcy and became profitable, the workers were given a pay rise and were paid the back-pay owed them, the factory paid its taxes regularly and was in a position to fund social benefits for its workers. These actions were naturally considered unacceptable. On July 9 came the first attempt by a private security company (an unlicensed one at that) to take over the factory. This attempt was resisted by the workers. On the night of October 12-13 a second attempt was made, this time deploying a 'Typhoon' unit - used to put down prison riots - OMON special troops and a private security company. Units of interior ministry troops were on standby. In order to make life more difficult for the factory, the would-be owners managed to force the railways to stop providing wagons for the supply of raw materials and the shipment of finished goods. However, this time too the attack met with organized resistance from the workforce. The unarmed employees (60 percent of whom were women) blockaded the Typhoon unit in the factory management offices. The Typhoon troops, sensing that that battle was not going their way, beat several people up and took them hostage, shutting one woman in the fridge. The Typhoon unit caused untold destruction to the premises they were occupying. When the workforce attempted to enter into negotiations, the Typhoon troops responded by opening fire, wounding two workers. However, the "valiant defenders" of illegally-obtained ownership rights were forced to retreat down a corridor of OMON troops - such was their fear of the workers' wrath. They were perhaps right to be frightened. These workers had reacted so passively to the bankruptcy of the factory in the mid-1990s: They collapsed from hunger in the lines for humanitarian aid, but did not enter into confrontation. But now, having taken the factory into their own hands, they realized that they could make it work, and they had no intention of backing down. 'We will fight to the death', say these people, most of whom completed secondary or higher vocational training.

## The lessons of the conflict

In the aftermath of the carnage at the Vyborg Pulp-and-Paper Factory, there were very different reactions to the conflict from different sections of Russian society. A stream of lies flowed from television screens and the pages of many wide-circulation newspapers: The workers were accused of seizing the property of others; it was they who had bankrupted the factory, they who avoided paying their taxes; they had resisted a legal ruling with weapons in their hands, and they had beaten up the 'rightful owner' of the factory, Mr. Sabadash, who was now in intensive care. None of these reports had any bearing on reality. Izvestia even demanded that tank units be turned on the workers, and that the factory be bombed instead of bombing Chechen terrorists. Such blood-thirstiness was not seen even in the 'democratic public's' calls for reprisals against the Supreme Soviet in October 1993. Journalists from the main



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television channels reiterated the slogans from the presidential elections of 1996 - 'there can be no review of privatisation, otherwise there will be civil war.' Economic crime structures were using likable television presenters to make explicit threats of war against all those who challenged their right to steal and plunder with impunity. There was a different reaction from the workers of St. Petersburg and Leningrad oblast. A collection was set up for the factory's employees, and workers from the Leningrad Metal Factory formed workers' brigades to support the Vyborg workforce. The trade union committee at the Leningrad Metal Factory turned into a sort of headquarters for coordinating demonstrations of solidarity with the Vyborg Pulp-and-Paper Factory. The workers also found support in Moscow: The State Duma passed a resolution defending the actions of the factory's workforce, with only one vote against. An association called 'Academics for Democracy and Socialism' quickly dispatched a representative to the factory, and then with the assistance of a number of Duma deputies organized a press-conference for the representatives of the Vyborg factory.

So how will events unfold? We are facing a paradox. Workers are beginning to stand up and fight not just for their wages, but to maintain production, to ensure that companies operate profitably, and against asset stripping. In response, they are shown the full weight of state power, which defends the rights of 'New Russians' to obtain ownership by circumventing the law, to steal the workers' wages from them and to receive income by decapitalising enterprises.

Who will win? Will other workforces follow the lead of the first people to organize workers' control? Will most of the population trust the political forces that support the workers' struggle? Or will those who dream of a Russian Pinochet win the day? It is too early to give a clear answer to these questions. But one thing is clear - the labour movement in Russia is beginning to change. Only events will show how quickly these changes will take place, whether this first surge will peter out, and whether individual attempts to establish workers' control will remain just that - individual cases. But by an irony of history, if Russia is to produce an effective entrepreneurial class then it is not the 'new Russians' who will be able to fill this role, but organized workers.