

# The Crisis of Neo-Liberal Economics in Russia

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## Introduction

Three decades have passed since the collapse of the Soviet Union. The true socio-economic nature of the late Soviet period and the causes that led to the collapse of the State that emerged as a result of the anti-socialist reforms of the second half of the 1950s are well understood. Socialism did not collapse in the momentous period of 1989-1991, but the revisionist system that no longer functioned as a socialist formation and was ripe with untenable internal socio-economic contradictions. The so-called “market socialism” was established in the second half of the 1950s in the Soviet Union and other former people’s democracies, where the principles of Socialist Marxist-Leninist political economy were subverted and supplanted by right-wing revisionist economic theories. The law of value and the extraction of profit in the narrow sense of the word were elevated to regulate the flow of labour in the economy and the principle of socialist planning was replaced by that of coordination of independent productive units. This was in place of a productive system based on socialist industrialization intended to harness massive resources through socialist extended reproduction and with which to satisfy the growing needs of society. The economic system that emerged as a result of the economic reforms of the 1950s severely undermined heavy industry and with it the growth of labour productivity, which led to economic stagnation, crisis and its ultimate demise.

Market relations compulsively impel the State to liberalize the market. The market relations that fuelled the economic relations in the revisionist period were incompatible with the restrictions inherited from the socialist period, such as full employment and the comprehensive system of social welfare. These needed to be dismantled for market relations to liberalize. In light of the neo-liberal onslaught embodied by Reaganism and Thatcherism, the Gorbachov-Yeltsin clique opted for dismantling the revisionist Soviet State and for dissolving the Soviet Union. A neo-liberal state was to emerge in its place. Such was the intent of the traumatic economic reforms of the 1990s.

The neo-liberal paradigm was forced upon the Russian people, turning the 1990s into a chaotic nightmare for the toiling masses. By the end of this decade horribilis the Russian state declared default. Yeltsin’s regime fell prey to very poor economic performance, the destruction of forces of production, poor labour productivity and systemic contradictions that made the State overly dependent on oil prices. Yeltsin’s anti-communist regime was facing the threat of social revolution, where vast layers of the Russian toiling masses felt disillusioned with the neo-liberal reforms and the rhetoric of Perestroika. Russian capitalism needed a messiah and it found one in Putin. As opposed to his predecessor, Putin made a bet on an authoritarian State with geo-political ambitions. Instead of emphasizing anti-Soviet rhetoric, Putin’s regime has been kind to the Soviet past. Putin views the new Russia as the synthesis of all the accomplishments that the Tsarist Russia and the Soviet Union contributed to History.<sup>1</sup> As such, Putin has to some degree restored a sense of great nationhood based on law and order in conjunction with a vigorous defence of the territorial integrity of Russia and its geo-political aspirations of a great power.

Boosted by high oil prices, Putin managed to alleviate the crisis of the 1990s and to provide a short-lived sense of prosperity in the 2000s. While the position of the toiling masses and its

livelihood by no means improved with respect to the late Soviet period, Putin's regime gained significant popular support at the time. This was in part due to the restoration of some of the Soviet symbolism with which Putin was successful in instilling a sense of social stability and the illusion of State-wide prosperity. During his tenure and, despite the restoration of some of the Soviet symbolism, corporate capitalism engendered by the reforms of the 1990s has been consolidated.<sup>2</sup> Putin's economic agenda remains neo-liberal to its core.

Russian liberals accuse Putin of being a product of the Soviet system. In reality, Putin's authoritarianism and "neo-Sovietism" are tools essential to preserve social stability in the context of Russian capitalism. In fact, as the economic analysis below will shed light, Russia's corporate capitalism has become more powerful in the economic life of the country.

Putin's great-power nationalism and his insistence on retaining geo-political control over certain areas of influence inherited from the USSR have irritated the West. Confrontation in Georgia and most prominently in the Ukraine, leading to the annexation of Crimea, have proven a turning point in his relations with the West. From being a champion of neo-liberalism, as he was hailed in the 2000s, he has turned a pariah. This is not because he has deviated from the economic principles of neo-liberalism. The neo-liberal character of Putin's economics has never wavered. The economic response to the 2014-2015 crisis is stubbornly neo-liberal. The economics of neo-liberalism have been consolidated in Russia in that it has become a dependent economy riddled with widespread de-industrialization and technological backwardness. Putin's Russia has reinforced its status as a source of raw materials that are exchanged for complex goods and means of production. As a result, Russian society is in a state of crisis that is reminiscent of the crisis of the 1990s, in which poverty, low salaries, increasing full-time and part-time unemployment, crumbling social welfare and a growing gap between Moscow and the regions have become endemic.

On multiple occasions Putin has reiterated that he does not have significant ideological differences with the West. We do not think that he ever lied about this, contrary to the propaganda of the Russian liberals. He calls the Western countries and their government partners with whom he shares societal values and the neo-liberal economic vision that has become pervasive in capitalism today. He may have indicated that the Russian ethos is centred around collectivism, as opposed to the West, which is more oriented towards individualism. That said, he does not see in this factor a reason why Russia should not work with his "partners" in the West.

Before the economic crisis of 2014-2015 and the fall-out with the West, Putin's regime had been praised for achieving what neo-liberal economists classify as economic stability. Inflation was brought down significantly;<sup>3</sup> budgets appeared to sustain surpluses combined with low public debt and relatively large reserves in gold and foreign currency. However, as will be seen below, the main characteristics of the Russian economy have not changed fundamentally with respect to the 1990s. As a matter of fact, the economic crisis that ensued in 2014-2015 has been dealt with following the guidelines of the playbook of neo-liberalism: Public spending was reduced as a result of austerity measures, where the most vulnerable segments of the population, such as pensioners, regional budgets and others were left behind and have lost out. As a result, widespread poverty is on the rise in today's Russia.

The neo-liberal economic paradigm impinges on a particular interpretation of economic growth and economic efficiency. The period of 2000-2008 was characterized by relatively larger growth of the GDP, for which Putin's regime was praised by the International Monetary Fund and other stakeholders. However, this apparent growth needs to be interpreted in the context of at least two circumstances:

1. The post-Soviet period of the 1990s under Yeltsin was characterized by rapid privatization and market reforms (typically referred to as shock therapy), destruction of existing economic ties, and dismantling of social welfare, among other radical adjustments. The Russian economy was in disarray, leading to prolonged recession and a sustained reduction in the GDP, economic output and labour productivity. Economic growth following such a dramatic slump in economic activity was not necessarily a reflection of improved economic fundamentals. In fact, as will be shown below, Russian economic output in key areas has never reached the level of 1990 in the entire post-Soviet period. The structure of the Russian economy has not changed intrinsically since Putin took over, where de-industrialization and a steady drop in capital investment remain pervasive.

2. Following the period of 2000-2008, Russia remains a source of oil, gas, minerals and other raw materials for industrialized countries. The structure of the economic development and the character of domestic and international economic ties are overlooked in the economic analysis. This is done intentionally to conceal the true nature of imperialist economics in general, and the subsidiary character of the Russian economy with its inability to address the needs of its population in particular. In this setup the Russian economic landscape is technologically backward, where the apparent growth of the GDP was not due to improvement in labour productivity, but due to other unrelated factors. High prices of oil strongly contributed to a bloated sense of prosperity, however short lived. As a result, following economic sanctions enacted by the West in 2014-2015, the Russian economy has proven significantly more vulnerable than previously anticipated by the regime.

The economic analysis that will be succinctly summarized below will expose the sad reality that the Russian economy today is a by-product of the neo-liberal model that pervaded and continues to dictate Putin's economic policies. It also exposes the unscientific character of the neo-liberal economic analysis. The neo-liberal model pays little attention to the structure of the economy, the problem of industrialization and labour productivity. It gets bogged down in a mess of economic data that it examines superficially with the intent to conceal rampant income inequality, the problem of overproduction, the public and private debt spiral and the surreal aberrations engendered by financial markets and other traits. Neo-liberalism seems content with achieving the so-called "macroeconomic stability" without looking deeper into the structure of the economy. This is natural, as the neo-liberal paradigm is concerned with the conditions of fiscal stability and other factors that enable corporate capital to maximize profits. The neo-liberal economic analysis is short-sighted, and it seems perpetually unable to identify the factors that engender economic crises. It seems unable to predict the advent of economic downturns or their severity.

Putin has been cunningly playing devil's advocate in regard to the structural stumbling blocks of the Russian economy. Vladimir Putin acknowledged in 2012 in an interview published in "Izvestia" on January 30th 2012:

"As a result of spontaneous market transformations, those sectors with more liquidity connected with the export of unprocessed raw materials and semi-processed goods were able to survive. Effectively we underwent massive deindustrialization, where the structure of production lost its qualities and became simplified. From here it follows that our dependence on importing consumer goods, technology and complex production, on fluctuations of prices for export goods – in other words, we depend on factors that are out of our control."

In principle, while superficial, this analysis captures some of the structural characteristics of the Russian economic conundrum that will be dealt with below. It is important to note that these statements were made by Putin a decade after taking office. It is not necessarily to be viewed as a criticism of his predecessor or the reforms of the 1990s. However, one is left to guess as to whether he is suggesting that the transition to the open market economy should have been accomplished differently and whether, if the economic reforms of the 1990s been carried out differently, Russia would not be as dependent on external factors. This statement can also be viewed as the failure of the regime to overcome the structural contradictions that were established in the 1990s and have become endemic since. Putin called for the nation to turn around the economic backwardness that riddles the country. While there is an element of honesty in admitting to the nature of the Russian economy, it is the thesis of this article that the economic recipes that the regime is putting forward to turn the economy around come from the playbook of neo-liberal economics.

In a speech in December 2012 at the Russian Federal Assembly, Putin made a momentous pronouncement in which he declared the economic model based on the export of oil and gas to be obsolete. While this is certainly true, Putin's vision continues along the lines of the Russian liberalism of the 1990s:

"...I am perfectly aware, dear colleagues, of the realities in which we live; I know the calculations and forecasts of the Ministry of Economic Development. And nevertheless, it is important to set and strive to solve this particular problem [dependence on external factors – our note].

"A real change in the structure of the economy, the creation of new industrial sectors and the return of leadership in traditional ones, the development of small and medium-sized businesses are key issues. I am convinced that the centre of the new growth model should be economic freedom, private property and competition, a modern market economy, and not state capitalism."<sup>4</sup>

This narrative is so attached to the neo-liberal paradigm that it seems as if Putin is paraphrasing a modern textbook in economics written by Western scholars. It is very important to underline Putin's assurance in regard to state capitalism in order to better capture the true essence of his economic vision. Indeed the neo-liberal doctrine implies a very well-defined role of the State vis-

a-vis production, where corporative, private monopoly capital and other stakeholders take over that role. The State is relegated to a regulatory role and steps in whenever monopoly capital requires it in order to be subsidized. The State can own securities and attain certain control over state-owned corporations, but these operate as independent entities with a great degree of autonomy. As will be detailed below, Russian corporations, most prominently in the area of oil and gas, operate as transnational corporations in their own right. Putin's assurance needs to be viewed in the context of the neo-liberal doctrine, as opposed to the discussion regarding the distinction between state capitalism and state monopoly capital.<sup>5</sup> Putin's understanding of state capitalism may not necessarily be compared to Marxist notions. However, it can be argued that Putin wants to make his intentions clear in regard to the role of state monopoly capital in his vision. His intention is not to create state monopoly capital, which would resemble the economics of the late Soviet period. Rather, he advocates an economic model of capitalist development in which private monopoly capital is prevalent. In other words, he wants to make clear that he stands for a "Western" type of neo-liberal economics, as opposed to a form of monopoly capitalism driven or heavily regulated by the State. One can further simplify his aspirations: to be accepted as a full member of the G8 and be respected as such.

Needless to say, the so-called economic freedom and competition in a "modern market" economy effectively leads to the dominance of monopoly capital. There is little room for growth of what is usually referred to as small and medium entrepreneurship (SME). Russia is not an exception here, where the economic data related to the SME has underwhelmed experts. As will be seen below, concentration of corporate capital is one of the salient characteristics of the Russian economic landscape.

The neo-liberal doctrine enshrined in the regime's economic policies is essential to understand Putin's place in history and how the Marxist-Leninists and their mass organizations should position themselves in today's Russia.

This article is structured into four sections. The first section will summarize the economic structure of the Russian economy and its evolution from 1990 to the crisis of 2014-2015. Economists typically subdivide this relatively prolonged period of the new economic history of Russia into several periods. These include the economic reforms of the 1990s, the period of relative growth of the GDP in the 2000s until the advent of the financial crisis of 2008. This would be followed by the period leading to the Crimean crisis that prompted the West to impose economic sanctions. During this period the economic structure did not change fundamentally. Therefore, it seems appropriate to provide an exposé of the qualitative picture that has characterized the composition of the Russian economy until the imposition of sanctions. The first section is followed by a brief account of the response of the Russian Government to the economic crisis of 2014-2015. Much has been speculated by the regime that Western sanctions have become an opportunity for the economy to finally attain a degree of independence. Much has been made about a push for innovation and the development of local industries to replace imports. The regime launched the ambitious program of National Projects. None of these initiatives depart from the neo-liberal paradigm. As such, the composition of the Russian economy has not been altered. The third section provides a brief account of the concentration of private capital under Putin. Contrary to the criticism by pro-Western Russian liberals, Putin's government has significantly strengthened the position of corporate capital. The fourth and last

section will summarize the economic contradictions of the regime and why it has become unsustainable.

**The structure of the Russian economy before the 2014-2015 crisis.**

Much has been speculated about the notion of post-industrial society and the growing irrelevance of industry, especially heavy industry. The so-called post-industrial society is portrayed as a new economic system that allegedly capitalism transforms into. In the 1990s some economists argued that the Soviet economy was overly industrialized and that a prosperous open market economy does not require high levels of industrialization. However, the reality on the ground has rendered these postulates invalid. Following the devastating consequences of deindustrialization in Russia on the livelihoods of vast layers of the toiling masses, these theories have been discredited to the point that even the Russian government acknowledges the need to re-industrialize as a condition sine qua non for a prosperous future.

As pointed out above, the neo-liberal economic analysis does not seem particularly concerned with the structure of the economy. Here we succinctly depict the basic features of the structure of the Russian economy. Of particular relevance is to examine the state of industrial production and its evolution since the collapse of the Soviet Union. The role of industry and its internal composition are essential to understand the character of the Russian economy.

Below is a table with the timeline of the relative weight in the Russian economy (in %) of industrial production. The table provides results in terms of the contribution to the GDP, the total value of funds and assets, and employment with respect to that of the entire economy (Fig. 1).<sup>6</sup>

(Fig. 1)

	1990	1995	1998	1999	2000	2001	2005	2010	2011	2012	2013
GDP	37.8	29.0	29.9	30.8	31.7	28.8	32.7	28.2	30.1	29.3	29.0
Funds	33.6	34.8	31.6	29.9	24.7	23.8	25.0	25.6	25.9	26.3	27.1
Employment	30.3	25.9	22.2	22.4	22.6	22.7	21.7	19.7	19.6	19.4	19.3

It is important to note that this table does not deal with the structure of industrial production nor how this has evolved over the years. The composition of the industrial production is essential to the economic analysis, as will be seen below. Before we dwell on this issue let us evaluate the overall evolution of industrial production as a whole. Official statistics is compared with the last complete calendar year of the Soviet Union, as opposed to the different stages of the Soviet period. Essentially, economic indexes of the post-Soviet period are compared with that of a State in rapid decomposition and deep economic crisis. As we will see below, even this unfair comparison is not particularly flattering to the state of affairs of today’s Russia. This type of comparison is intended to confuse the population into believing that today’s Russia may be on the path to surpass economic indexes of the Soviet period. With that in mind, one can appreciate that the contribution of industrial production to the GDP dropped from almost 40% in 1990 to level off at around 30% during Yeltsin’s tenure. What is particularly relevant to appreciate is that

the so-called period of growth of the 2000s did not enhance the contribution of industry to the GDP. Employment in industry has been declining steadily since the 1990s.

The table below shows important economic indexes before 2015 as per cents of 1990. These detail the timeline of the volume of industrial and agricultural production, capital investment and the real income of the population (Fig. 2).

(Fig. 2)

	1993	1995	1998	2000	2005	2008	2009	2010	2013	2015
Industrial production	64.9	49.7	46.2	54.2	72.7	83.0	74.1	79.5	86.7	89.0
Agricultural production	82.7	67.0	56.0	61.9	72.0	84.1	85.3	75.7	94.1	94.1
Capital investment	44.9	30.7	21.0	25.9	42.5	67.9	58.7	62.4	73.7	73.6
Real income of population	51.1	40.0	32.8	36.7	63.5	82.7	85.3	90.3	98.0	99.8

One can appreciate that industrial production and capital investment have not reached the crisis level of 1990. This is particularly the case for capital investment, which remains one of the most acute problems in the Russian economic landscape. Agricultural production and income appear to be compatible with the crisis level of 1990. That said, non-Marxist economists have expressed concerns about how official statistics portray the real income of the population.

It is imperative to examine the composition of industrial output to better understand the structural contradictions of the Russian economy. The table below gives an account of the structure of industrial production in terms of relative contribution in per cent of various branches to the total industrial output (Fig. 3).

(Fig. 3)

Branch	1990	1995	2000	2005	2008	2013
Fuel industry	10.4	25.6	25.4	26.8	25.0	28.7
Ferrous and non-ferrous metallurgy	10.3	13.9	15.8	13.9	13.3	9.5
Chemical and petrochemical	6.9	7.1	6.2	6.4	7.0	6.4
Machine building and metal processing	28.0	16.0	16.4	13.0	13.8	14
Forestry, pulp and paper	5.2	4.6	4.0	3.4	3.3	2.6
Construction materials	3.4	4.3	2.4	3.1	4.1	2.9
Light industry	11.0	2.2	1.4	0.8	0.7	0.7
Food industry	12.1	10.6	11.1	10.9	10.8	10.4

This table sheds light on how skewed Russian industry has become in favour of the production of raw materials, where great emphasis is on the oil and gas industries. The dependence on oil production and exports was developed already during the late Soviet period, hence, the relatively large contribution in 1990 of about 10%. Since then the relative contribution from the oil and gas

industry has almost tripled. The dominance of the oil and gas industry has not diminished since the crisis of 2014-2015, where its share of the budget revenue hovers around a staggering 50%. This makes Russian State finances highly vulnerable to fluctuations in oil prices. In contrast, the relative contribution from machine building and metal processing has plummeted from 28% to 14%. It is important to note that a significant fraction of the remaining machine production is related to the military complex, as opposed to the production of machinery for productive consumption in other industries. As a result, the contribution from light industry that is not related to food has plummeted since 1990. Hence, the dependence on imports for a wide variety of processed commodities.

Below is a table showing the evolution of the composition of Russian exports from 1995 to 2013. Results are given in terms of the relative contribution in per cent (Fig. 4).<sup>7</sup>

(Fig. 4)

	1995	2000	2005	2010	2013
Mineral products	42.5	53.8	64.8	68.5	71.5
Metals and precious stones	26.7	21.7	16.8	12.7	10.4
Chemical industry	10.0	7.2	6	6.2	5.8
Machines and equipment	10.2	8.8	5.6	5.4	5.5
Forestry and paper	5.6	4.3	3.4	2.4	2.1
Miscellanea (light industry)	5.0	4.2	3.4	4.8	4.7

The export of mineral products is dominated by oil and gas and continues to make a disproportionately large contribution to export revenues. The export of mineral products, metals and precious stones account for over 80% of the total exports. The contribution from machines and equipment continues to decline and it is dominated by the export of military equipment. Essentially, the contribution of machinery intended as means of production has become negligible also in terms of its share of exports.

Lack of capital investment in heavy industry is related to the decline in the domestic production of machine equipment and means of production. A representative index that further illustrates the decline in capital investment is the age of equipment. The table below indicates the fraction, in per cent, of industrial equipment that is less than 5-years old compared to equipment that is older than 20 years. The table also gives the average age of equipment as a function of time (Fig. 5).

(Fig. 5)

	1980	1990	2000	2001	2002	2003	2004
Less than 5 years	35.5	29.4	4.7	5.7	6.7	7.8	8.6
More than 20 years	10.7	10.8	18.7	19.4	20.1	20.7	21.2

Average age	9.5	10.8	18.7	19.4	20.1	20.7	21.2
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The comparison goes back to 1980, which should be considered as representative of a socialist economy. That said, in 1980 the fraction of equipment less than five years old was as high as 35.5%. One can see that the index declined to less than 30% towards the end of the late Soviet period. Lack of investment became catastrophic in the 1990s. By the end of the decade the index dropped to less than 5%. The index somehow increased to 8.6% in 2004, still remaining very low. However, one has to must bear in mind that investment in the 2000s remained heavily skewed towards the extraction industry, as seen above. The mild improvement seen in the 2000s is now on the basis of a dependent economy, as opposed to being the result of re-industrialization on the basis of a diversified spectrum of activities. In the end, oil, gas and other raw materials have provided significant revenue in the 2000s so as to modernize some of the required infrastructure. On the flip side, the fraction of the equipment more than 20-years old continues to grow, surpassing 20%. This is indicative of the state of affairs in what remains of the industrial complex that is not related to the extraction of raw materials intended for export.

Below is a table with the relative weight of capital investment, expressed in per cent, of the production of means of production that encompass machine building, metal processing and means of transport (Fig. 6).

(Fig. 6)

1990	1992	1995	1998	2000	2005	2013
8.3	4.9	3.0	3.2	2.8	2.3	2.5

As pointed out above, the level of investment in machinery and means of production in 1990 is not characteristic of that of a socialist economy. Even with that in mind, one can appreciate the sharp drop in the relative weight of means of production in capital investment during Yeltsin's regime. A sharp drop is observed in 1992, where the relative weight stabilizes around 3% during Yeltsin's tenure, almost three times less compared to the end of the Soviet period. That said, the relative weight continues to decline under Putin, throwing light on the true essence of the economic reforms of his regime, in sync with neo-liberal postulates. In all fairness, capital investment was considerably higher under Putin, leading the absolute volume of capital investment in the production of means of production to increase somewhat with respect to the 1990s. However, it remains considerably less compared to the late Soviet period. It is hard to appreciate a fundamental shift in the vector of economic development with respect to the 1990s.

The relative contribution of industrial production to the GDP was consistently falling even before the 2014-2015 crisis. One of the most important factors that contribute to this trend is the decline of capital investment. For instance, the volume of capital investment in 2014 dropped by 2.7% with respect to 2013 after taking inflation into account. The situation became aggravated due to the sharp increase in interest rates that peaked around 15% in 2015. In contrast, the interest rates in the period of 2010-2015 hovered around 5%. The sharp increase in the cost of credit, together with the drop in foreign investment and the exchange rate (and with it the cost of importing foreign machinery) have significantly reduced the volume of capital investment. In

addition to these factors, capital investment has also been hampered by reduced government support.

The situation with Russian industry becomes more nuanced when taking into account the fact that it has become increasingly dependent on foreign imports. The dependence on foreign imports is twofold. First, imports are required to meet domestic demand for goods that Russian industry is unable to produce. Second, Russian industry requires raw materials and equipment that are not available in the domestic market. Economic sanctions in conjunction with the devaluation of the Russian rouble have had disruptive effects on a number of sectors that are dependent on external inputs. The dual character of this reliance (on consumption and productive consumption) is characteristic of dependent and underdeveloped countries.

Under the conditions of the dominance of the neo-liberal doctrine, dependent countries quickly develop reliance on the means of production from the more developed countries and international monopolies. This applies to hardware, firmware and software relevant to productive processes. Neo-liberalism has accelerated the concentration of the ability to produce machinery and the means of production in the hands of a few monopolies, in which entire countries appear helpless in the face of economic sanctions or other forms of pressure. Neo-liberal economists refer to this dependence as so-called globalization, where the prevalent narrative that all countries appear interrelated is intended to conceal the ever-growing dominance of monopoly capital over many aspects of the economic life of dependent countries. In this setup, the application of extra economic measures, such as sanctions, or the sharp decrease in the exchange rate of the local currency, does not necessarily boost local industries. External dependence on foreign means and tools of production make it ever more difficult to re-industrialize by setting up new industries or upgrading existing ones. Re-industrialization in this complex setup requires a fundamental shift in terms of how social resources are utilized and invested in the economy. This fundamental shift can only be achieved on the basis of socialist industrialization harnessed by the State. Neo-liberal recipes, such as the ones upheld by the Russian Government in response to the crisis of 2014-2015, only aggravate the situation of dependence in the conditions of external pressure, as will be discussed below.

In this light, it is very important to quantify the concrete level of dependence on foreign imports for productive consumption that Russia displays. Below is a table of the market share, in per cents, of foreign production for different representative types of industrial goods in 2013 with emphasis on heavy industry and machinery (Fig. 7):<sup>8</sup>

(Fig. 7)

Industry	Relative weight of foreign production
Heavy machinery	60
Machinery for gas and oil industry	60
Machine tool industry	88.4
Light industry	72.5
Shipbuilding industry	55

Radio-electronic industry	82
Chemical industry	9.7
Forestry	25.5
Civil aviation (excluding helicopters)	92
Pharmaceutical industry	73
Medical industry	81
Automotive industry	44
Transport machinery industry	24
Machinery for light industry	87
Agricultural machinery	56
Information technology	93

One can appreciate that the level of dependence in 2013 surpassed 50%, where in critical industries, such as heavy machinery, machine tools, machines for light industry, pharmaceutical and medical industries and information technologies, the dependence is significantly higher. Where local production still remains dominant, Russian industry has certain niches, such as chemical industry and transport. The table above gives evidence of the high level of dependence of the Russian market in the areas of heavy industry, machinery and technology that is characteristic of that of a dependent country. These indexes bear witness to how effective sustained efforts to de-industrialize the country have been in turning a once self-sufficient economic ecosystem into what it is today. The situation is further aggravated by the sanctions and the strong drop in the exchange rate of the rouble from which Russia has not recovered to date. This has been further aggravated by the COVID-19 crisis, where the exchange rate has dropped beyond expectations. This structural characteristic of the Russian landscape is in stark contrast with the nationalistic rhetoric of the regime. In the consciousness of the peoples of Russia is the notion of a strong Soviet statehood with the victory over the developed fascist Europe under its belt. That said, this feat was only made possible on the basis of socialist industrialization, labour productivity and ingenuity characteristic of the socialist economic system. Today's nationalism is void of the economic substrate needed for its sustainability. The regime's growing reliance on nationalistic rhetoric and neo-Soviet symbolism is in serious contradiction with the inadequacy of Russia's heavy industry and its technological backwardness. This piles up on the structural contradictions of the Russian regime that will be elaborated further below.

In the Soviet Union the situation in agriculture towards the end of the 1980s was dire. In this light, Gorbachov's regime had fostered illusions that the liberalization of the market and the introduction of "entrepreneurship" in agriculture would resolve chronic underproduction and poor distribution. Before discussing production output it is relevant to examine how the composition of agricultural production has evolved over the past three decades. Official Russian statistics split production into three distinct groups: agricultural organizations, production by the population and private farmers. Agricultural organizations emerged from the Soviet collective farms, which then operated as financially independent productive units. Private farmers include individual businessmen. The table below gives an account of the relative weight of the three different agricultural sectors, as detailed above. This is calculated on the basis of current prices of agricultural outputs for each sector and is reported in terms of per cent (Fig. 8).<sup>9</sup>

(Fig. 8)

	1992	2000	2005	2010	2015	2016	2017	2018	2019
Organizations	67.1	45.2	44.6	44.8	54.0	55.1	55.2	56.5	58.2
Population	31.8	51.6	49.3	48.0	34.5	32.5	32.4	31.0	28.2
Farmers	1.1	3.2	6.1	7.2	11.5	12.4	12.4	12.5	13.6

This table indicates that the agricultural organizations remain the leading producer, followed by the population at large. The relative weight of agricultural organizations has dropped from 67.1% to 58.2%, whereas that of the population from 31.8% to 28.2%. The relative contribution from farmers and individual businessmen has grown from 1.1% to 13.6%, more than a ten-fold increase. That said, the latter remains a relatively small contributor to the aggregate output, where organizations and the population account for 86.4% of the total production. The relative contribution from farmers varies strongly depending on the type of agricultural output. In 2019 farmers produced 29.2% of all grain crops compared to 2.1% in 1991. In 2019 farmers produced 20.2% of vegetables and 13.3% of potato, compared to 0.8% in 1992.

Official statistics reveal the state of affairs that agricultural organizations find themselves in. The table below shows the timeline of a selected number of indexes regarding the agricultural production of former collective farms (Fig. 9):

(Fig. 9)

	1992	2000	2005	2010	2015	2016	2017	2018	2019
Agricultural land (in million hectares)	108.7	74.2	60.5	56.1	55.1	54.7	54.4	53.6	53.3
Cattle (in millions)	40.2	16.5	11.1	9.3	8.4	8.4	8.3	8.1	8.1
Grain crops (in million tons)	104.4	59.4	62.7	47.0	76.2	86.2	95.0	79.5	84.9
Potato	8.1	2.2	2.4	2.2	4.7	4.2	4.2	4.3	4.6
Vegetables	4.5	2.5	2.1	2.1	2.9	3.1	3.5	3.6	4.0
Milk	32.2	15.3	14	14.3	14.7	15.1	15.7	16.2	17.0
Eggs (in billions)	31.7	24.2	27.3	31.3	33.4	34.5	35.9	36.2	36.2

This table is indicative of a number of features that deserve consideration. The amount of agricultural land has decreased by over a factor of two with respect to the crisis level of 1992. Without getting into an analysis of the late Soviet period in regard to labour productivity and underutilization of resources, it is worth noting that the amount of agricultural land stabilized around 55 million hectares in the 2000s. While this may speak to the more effective utilization of resources in agriculture, to date Russia has great difficulty in providing food security. Particularly troubling is the situation with regard to cattle, whose numbers have dropped by a factor of five with respect to the late Soviet period. Other outputs critical to the Russian

population, such as the production of grain, potato and milk have dropped, where the production of eggs and vegetables remain at a similar level.

The sharp drop in cattle is a topic that deserves some consideration. A study commissioned by the Food and Agricultural Organization of the United Nations and the European Bank for Reconstruction and Development was published right before the advent of the 2014-2015 crisis, which sheds light on the structure of meat production in Russia.<sup>10</sup> Russia is a net importer of meat, although its share in the international market is declining. The consumption of red meat has been dropped considerably in favour of poultry and pork. It is important to note that red meat is central to Russian cuisine. As disposable income declines, the Russian population is resorting to poultry as a substitute. During the period of 2005-2010, the consumption of poultry increased by 38%, whereas that of beef and veal decreased by 0.5%. It has also been noted that the relative weight in the production of poultry and pork from large commercial farms has also increased to the detriment of the small producer. This is in line with the overall tendency towards concentration of capital in Russia under Putin, for which agriculture is not an exception. For instance, the share of smallholder farms in livestock production was 54% in 2003, dropping to 34% in 2011. Where the contribution from smaller farmers remains more relevant, e.g., the production of red meat, it is in decline. During the period of 2005-2010 the production of red meat decreased by 5%, where the production of poultry and pork have increased by 38% and 100%, respectively. It has also been noted that production efficiency remains significantly lower compared to main producers, such as the US, Brazil and the EU.

The report also quantifies the concentration of production in the meat industry. For instance, by 2010 the top five producers of poultry and pork had a 36.6% and 29% production share, respectively. The corresponding shares for red meat and processed meats are 3% and 14%, respectively. The emergence and growth of agro-holdings has been noted as well.

While according official statistics, the real income of agricultural workers has increased considerably during the period of 2005-2010, the average annual gross income in the countryside remains at the level of the official threshold for poverty. That said one has to concede that access to essential food items in the countryside is considerably easier than in the cities. In any case, the level of income in the countryside, as in other sectors of the economy, seem to be determined by the economy of subsistence rather than the economics of prosperity promised to the Russian people 30 years ago.

The observed decline in agricultural land and the most relevant types of production is coupled with a strong drop in the amount of machinery used in agriculture by former collective farms. The table below shows the utilization of machinery in terms of thousands of units (Fig. 10).

(Fig. 10)

	1992	2000	2005	2010	2015	2016	2017	2018	2019
Tractors	1290.7	746.7	480.3	310.3	233.6	223.4	216.8	211.9	206.7
Ploughs	460.3	237.6	148.8	87.7	64.1	61.6	59.7	58.5	56.9
Cultivators	541.6	260.1	175.5	119.8	93.2	90.3	87.8	84.8	82.6
Seeders	582.8	314.9	218.9	134.0	93.6	87.8	82.8	79.0	74.8

Harvesters for grain	370.8	198.7	129.2	80.7	61.4	59.3	57.6	56.9	55.0
Mowers	208.2	98.4	63.9	41.3	32.2	31.0	30.5	30.1	29.8

One can see that the amount of machinery declined strongly in the 1990s and levelled off during the second half of the 2010s. The decline in machinery does not seem to be strongly correlated, for instance, with the volume of grain output. While the amount of machinery drops on the average by about a factor of five, grain production dropped only by about 20%. The amount of agricultural land dropped by a factor of two, which is still considerably less than the drop in the utilization of machinery. On the other hand, the yield of grain per hectare has not changed significantly in the post-Soviet period. Towards 2010 the yield increased by about 20% with respect to the late Soviet period.<sup>11</sup> This is indicative of two issues. First, toward the end of the Soviet period machinery appeared to be seriously underutilized. It is a well-known fact that agriculture was in deep crisis in the late Soviet Union. The capacity for the production of agricultural means of production was not matched by its utilization by the collective farms and hence the poor agricultural output. Second, the poor growth of labour productivity over two decades with respect to a system immersed in crisis is indicative of the fact that the market liberalization did not have the desired effects theorized by the ideologists of Perestroika and the Russian liberals. Russian official statistics prefer to compare agricultural output to that of 1992, which corresponds, as stated above, to a period of deep crisis. It is troubling that grain output in 2019 barely surpassed that of 1992, despite significant increases in subsidies in recent years. This speaks to fundamental structural shortcomings of Russian agriculture today and, in particular, the failure of “entrepreneurship” and the theories of the free market to address them. As a result of these, Russia became and continues to be a net importer of food items, where the levels of dependency vary depending on the food item.

Russia’s dependence on food imports has grown considerably over the years. The gap between food exports and imports had been growing steadily before the 2014-2015 crisis, reaching several tens of billions of dollars a year. The European Union, followed by the US, were the leading exporters of food products to Russia before the crisis.

Paradoxically and despite low production yields with respect to other countries, Russia has become a major exporter of grain. Some troubling tendencies have been noted by experts in regard to how exports of grain affect the domestic market:

“However, although grain producers are selling to export traders, domestic inflationary concerns are motivating them to withhold selling for domestic use in expectation of higher future prices, as indicated by rapidly declining grain supplies held by domestic processors. This is creating a domestic grain shortage and further driving up prices, which in turn raises prices for bread and animal feed.”<sup>12</sup>

As indicated above, the devaluation of local currencies in dependent countries does not necessarily boost local production. This is a by-product of vulnerabilities developed through import of goods essential for productive consumption that are not available in the domestic market. Another form of dependence emerges from reliance on exports for revenue. Exports may deplete the local market of essential commodities, as the devaluation of the local currency makes it less profitable to sell domestically. This issue affects Russian agriculture:

“The rouble depreciation is making it difficult for Russian farms to get fertilizer from domestic suppliers. In recent years Russia has exported about 90% of its fertilizer output, and the rouble depreciation will motivate the fertilizer industry to export even more.”<sup>13</sup>

### Response to the 2014-2015 crisis.

The 2014-2015 crisis has become a turning point for Putin’s economics. Indeed, Western sanctions in conjunction with lower oil prices have had a glaring impact on basic economic indicators. It is most relevant to examine the character of the economic response the regime has put forward to counter the crisis. In particular, it is essential to understand whether or not this momentous crisis has instilled a change in the economic vision of the regime.

Here we will examine the evolution of the composition of the Russian economy following the 2014-2015 crisis. As in the previous section, we start with industrial production. In this light, it is important to note that official economic statistics do not distinguish between light and heavy industry per se. Industrial production is viewed more as manufacturing in the broad sense of the word, where light and heavy industry are typically lump together. This is typical in neo-liberal analytics. The table below gives account of the structure of industrial production in recent years leading to the current crisis. Indexes are given in terms of relative contributions in per cents (Fig. 11).

(Fig. 11)

	2016	2017	2018	2019
Food industry	15.5	14.1	13.0	13.6
Coke and petroleum products	19.4	21.3	23.4	21.2
Chemical products	7.3	7.1	7.3	7.2
Metallurgical	13.0	13.3	13.7	14.6
Machinery	3.0	2.9	2.8	2.8
Motor vehicles, trailers and semi-trailers	4.8	5.5	5.7	5.9
Other vehicles and equipment	4.8	5.2	4.9	4.6
Computers, electronic and optical products	3.7	3.4	3.0	3.2
Metal products	6.2	5.9	5.5	6.0

One can appreciate that the tendency of oil and gas industry to increase its share of industrial production has not been turned around, despite assurances by the regime to the contrary. The economic crisis of 2014-2015 does not seem to have diminished the reliance on the exports of oil and gas. Other than that, indexes of industrial production are indicative of a stagnant economy.

The table below provides estimates of the domestic production of machinery during the post-crisis period. Numbers are given for the most representative types of production (Fig. 12).

(Fig. 12)

	2016	2017	2018	2019
Turbines (Millions of kW)	3.3	4.8	5.2	2
Tractors (thousands)	6.7	7.9	7.7	6.7

Harvesters (thousands)	6.1	7.6	4.6	4.8
Milking machines (thousands)	3.8	3.9	3.3	2.4
Pumps (millions)	1.6	1.2	1.2	1
Metal cutting machines (thousands)	4.2	4.2	4.6	4.2
Press-forging machines (thousands)	2.8	4	4.4	4.5
Foundry Machines (thousands)	18.1	19.1	19.7	22.8

One can appreciate that the overall industrial output of machinery has not change significantly in the post-crisis period, where it still remains at a low level. Calls for the re-industrialization of the country have not found reflection in the situation on the ground. The reality on the ground is consistent with the neo-liberal conception that pervades dependent economies that investment and stimulus economic packages are not intended to boost domestic industrialization.

In a recent interview the Deputy Minister of Finances, Maksim Orshkin, stated in May 2020 at a time when the Russian economy has been badly hit by oil prices, stated that “New drivers have emerged in the economy: agriculture, food industry, chemical industry and domestic tourism”. None of these economic areas are new in the Russian economy nor are they drivers of sustainable economic development, neither in general nor in the Russian context.

Before the onset of the current crisis, Putin’s government announced a plan for “National Projects” for the period of 2018-2024. These are portrayed as a new phase in the economic development, where the Russian economy shifts into spending mode, as opposed to fiscal conservatism, accumulation of savings and building up of reserves. The latter has characterized economic policy under Putin so far. “National Projects” appear on the surface to be a departure from the neo-liberal economic doctrine in favour of somewhat of a Keynesian take on economic growth. The overarching goal is to boost economic growth, which has been notoriously weak over the past decade, by prioritizing self-sufficiency and import substitution. Additionally, it is acknowledged that Russia’s excessive dependence on oil revenue needs to be overcome. Most of the funding for these projects will come from the Federal budget in conjunction with a significant contribution from regional budgets and extra-budgetary sources. The latter is not clearly specified other than alluding to private-public partnerships and foreign investment.

A number of questions emerge: Does this plan depart from the neo-liberal economic policies of the past? Is this plan expected to fundamentally change the structure of the Russian economy?

Closer examination of Government documents sheds light on the true essence of these reforms.<sup>14</sup> The largest expenditures correspond to road and related infrastructure, totalling 43% of the planned investment. Sub-leading areas of investment are ecology and demographics. The latter relates to efforts aimed at enhancing life expectancy, increasing fertility to 1.7 births per woman and to improve the lifestyle of citizens.<sup>15</sup> Other less funded items include support for the “digital economy,” improvements in housing and support for science. A clearly defined strategy for investment in machine building and capital investment in heavy industry is conspicuously absent. Machine building is mentioned three times in the official document that details the economic package. Some mention of the role of machine building is made in the context of exports. The relative contribution of machine building is said to reach 24% of the total export that is not related to oil, gas and natural resources. This goal is set for the end of the calendar year of 2024. The relative contribution of agricultural products is set to be at a similar level to

that of machine building. The document places emphasis on enhancing the components of services in exports. This comprises transport services, general business services and fees related to intellectual property, tourism, telecommunication, ICT and others. It is envisioned that the export of the above-mentioned services should be increased to \$100 billion US a year compared to \$60 billion assigned to machine exports.

As expected, the announcement of large investment in national projects has a declaratory and populist character. As one could have anticipated, as of the end of 2019, even before the current crisis broke out, the state-owned VTB bank indicated that the rolling out of the plan was behind schedule, where serious concerns about key performance indicators have been voiced. All of the work packages were behind schedule. The overwhelming majority of the packages displayed less than 50% likelihood of meeting targets. Three of the most relevant packages, road building, boosting exports and the digitalization of the economy displayed marginal probability of success. According to official figures, about 50% of funds allocated in 2019 had been disbursed. Putin stated in July 2020 that the goals for the scope and goals of the National Projects need to be re-assessed.

Overall, it can be appreciated that the vision of economic development remains within the realm of the neo-liberal agenda, where Russia's ability to produce means of production continues to be de-emphasized. As a result, the fundamentals that have characterized the Russian economy in the post-Soviet period remain unfazed. In contrast to the geo-political role of the Russian regime internationally, its domestic economic policies perpetuate the country's dependency on foreign factors. That leading geo-political place that the Russian government seeks to achieve is not accompanied by a push to attain leadership in the realm of economic relations. The Russian "oligarchy" seems content with this diminished role in the economic arena.

The Russian Government is very much cognizant of and openly acknowledges that deindustrialization is a serious concern and a fundamental hurdle to achieving sustainable development. To date, however, no clear demarcation is made between heavy and light industry, as is typical for neo-liberalism. Instead, emphasis is made on manufacturing in general. In that light, in April 2020 the Russian Government announced plans to enhance the relative weight of manufacturing, as a response to the current crisis.<sup>16</sup> It is acknowledged that the present level of gross added value by manufacturing of 14% is inadequate. It is claimed that the recent rate of growth of industrial production in recent years has averaged 2.5%. This estimate includes oil and gas industry, which the Russian Government has acknowledged to be exceedingly emphasized. The plan is to increase the relative weight of manufacturing up to 17% in 2035. For this to happen the rate of growth should reach 4.5% till 2025 and 3% in the following years. Increasing the relative contribution of manufacturing from 14% to 17% in 15 years hardly qualifies as a policy of industrialization, which in turn the Prime Minister M. Mushistin portrays as ambitious.

The plan mentions increasing exports as one of the key strategic elements of the above-mentioned plan. The Russian Government plans to increase non-oil related exports to \$205 billion US in 2024 and to \$290 billion US in 2035. It is envisioned that a third of exports by 2035 will correspond to machinery. While these goals may appear formidable in the neo-liberal context, they do not fundamentally change the character and composition of the Russian

economy. Needless to say, this is not the first time that Russian Governments have put forward plans to turn around the Russian economy. This has been the case for the past three decades.

The document does not give indications that the State will carry the burden of enhancing capital investment in order to bring the above-mentioned growth rates to fruition. Instead, the document speaks about stimulating the propensity to invest through de-regulation and other burdens on investors. Prominence is given to the need to increase the relative weight of companies that perform technological innovation without a clear vision as to how to articulate this complex process in the conditions of Russia. The latter is further aggravated by pervasive technological backwardness, which further challenges the Russian economy with respect to international competitors.

In recent months, right before the outbreak of the COVID-19, official Russian statistics announced a somewhat modified methodology of reporting. New stats are now reported with respect to 2018 indexes, compared to 2010. According to the new statistics, the relative weight of industrial production has dropped in 2018 with respect to 2010, except for the extraction of oil and gas. The current relative weight of industries related to the extraction of oil and gas has increased from 34.3% in 2010 to 38.9% 2018. The relative weight of oil and gas does not show only growth in industry, but in the economy as a whole. The relative weight of the extraction of oil, gas, coal, metals and other minerals reached a record 13.8% of the GDP in 2018. This is 1.5 times larger than in 2014 and about a third more with respect to the previous maximum, which took place in 2005. Over the past 16 years the relative weight of the extraction industry to the GDP has doubled. The relative weight of the manufacturing sector not related to oil and gas has declined from 17.17% to 14.3%. As of 2019 about 60% of exports were related to oil, gas, coal and black metals, whereas the relative weight of complex industrial production constituted 6.3%.

This further indicates that the Government's rhetoric regarding diversification and innovation does not seem to have effected fundamental changes in the structure the Russian economy. Much has been declared about the need to replace imports with local production. One has to judge economic policies on the basis of actual economic data, and not on the basis of proclamations and wishful thinking. The declarative character of economic reforms is typical of neo-liberal rhetoric. Putin continues to foster denials, where he continues to praise his Government for achieving so called macro-economic stability. In contrast, some Russian economists are comparing the economic performance of Putin's regime to that of the late Soviet period. Towards the end of the Soviet period the GDP was growing at an average of 1.5%, whereas Russia today barely reaches 1%. As a result, the relative contribution of the Russian economy under Putin has dropped to the historically low level of 3% reached by Yeltsin in the 1990s.

### **Concentration of private capital in Putin's Russia**

While the role of capital investment has significantly diminished in the post-Soviet period, it is relevant to look at the evolution of its composition in terms of different forms of property. The table below displays the relative contributions of the different sources of capital investment in Russia. The reporting period covers Putin's tenure (Fig. 13):

(Fig. 13)

	2000	2005	2010	2015	2016	2017	2018	2019
Russian	86.3	80.6	86.2	84.3	83.1	83.8	85.1	87.2
State	23.9	18.8	17.2	14.8	15.2	14.4	14.8	14.6
Municipal	4.5	3.8	3.2	3.0	2.7	2.5	2.3	2.6
Private	29.9	44.9	57.0	56.8	55.9	58.1	58.9	63.3
Mixed	27.8	12.9	7.5	8.2	7.8	7.5	7.9	5.6

This table demystifies Putin’s economic policies and further confirms their neo-liberal nature. Putin distanced himself from the notion of state capitalism with full knowledge of implications in the practice of economic policy.

Under Putin the role of Foreign Direct Investment (FDI) in capital investment does not seem to have changed significantly compared to the 1990s, at least at this level of analysis. This is exemplified by the relatively stable relative weight of domestic investment, which hovers around 85%. The relative contribution of private investment has doubled over the past 20 years going from almost 30% to over 63.3%. Other sources of capital have declined steadily. This includes State, mixed (private-state partnerships) and municipal. Government investment has declined from 23.9% to 14.6%, where the largest differential corresponds to mixed investment, which has experienced a fivefold drop, from 27.8% to 5.6%. It is relevant to note that the crisis of 2014-2015 did not significantly perturb the composition of capital investment. The relative contribution of state investment seems to have reached a plateau, where that of private investment has been growing steadily. The economic crisis of 2014-2015 has, if anything, further reinforced neo-liberal tendencies.

The table below gives an account of the number of registered companies over time. The type of ownership is also given. Numbers are given in terms of thousands of companies (Fig. 14):

(Fig. 14)

	2000	2005	2010	2015	2016	2017	2018	2019
Total	3346.5	4767.3	4823.3	5043.6	4764.5	4561.7	4214.7	3826.9
State	150.8	160.4	119.4	110.7	108.0	103.1	98.8	94.3
Municipal	216.6	252.1	246.4	212.0	203.0	195.9	189.9	184.6
Private	2509.6	3837.6	4103.6	4377.8	4122.2	3936.0	3619.8	3261.0
Others	469.5	517.2	353.0	343.1	331.2	326.7	306.2	287.0

This table indicates that the growth in the number of registered companies and organizations has been driven by the private sector. This table, in addition, illustrates the rapid decline in the number of registered companies in the aftermath of the 2014-2015 crisis. All forms of property were affected by the crisis. The crisis accelerated the concentration of capital, where the decrease of the number of companies outpaces that of the economic output. In contrast to Putin’s rhetoric, the reality on the ground is that small and medium entrepreneurship has lost out to large capital. Despite assurances to the contrary from different quarters, this is a natural progression that is only exacerbated during economic downturns. This aspect of the Russian economic landscape

further exposes the untenable gap between the rhetoric and the objective economic reality that unfolds instead.

Neo-liberal rhetoric places emphasis on innovative endeavours by small and medium businesses as a driver for economic development. This narrative is picked up by governments in the so-called mid-income countries and the dependent countries in general. Innovation is understood in the general sense, where indigenous ideas are turned into products and services. This notion makes sense in the context of neo-liberal economics in regard to dependent countries. Small-scale innovation is inherently dependent upon large stakeholders, more prominently, on large corporations. This is particularly evident in the so-called digital economy. With that in mind, it is relevant to note that the bulk of small businesses in Russia do not engage in innovative activities, or so-called innovative economics. Small businesses in Russia are for the most part in trade, construction, transport, real estate and other forms of non-innovative services and activities.

The plea for innovation as a panacea for the re-industrialization of the Russian economy is not new in the post-Soviet period. Even before Putin emerged as Yeltsin's successor, the Russian Government adopted in 1998 the "Conception for innovative policies of the Russian Federation for 1998-2000".<sup>17</sup> In this document the Russian Government acknowledged that the relative weight of companies engaging in development and in implementing innovation in production dropped considerably: from 16.3% in 1992 to 5% in 1996. The index is compared to that of 1992, which corresponds to an economy already in deep crisis. The Russian Government recognized the significant potential to innovate. This includes unique capabilities, infrastructure and excellent scientific, engineering and technical cadre. One should remark in passing that this gap between the ability to innovate and the actual implementation of innovative advances in production was characteristic of the late Soviet period as well. While being cognizant of this serious issue, the Russian Government seems more concerned about the lack of innovation in light industry, food and construction, than it is about the production of the means of production. In this sense, Yeltsin's Government augments the vision already prevalent in the late Soviet period regarding the need to emphasize light industry with respect to heavy industry.

Putin's Government takes this vision as a starting point and does not depart from it fundamentally. The narrative shifts somewhat from the relatively ambiguous narrative of the 1990s that gradually transforms into a more standard neo-liberal one. While in the 1990s economists still used to refer to the interrelations between the state and non-state sectors, under Putin the narrative becomes more explicit. Now government and business talk to each other, where the former influences the economy indirectly through fiscal, monetary and other forms of support to private business. Putin's narrative to date still upholds the chimerical view that innovation within the framework of neo-liberal economics is able to induce re-industrialization. This vision is at the core of Putin's plans for "national projects".

Neo-liberalism is not just about upholding the laissez-faire paradigm. It also removes the State from directly participating in production. The latter is referred to by Putin as State capitalism with knowledge of its implications. Therefore, the role of the State in capital investment needs to decline in favour of private stakeholders. The State, through policies and interventions, assists not just any business, but large business in its endeavour towards capital accumulation.

Putin's plan for "national projects" remains along neo-liberal lines. Putin's neo-liberal paradigm revolves around nourishing large national capital. However, this paradigm does not seriously consider harnessing productive forces decisive in providing economic independence, technological advancement, and sustainable enhancement of labour productivity. In short, Putin's economic policies do not seem to be aimed at reindustrializing the country on the basis of the production of the means of production. The rhetoric is far detached from the essence of Government policies and the economic realities. Here lies one of the fundamental contradictions of Putin's economics.

Corporate, private concentration of capital has accelerated since Putin took office. Mergers and acquisitions in 2000 reached \$2.7 billion US and increased to \$4.9 in 2002. In 2006 mergers and acquisitions reached \$71 billion US, an increase of 46% with respect to 2005. Russian companies also invest abroad and participate in mergers in acquisitions primarily in central and eastern Europe. Russian economists have noticed that the concentration of capital is strongly correlated with industrial and other activities that are connected with exports and are able to tap into an influx of hard currency. As seen above, these are tied for the most part to raw material and the military. As a matter of fact, the energy sectors (oil and gas) were the first to engage in rapid concentration, as early as during the first half of the 1990s.

Russian economists express concerns regarding the character of mergers and acquisitions in regard to labour productivity and profits. It has been noted that in recent years, following the crisis of 2014-2015, mergers and acquisitions responded to the need to protect financial resources and assets as a means of survival in the conditions of stagnation. It has also been noted that the rate of concentration has been higher in larger corporations.

It has also been noted by Russian economists that Russian corporations display a high level of concentration of ownership, where shares are owned by a small number of stakeholders. Towards 2005, 75% of corporations were controlled by one stakeholder or a small group of stakeholders. Towards 2009-2010, it appears that the concentration of shares has somewhat decreased, although the number of corporations with high concentration remains high, at the level of 65%.

It is very important to underline that the concentration of capital that Russia is undergoing is not correlated with enhanced rates of domestic investment. Of particular relevance is the fraction of investment for innovation in research and development. While such fraction in Europe is over 50%, in Russia it is only 10%. On the other hand, the fraction of investment in innovation that goes towards marketing is about 50%, which is about 2.5-3 times greater than in Europe. This is another index that speaks to the dependent character of the Russian economy.

Another very important aspect of the concentration of capital in Russia is the role of foreign investments, where Russian corporations invest abroad, as opposed to doing it in the domestic market. Experts have pointed to the fact that around the 2000s Russian corporations that had access to hard currency due to exports turned their efforts towards investments abroad. In 2006 Russia became the third leading so-called emerging market in terms of foreign investments. In 2008 Russia became the leading country among emerging markets. It is also interesting to note that the composition of investment abroad by Russian corporations is relatively diversified. This

is not surprising, as investment targets more diversified economies compared to that of Russia. It is not unusual for financial resources harnessed in domestic markets in dependent economies to be re-directed to investment abroad, including participating in financial markets of industrialized countries. This is the end point of the so-called globalization of financial markets, where more industrialized economies ultimately benefit from financial resources from less developed economies. Russia is no exception here.

A number of Russian corporations linked to the extraction and export of raw materials, such as oil and gas, have become transnational in their own right. Russian corporations have built a network of branches abroad, including in developed countries and actively engage in mergers and acquisitions abroad. In 2015 Forbes listed 30 Russian corporations with Gazprom at the top. Among leading corporations we find Evras (mining), Lukoil (oil and gas), Mechel (mining and steel), TMK (pipes for oil and gas) and Severstal (steel and mining). The UNCTAD<sup>18</sup> world investment report rated Russia top among transnational companies from transitional economies. It has been noted by Russian economists that the bulk of profits made through exports are invested abroad, as opposed to doing so domestically. Emphasis of investment efforts are made in markets in developing and mid-income countries. That said, it appears that one of the ultimate goals is to contribute to financial markets in developed countries.<sup>19</sup>

Russian transnational corporations invest abroad using several mechanisms. Corporations invest directly in their branches abroad. This typically happens through one-time capital investments, where foreign branches continue operating on the basis of the revenue they generate. Merging across borders is another form of expansion. The creation of consortia with foreign corporations is also adopted as a conduit for expansion. Finally, licenses are purchased in order to perform mining prospecting with the intent to exploit natural resources abroad. The latter typically takes place in industrially underdeveloped and dependent countries. This includes former republics of the USSR, Eastern Europe, African countries and others. Companies that are purchased by Russian transnational corporations are not leading ones in their respective sectors. Companies purchased in developed countries by Russian corporations are either small or find themselves in a challenging financial situation.

In engaging in these strategies for expansion, Russian corporations face a number of challenges. This includes a systemic lack of financial resources and market capitalization in conjunction with lack of experience and international prestige. It is believed that only about 20%-25% of Russian companies are competitive in the international arena. The fraction of competitive companies varies from sector to sector; chemical industry is more competitive than the average and food industry is less competitive.

Russian economists have pointed out that Russian transnational corporations have not developed to the same level as their counterparts in the West. This appears to be primarily due to the fact that these are most prominently tied to the extraction of oil, gas and minerals. Powerful corporations already exist in these areas. Russian transnational companies are dwarfed by U.S., Chinese and European corporations in their respective markets. The situation has only deteriorated since the 2014-2015 crisis due to a number of circumstances. Sanctions, in conjunction with the weakening of the rouble, have diminished the ability of Russian banks to gain access to foreign loans. As a result, investment has dropped across the board, including

investment driven by Russian transnational corporations. Also, debt servicing by Russian corporations has become significantly more expensive due to the devaluation of the rouble. This further inhibits the ability of Russian corporations to invest and expand. The impact of the crisis on profits has not affected Russian corporations uniformly. Gazprom's profits dropped by 23% in 2018 compared to 2017, whereas Rosneft's increased by 55% during the same period. Overall, it has been noted that profits of Russian transnational corporations appear not to have suffered significant losses as a result of the crisis. For instance, in 2017 27 Russian corporations entered the list of the largest 2000 companies in the world. In 2018 this number dropped to 25.

One can argue that the US and EU, by imposing sanctions on Russia, are ultimately trying to suppress it as a competitor. While this argument is perfectly plausible, the end point remains the same. Russian transnational corporations played a secondary role in the world market before the crisis and continue to do so to date. They are predominantly concentrated in the energy sector, with some contributions to the financial and trade sectors. While Russian corporations expand abroad, even if in dependent countries, profits are not used to boost domestic investment, let alone to diversify the Russian economy or to invest in the domestic production of the means of production.

A negative balance of capital flows has been an endemic problem in Russia since the collapse of the USSR. Many Russian economists attributed capital flight in the 1990s to so-called shadow capital linked to semi-illegal activities. According to the Russian central bank, the net flight of capital averaged about \$20 Billion US per annum. With the exemption of 2006 and 2007, when the balance capital flow was slightly positive, Russia suffers from even greater negative capital flows than in the 1990s. According to official statistics, capital flight peaked in 2008 and 2014 due to the respective crises, reaching about \$150 Billion US. Removing those two peaks, the average capital flow reached \$50 Billion US a year in the period of 2009-2019. In 2016, capital flight dropped to \$19.2 Billion US from \$56.9 Billion US in 2015, fuelling hopes that the situation would stabilize in favour of local investment. Capital flow was predicted to drop in 2017 to \$12 Billion US, but instead it grew to \$31.2 Billion US. In 2018 capital flight grew to \$76 Billion US. In addition, one needs to take into account that in 2015 the rouble was devaluated almost by a factor of two, which significantly enhances the burden inflicted by capital flight. These numbers are in contrast with the scarcity of capital investment in the country. These also shed light on the neo-liberal dynamic that underpins and fuels Russian capitalism.

Allegations in regard to the criminal or semi-criminal character of capital flow in the 1990s, however substantiated, appear intended to conceal the true nature of economic processes that were taking place at the time. This type of criticism emerges as a petty-bourgeois reaction to the devastating economic impact inflicted on the population by the so-called shock therapy of the 1990s. Indeed, rapid privatization of State assets was conducted irregularly, with lack of transparency, for pennies on the dollar. However, it was intended to create private capital accumulation, where the administrative Soviet elite emerged as owners in the private sector. In reality, during the 1990s the basis of the neo-liberal model and its economic relations were being established. These were consolidated under Putin. It is hard to understand the rationale behind Putin's neo-liberalism without the economic reforms of the 1990s. Yeltsin's reforms had the clear intention of creating the necessary relations of productions that would enable a neo-liberal model to emerge. Yeltsin and Putin do not display fundamental differences in regard to the role

of the State in production and as such, Putin's reforms do not depart from the nature of the foundations laid by Yeltsin's reforms. Strictly speaking, Yeltsin's shock therapy and fraudulent privatization of State assets were a necessity for the neo-liberal model that eventually emerged.

The petty-bourgeois critique of the reforms of the 1990s argues that had it not been for the criminal character of much of the privatization that led to the creation of the exclusive class of oligarchs, Russian capitalism would have been more equitable and would not be afflicted by the ills that riddle it today. Much has been made of the personal connections of some of these oligarchs to Putin and how preferential treatment led to their rapid enrichment. While personal connections between Putin and Russian billionaires certainly exist, these are not pivotal to the analysis of Russian capitalism, as some pro-capitalist forces in opposition to Putin adamantly indicate. The accumulation of capital and income inequality are inherent to capitalism in general, and to the neo-liberal model in particular.

Pro-capitalist forces that are in opposition to Putin lambast the regime on the issue of corruption, state capture, the enrichment of the so-called oligarchs and government officials. The pro-capitalist opposition, also referred to as liberals in Russia, has turned corruption in Putin's regime into a central topic in their narrative. Indeed, Putin's regime, as much as Yeltsin's, is plagued with corruption on so many levels. Putin certainly did not introduce the status-quo that emerged under Yeltsin; at most he institutionalized it. The forcible privatization of State assets in the 1990s was designed to deceive the population and it was fundamentally corrupt. That said, corporate capitalism is fundamentally corrupt in relation to the neo-liberal state. What are corporate bailout and lobbying of government officials if not white-collar forms of corruption?

Russian corruption has been mystified by the West and by liberals in Russia. The fact of the matter is that the specifics of Russian corporate-State corruption were primarily due to the need of former Soviet elites to generate private and corporate capitalist accumulation rapidly. To this end, personal relationships, relations of patronage, bribery, unwarranted privileges of government officials, flawed procurement processes, extra-economic coercion (including summary executions of competitors) become endemic in certain spheres and continue to have a footprint in economic relations in today's Russia. These have become instruments harnessed by corporate capitalism in Russia to advance its own narrow interests, leaving behind the livelihoods of the vast majority of the population by demolishing the economic independence of the country.

Russian liberals do not blame corporate capitalism for the state of affairs in Russia. Instead they blame the "oligarchs". The concept of "oligarchy" put forward by Russian liberals lacks scientific basis in the context of the economic analysis. In practice this term is used to conceal the neo-liberal character of the economic relations that pervade the fabric of Russian economic relationships and the connection of the Russian State with corporate capital. Russian liberals portray corruption as the source of all ills in Russian society. In their view, it is not capitalism in its neo-liberal incarnation that is responsible for the economic hardships of the Russian population, but the rampant corruption with Putin as the godfather at the top. Putin, in turn, exposes Russian liberals for their connections with the West, where he presents himself as the saviour of the nation against encroachment upon Russian statehood, territorial integrity and geo-political interests. Putin tantalizes the Russian population by wittingly restoring some of the

Soviet symbolism, as a means to conceal the neo-liberal essence of his economic policies. This in turn irritates Russian liberals and their allies abroad. However, both sides agree in the main: neo-liberalism remains unquestionable as a model of economic development in general, and in the Russian context in particular. Neither side are on the side of the Russian toiling masses, which are the ones who are carrying the burden of the economic reforms launched in the 1990s.

Russia has had a litany of pro-Western liberal politicians ranging from Gaidar and Chubais, who led the liberalization of the market under Yeltsin, through Yavlinsky, Khakamada and Kasparov, ending with Navalny, Novodvorskaya and the like. Among them, Boris Nemtsov, a prominent dissident voice against Putin's regime who was gunned down in 2015, epitomized Russian liberalism to a great degree. Nemtsov emerged as a wunderkind of liberalization of the market and the so-called "democratization" of Russian society. In 1990, at the age of 30, he became a deputy of the Supreme Soviet of the Russian Republic representing the city of Gorky (which was renamed Nizhny Novgorod in October 1990). Nemtsov became a loyal supporter of Yeltsin and stood by his side during the events of August 1991. Impressed with him, in the autumn of 1991 Yeltsin appointed Nemtsov the first Governor of the Nizhny Novgorod region, a position that he held until his promotion to the central Government in 1997. Nemtsov was hailed by Margaret Thatcher, who visited Gorky in 1993, for his neo-liberal economic reforms. Nizhny Novgorod was the first city in Russia to privatize small businesses, transport, and collective farms and it was portrayed a "model" for other Russian cities. In March 1997, Nemtsov was appointed First Deputy Prime Minister and briefly Deputy Prime Minister in 1998. As early as 1994, Yeltsin hinted that Nemtsov had "grown so much that he could be considered for the presidency". Yeltsin showcased Nemtsov to Western leaders as well. By 1997 he appeared to be one of the most likely politicians to succeed the ailing Yeltsin. He fell into disgrace in 1998 following the financial default of the Russian State that made him and Yeltsin's government more unpopular than ever. These events levelled the field for an unknown Putin to come to prominence in 1999, following his appointment as Director of the Federal Security Service, the successor of the KGB. In the 2000s Nemtsov joined the opposition to Putin, while entering the corporate world. Nemtsov was appointed director of the Neftyanoi Bank and other responsibilities, thanks to which he made a fortune.<sup>20</sup> While he had a lavish lifestyle, Nemtsov became a prominent anti-Putin activist, organizing rallies and other forms of protests against the regime. He was arrested on multiple occasions. Navalny, another anti-corruption activist, has also been subjected to a campaign of harassment and intimidation, including multiple arrests and convictions for various violations. To be fair, harassment of liberal activists by the regime seems to have intensified with the economic crisis.

Nemtsov, Navalny and their followers demonize Putin's regime for corruption and his autocratic ways, which have also led to the suppression of the free press, freedom of speech and the prosecution of dissidents. While all that is certainly true, what Russian liberals do not seem to appreciate is that it was the Russian capitalist elite who made a concerted choice to pick Putin and not Nemtsov and the likes. While largely unknown to the Russian public, by 1999 Putin, the former loyal KGB agent, had already gained a strong reputation in certain circles as a law and order man. Russian capitalism needed a saviour to redeem the Russian people for the disastrous reforms of the 1990s. Russian corporate capitalism made a bet on him in order to manage the population's increasing disillusionment with neo-liberal reforms, which threatened serious social unrest in the 1990s. Russian liberals of the Gaidar-Chubais-Nemtsov type inflicted crushing neo-

liberal reforms that obliterated hopes for a better life for vast layers of the population and the toiling masses in general. While doing the same, Yeltsin's anti-communist regime not only deprived most of the Russian people of the livelihood that they enjoyed in Soviet times. The Russian people were deprived of a sense of statehood and dignity by Yeltsin's anti-Sovietism and irrational anti-communism. The Russian people were humiliated in the 1990s, where anti-Sovietism and neo-liberal reforms are now viewed as the source of the distress that afflicted Russian society. It was this circumstance and not Putin that sparked the nostalgia for the Soviet past among vast layers of the Russian population that is prevalent today. It was not Putin who is responsible for Soviet nostalgia, nor did he particularly desire to go that far in terms of restoring Soviet symbolism.<sup>21</sup>

Soviet symbolism played a pivotal role during the late Soviet period in concealing the economics of market relations that emerged as a result of the anti-socialist reforms of the second half of the 1950s. Putin saw the opportunity, by taking advantage of people's nostalgia, to conceal the true nature of the economic relations that underpin his regime. Yeltsin and his liberal allies committed the mistake of lambasting the Soviet past while inflicting so much pain on the Russian people. It is natural that Putin, as a representative of corporate Russia, had to go in a different direction with the intent of safeguarding the interests of Russian corporate capital.

As the economic downturn accelerates in the aftermath of COVID-19 and the contradictions of Putin's regime further unfold, Russian liberals are intensifying their crusade against Putin's autocratic and corrupt State. Their intention is to capitalize on the duality of bourgeois politics. In the concrete-historical context of Russia this is reminiscent of the controversy between the so-called hard-liners and the reformists of the late Soviet period, where Putin appears to be a representative of the former and the liberals of the latter. In reality both sides today are representatives of corporate capital whose intention is to perpetuate the neo-liberal model that has unfolded in Russia over the past 30 years. It is the duty of Marxist-Leninist forces and their mass organizations to expose Putin and the liberals for what they are and to marshal the Russian toiling masses away from this bourgeois dualism.

### **Structural contradictions of Putin's economics**

The Russian economy is afflicted by a number of circumstances. Some factors are intrinsic to the Russian reality, but others are inherent to the neo-liberal model in dependent countries. This is in stark contrast with the great-power rhetoric that Putin's regime displays both domestically and internationally. On the one hand, the Russian economy exhibits unequivocal traits of dependence forged by forcible de-industrialization in conjunction with technological backwardness. The structure of the Russian economy makes it overly dependent on the exports of oil, gas and raw materials and imports of manufactured products and complex goods, such as machinery and advanced technologies. The dependence on imports also has a negative effect on local manufacturing, as it also affects productive consumption. The concentration of capital in the hands of a few Russian corporations does not result in significant local capital investment with which to turn around the de-industrialization of the country. The so-called policy of national projects and multiple policies to spur innovation have not had the desired effect either. On the other hand, Putin's regime presents itself as the saviour of the Russian nation against attempts by Western powers and Russian liberals to undermine the independence of the country and its geo-

political interests in what Russia believes is its area of influence. In this setup the Russian State is expected to provide a network of social welfare inherited from the Soviet system that the neo-liberal model that Putin's regime is based upon is not able to sustain. The current economic crisis that has ensued from the COVID-19 pandemic has only aggravated and accelerated the unfolding of these contradictions.

The Russian State is proclaimed as a socially oriented state. The Russian Constitution guarantees a number of social benefits that many countries in the world do not consider. The Russian State is the guarantor of a support structure that includes a wide range of entitlements. Russian citizens are entitled to a State pension, sick leave, invalid benefits, unemployment benefits, child support and others. While citizens are encouraged to pursue other forms of support, in particular related to pension funds and health insurance, Russian law enforces the universal character of the above-mentioned benefits. In practice, these social benefits contribute significantly to stability of the fabric of Russian society. Social benefits go beyond monetary compensation and include a comprehensive corollary of social services. Overall, it is believed that the Russian State is responsible for possible shortfalls that the market economy may inflict on the population.

Universal and compulsory social insurance is one of the cornerstones of the social commitments that the Russian state has taken upon itself to satisfy. The Federal law on "Compulsory Social Insurance" of 1999 determines the legal, economic and organic framework to compensate for or to ameliorate an adverse change in income or social conditions of citizens. These are citizens in of working age or other social categories. Citizens are supposed to be covered under this compulsory social insurance when becoming unemployed, suffering injury or becoming sick at work, due to invalidity, sickness, pregnancy or delivery, loss of means to provide nourishment, when needing medical assistance, treatment in sanatoria, due to retirement or any other form of risks that are considered by law. Social benefits also include support to raising toddlers for 1.5 years, to adopt children and in raising children with invalidity,

Social benefits in terms of direct payments to citizens are comprehensive. Social benefits apply to every Russian citizen who is not able to join the labour market, whether permanently or temporarily. For instance, towards the turn of the century Russia had about 10 million citizens with different levels of invalidity who require support. A support system is put in place to satisfy basic needs such as nourishment and housing, in addition to specific forms of support appropriate to each type of invalidity. Measures are supposed to be in place to alleviate social exclusion and marginalization, as only 15% of the disabled population of working age is employed. About 150 thousand disabled citizens require mobility support of different types and degrees. The Russian state is also required to provide additional support provided by specialized personnel that give support to disabled citizens and their children at home. To a considerable degree, invalidity is intertwined with old-age care. In Russia about five million senior citizens require various degrees of support due to physical and mental impairment. Out of these, about 1.5 million require constant assistance from third parties and social services; 300 thousand need support at home.

There are two social vulnerabilities in Russian society that are responsible for a significant fraction of poverty in the country. Inadequate support to young families is viewed as one the factors that have significantly reduced birth rates in the country. This is a particularly sensitive

issue in Russia. The population of the Russian federation reached a maximum towards the end of the Soviet period, followed by slump in the 1990s that lasted until around 2005. Since then, population growth has been poor and in recent years it has become negative. Insufficient child support is also a factor that contributes to poverty among young families. As child support is insufficient, whether in the form of direct benefits, or by subsidizing kindergartens and other types of support, one family member is forced out of the labour market, reducing household income. Another sensitive issue in Russian society is the poor treatment of the retired and the elderly. The reality on the ground is that this system of social welfare and social services are essential to keep large layers of the Russian population from severe forms of poverty.

Despite the above-mentioned social support, Government sources indicate that as of 2019 about 13.5% of the population live below the poverty line. In practice, this entails serious deficiencies in nourishment and housing for wide sectors of the Russian society. The thresholds that determine the poverty line are relatively low. According to the Ministry of Labour, as of the first quarter of 2020 the minimum monthly income per person is set at 11731 roubles (\$180 US) for the working population, 8944 roubles (\$134 US) for retirees and 10721 roubles (\$165 US) for children. Prices for essentials, such as bread, milk and meat display strong variations depending on regions and cities. In Moscow, a kilogram of meat costs about 300 roubles (\$4.6 US), a litre of milk around 60 roubles (\$0.92 US) and about 25 roubles (\$0.38 US) for a loaf of white bread. Overall, the structure of prices of essential food items is similar to that of Germany, where the minimum monthly income is in a different ballpark.

Most citizens below the poverty line are families with children. Experts indicate that as of 2018 about 23% of children belong to households that live below the poverty line. In other words, more than one in five children in Russia lives below the poverty line. The fraction of children below the poverty line increases to 34.3% in young families, and to 49.4% in large families.

In practice, the poverty line defined by Government is not the real measure of the income threshold that discerns a decent livelihood from poverty. According to some experts, the real poverty line is about two to three times the official level, thus engulfing vast layers of the Russian population in different forms of deprivation. Studies performed by non-Marxist experts indicate that the problem of poverty is significantly more complex than that of a mere threshold, as it entails a wide range of parameters. These studies indicate that Government statistics have disregard for the quality of life and define thresholds to be compatible with the economics of physical survival. The fact of the matter is that the average Russian's income corresponds to the economics of subsistence. The median income is barely sufficient to cover expenses for food, utilities and medical expenses. This situation has been aggravated with the 2014-2015 crisis.

The disposable income of the average Russian household is grossly insufficient to face contingencies and has continued to decline in recent years. An important economic index that speaks to the problem of disposable income is the level of indebtedness of the Russian household. In a recently released report shows that more than 70% of Russian households have incurred debt, an all-time high.<sup>22</sup> This is 15% more than three years ago and four times greater compared to 2009. Consumer credits are on the rise, where citizens in the regions are twice as likely take one than in Moscow or Leningrad.

Official statistics appear to underestimate the level of income inequality. This is manifested through the income Gini coefficient reported by Rosstat, which hovers around 0.4 and has remained relatively stable over the past three decades. By way of comparison, the income Gini coefficient of Germany is 0.3, where Russia's is similar to that of Argentina and China, but significantly less than that of Brazil (close to 0.55) and South Africa (above 0.6). Some experts indicate that the real income Gini coefficient is similar to that of Brazil. The situation regarding wealth inequality seems hampered by limitations related to tax reporting and other forms of asset management reporting. That said, several financial institutions seem to converge in identifying Russia as one of the most unequal societies in terms of access to wealth. Notoriously, the Credit Suisse Global Wealth Reports have been providing estimates relevant to wealth inequality.<sup>23</sup> The 2019 report indicates that the number of US dollar millionaires in Russia has grown from 12 thousand in 2010 to 246 thousand in 2019, a staggering twenty-fold increase. This needs to be compared with an increase of 2.5 in the US, yet lower than that of 117 in China. Credit Suisse estimates that the wealthiest 10% hold 83% of all household wealth, compared with 76% in the US. In 2019, the wealth Gini coefficient in Russia was 0.88, one of the highest in the world compared to 0.85 in the US. Over the period of 2008-2018 the wealth share of Russia's top 1% has grown almost 13%, which is one of the highest in the world. This needs to be compared to 1.2% in the US and 5.2% in China. On the flip side, the wealth share of the top 10% in Russia has only increased by 0.3% compared to 6% in the US and 11.1% in China. This speaks to the high levels of concentration of wealth that are generated by the concentration of monopoly capital in Putin's Russia. This is also in contrast with the rhetoric of the regime, where the gap between wishful declarations and the reality on the ground has become untenable.

Income levels are highly unequal across the geography of the Russian Federation.<sup>24</sup> Together with Moscow and Leningrad, a handful of remote and sparsely populated regions with oil, gas and mineral extraction industries stand out in terms of income. For instance, the region with the highest proportion of working individuals with a salary greater than 100 thousand rubles per month of 32.1% in 2019 is the Chukotka autonomous district. This region has 50 thousand inhabitants and its economy is reliant on the extraction of oil, gas, coal, gold and tungsten. Moscow follows closely with 27.4% of working individuals earning more than 100 thousand rubles a month. In contrast, the average fraction for the Russian federation is just 7%. The corresponding fraction for Leningrad is 12.5%, which speaks to the significant gap between Moscow and the rest of the major cities. The Moscow region displays an average of 8.2%, which is significantly lower than that of the capital city itself. In 25 out of the 85 regions, the fraction of the working population that earns less than 15 thousand rubles is more or less equal to 20%. This is in contrast with Moscow, where only 1.5% of the working population earns less than 15 thousand rubles.

As a result of continued cuts in social benefits, administrations have been tightening the criteria that determine whether a citizen is entitled to social welfare. This is a phenomenon that has become pervasive in the country and that has generated widespread discontent, especially in the regions.

The 2014-2015 crisis has significantly reduced the ability of the Russian state to provide social support to the population. It is very important to note that the average wage during the late Soviet and the post-Soviet periods has been relatively low. This is particularly true in the regions, as

opposed to Moscow and other big cities where income inequality is substantial. The expectation is that the Russian State should provide support to the population in different forms. These effectively add to the real income of the population.

State support has been declining in recent years. For instance, the projected reduction of the budget in 2020 with respect to 2017, taking into account inflation, for housing and utilities is 37.3%, education 7.2%, health care 3.8% and social benefits 14.6%. The Ministry of Health has been voicing concern that too little support is given to the regions to support health care, where these run significant deficits that regional resources cannot sustain. Overall, the situation with health care has been declared troubling by many. In particular, concerns have been voiced regarding support for children in light of stagnant demographic growth that threatens depopulation. Similar concerns have been communicated in regard to education. It has been pointed out by Russian economists that regional budgetary deficits have reached critical levels.

The Russian State with Putin at the top has been declared to be a social state, as enshrined in the Constitution. However, the budgetary constraints and successive cuts are in contrast with declarations or legislation adopted by the government regarding this or that strategy. Government declarations touch upon the most sensitive aspects of social policies of the Russian State. While the Russian Government has been up front about the deficiencies that afflict Russian society, it is systematically failing to address them and thus to satisfy basic social needs. Putin has been particularly good in acknowledging deficiencies and pointing out the hardships that broad sectors of Russian society endure. He has also been quite effective in making pronouncements with which to keep spirits high. He indeed sounds genuinely convinced that neo-liberal recipes will save Russia from its ills and that Western embargoes will not play a significant role in the future. However, it seems evident that budgetary policies are in line with the so-called financial discipline (balancing budgets and pruning deficits) coupled with anti-inflationary guidelines inherent to the neo-liberal agenda. In conjunction with the continued economic crisis and poor economic growth, the already feeble social support structure is bound to decline.<sup>25</sup> This process is more or less gradual, depending on the circumstances. Western sanctions have only accelerated this natural process, which is intrinsic to the neo-liberal model in regard to social welfare.

Whether or not Putin genuinely believes in his own declarations in regard to the well-being of the Russian people is not important here. The reality on the ground is that the neo-liberal developmental model that Putin upholds is incompatible with the state of social welfare essential to Russian society. This proposition is pivotal to understanding the severity of the structural contradictions of Putin's economics. Whereas the rhetoric and superstructural attributes of the regime are not the core subject of this article, it is essential to recognize how pivotal are the notions of a strong State and the State of welfare to the Russian ethos. Putin's success in securing public support in the country revolves to a great degree around his ability to present himself as the statesman who has returned a sense of statehood, and even great nationhood that the Russian people were deprived of by the reforms of the 1990s. Putin has capitalised on the nostalgia for the Soviet past that is now heavily entrenched in vast layers of the Russian population. Disillusionment in neo-liberal reforms has been driven by their harsh impact on living standards, lack of social stability, undermining the State of social welfare and other important factors. Nostalgia for the Soviet past has been fuelled by a cruel objective reality. Unfortunately for Putin

and other leaders of former Soviet Republics, harnessing nostalgia for the Soviet State as a means to secure political stability comes at a price, in that it generates an expectation for social stability and welfare that the neo-liberal model cannot afford in the long run. The current economic crisis and those that have preceded it in recent years have hastened the unfolding of this contradiction.

The revival of some of the Soviet symbolism, the vindication of Soviet leaders, such as Lenin and Stalin, as great statesmen and founders of the nation, and other traits, are used by Putin opportunistically to conceal the true neo-liberal essence of his economic policies. The neo-liberal character of Putin's economics and the system of State welfare that is essential to conceal it in the eyes of the population constitute a core structural contradiction of his regime. That is in addition to all the other contradictions inherent in capitalist economies and the neo-liberal model.

These contradictions have rendered Putin's Russia unsustainable. As result, pro-Western and pro-capitalist forces have intensified their campaign to discredit Putin's regime by opportunistically capitalising on the calamities that neo-liberalism has inflicted on Russia. These forces are conspiring to overthrow the Russian and Byelorussian regimes by means of yet another "orange" revolution. However, they are both sides of the bourgeois political dualism and they need to be exposed as such. It is the duty of the Marxist-Leninist forces and their mass organisations to bring the Russian toiling masses to the slogan of the restoration of the Soviet Union with socialist industrialisation at the core of its economic policy. Socialist industrialisation is the only way forward to provide jobs, sustainable livelihoods, social welfare and stability, and economic independence essential to a prosperous future.

#### **Endnotes:**

1. The current Russian anthem is a good illustration of Putin's conceptualization of modern Russia. Against the objections of Russian liberals and Yeltsin himself, in December 2000 Putin restored the Soviet anthem with new nationalistic lyrics. The lyrics were written by Sergey Mikhalkov, who also had written the lyrics of the two versions of the Soviet anthem (the so-called Stalin and Brezhnev versions).
2. In this article corporate capital and monopoly capital will be used interchangeably.
3. Inflation in 1993 reached almost 900%. Inflation was brought down to 10% or less in the 2000s. In recent years inflation has dropped even further. That said, the latter is also linked to the continued decrease in the cash supply in the hands of the average Russian citizen.
4. Послание Президента Российской Федерации Федеральному Собранию 12 декабря 2012 года. [Электронный ресурс] // <http://kremlin.ru/events/president/news/17118> (дата обращения: 01.03.2013).
5. The term state-monopoly capital refers to the notion introduced by Lenin in *Imperialism, the Highest Stage of Capitalism*.

6. Ya. R. Khairulina, A. V. Dushin, and G. A. Lyaptsev. (2016). "Deindustrialization of the Russian economy: problems and opportunities," *News of the Ural State Mining University*. 4.
7. Россия в цифрах. (2015). крат. стат. сб. / пред. редкол. А. Е. Суринов. — М., 2015. — 543 с.
8. G. I drisov. (2016). "Industrial policy of Russia in modern," *Izdateltstvo Instituta Gaidara*. [In Russian].
9. Indexes are obtained from Rosstat, the Federal Service of State Statistics, "Russia in numbers 2020," [https://www.gks.ru/storage/mediabank/GOyirKPV/Rus\\_2020.pdf](https://www.gks.ru/storage/mediabank/GOyirKPV/Rus_2020.pdf)
10. <http://www.fao.org/3/a-i3533e.pdf>
11. W. M. Liefert and O. Liefert. (2012). "Russian Agriculture during Transition: Performance, Global Impact, and Outlook," *Applied Economic Perspectives and Policy*. 34 ( 1). pp. 37–75.
12. W. M. Liefert and O. Liefert. (2015). "Russia's Economic Crisis and its Agricultural and Food economy," *The magazine of food, farm, and resource issues*. 1st Quarter: 30(1)
13. *Ibid.* 118
14. <http://static.government.ru/media/files/p7nn2CS0pVhvQ98OOwAt2dzCIAietQih.pdf>
15. One of the goals is to ensure that at least 55% of the population engages in regular physical activity.
16. <http://government.ru/meetings/39448/stenograms/>
17. <http://docs.cntd.ru/document/901713478>.
18. The United Nations Conference on Trade and Development.
19. Before the sell-off of US Treasury securities by Russian stakeholders in the period of March-May of 2018, the Russian Government owned about \$100 billion in US debt. This is quite significant given the size of the Russian economy. It has been argued that the sell-off coincided with the 10-year yield reaching its highest level since 2011. The sell-off may have been motivated by purely financial motivations connected with portfolio readjustment.
20. The night when Nemtsov was assassinated, he and his then partner, a Ukrainian super-model, had supper in one of the most expensive and exclusive restaurants of Moscow, on Red Square. The couple was crossing the Bolshoy Moskoretsky Bridge on their way to Nemtsov's luxurious apartment in the neighbourhood of the Kremlin.
21. Putin's attitude towards Stalin has changed significantly in recent years. Putin was unequivocally critical of Stalin when he took office. However, the 70th anniversary of the

victory at the Great Patriotic war appears to have served as a turning point towards a more forgiving assessment of the role of Stalin in history. It was not long before this turning point that Putin found himself echoing Western sentiments in regard to the Ribbentrop-Molotov's pact. To the dismay of many in the West, Putin has now turned around to defend the Soviet-German non-aggression pact of 1939 a la par with other achievements of the war. It is no longer unusual for reports to appear on Russian TV or newspapers that view Stalin's legacy in a positive light. Russian liberals and many in the West find it hard to fathom that the historical figure that they have spent so much effort and resources to tarnish has been vindicated by the Russian people. Putin's change of heart should not be misconstrued as abandoning his economic vision. Much to the contrary, the regime's apparent "neo-Stalinism" is a form of pragmatism intended to cover up for its failures on the economic front in front of the Russian population.

22. <https://nafi.ru>

23. <https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html>

24. <https://riarating.ru/infografika/20191202/630143771.html>

25. In all fairness, the repetition of default of 1998 seems unlikely in the short to mid-term. This is to a great degree driven by the significantly larger gold reserves and wide range of securities in possession of the State, and the relatively higher level of oil prices with respect to 1998.

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