

The Russian Enigma: Why Hasn't Financial Meltdown Produced Societal Breakdown?

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On August 17, 1998 the government of Prime Minister Sergei Kiriyenko devalued the Russian ruble, defaulted on the government's domestic debt, and declared a moratorium on payments by Russian commercial banks to foreign creditors. As a result, inflation control, a stable ruble, and a fragile turnaround of GDP growth visible toward the end of 1997 came to a sudden halt.

The market transition of the past six years has been marked by confrontation between the mercurial President Yeltsin, forcing the pace of reform via successive reformist governments, and a parliament dominated by the Communists. The speed of the process, crafted by the young, technocratic band of reformers and supported by international institutions, was at variance with the political views of the majority of lawmakers elected to the Duma in successive elections. The process, born in conflict from day one and largely devoid of give and take, ultimately became unsustainable. The lack of institutions required for implementing market-oriented policies also complicated the situation.

With the dismissal of the Kiriyenko government on August 23 and the confirmation by the Duma on September 11 of Evgeny Primakov as the prime minister, the old policy regime of monetary control, liberalized prices, open foreign trade, and privatized industry is threatened by a policy reorientation of cash emission, price controls, restricted foreign trade and selective budgetary support of specific industries.

There is currently an acrimonious debate on every policy issue between the reformist camp, being pushed into oblivion, and the old planners, most of them from the Russian Academy of Sciences. The planners believe that cash emission, to be used for paying back wages, will revive the excess capacities of Russian consumer goods industries by generating demand for their products. The reformers argue that

it will merely boost inflation. The former believe that direct support of industry will enable it to compete with imported items. The latter respond that it will waste budgetary resources. Privatization of industrial assets at throwaway prices, in the planners' view, has enabled a few to capture them depriving the budget of tax revenue. The reformers react by arguing that Soviet state-owned industry was marked by inefficiency and corruption. Some planners and regional administrators want to impose price controls which, most believe, would bring back shortages and lines.

On balance, it would seem, that the policies of liberalizing prices, opening up the economy, and privatizing industry have advanced so far that reversing them would be difficult and can even be costly. For example, the federal budget lacks the resources to revive and finance Soviet-era subsidies if prices of essential consumer goods were to be controlled. Nor can the state repurchase and run privatized units without incurring heavy budgetary outlays. A major casualty of policy reversals on these issues for the government would be loss of financial support from the international institutions.

While the policies await to be resolved, the reforms are seen as having imposed widespread economic privation on the people bringing Russia on the brink of a social explosion. The process has undoubtedly affected social groups, industries, and regions with varying severity.

Russia's 36 million pensioners, the majority of them elderly women, have been hard hit by repeated withholding of pensions; Russia's 4 million strong army has been slashed to less than 2 million without adequate provision for housing and job opportunities for officers and soldiers who have been laid off. Women (confined to low paid jobs and lacking opportunities to upgrade their skills) and young males (new entrants in the labor market with

limited education) have been denied wages more frequently and over longer periods. There was a marked rise in infant mortality and a steep decline in male life expectancy, both of which seem to have been moderated since 1997.

Earnings of workers in the natural resource industries geared to exports and in the financial sector have kept ahead of those in the defense and heavy industries, and in agriculture.

The regional impact has been severe for the North East and Karelia in the extreme north which have experienced drastic cutbacks in the traditional provision from the budget of food and energy. Large and medium cities, where half the population lives, have experienced income growth, whereas the Russian countryside, demographically and economically depressed since the days of Stalinist collectivization, has languished. The city of Moscow, which channels 70 percent of Russia's financial capital, bears evidence of a thriving metropolis.

The transition has thus created acute deprivation for sizable groups with potential on their part for violent outbursts or sustained protests resulting in a mass movement. While factory committees have organized strikes, trade unions have called for protest rallies, and striking miners have blocked railroads, none of these have been sustained over time and synchronized over eleven time zones. Russia, potentially on the verge of a revolution, seems devoid of revolutionary activity.

How does one explain the enigma?

Perhaps those who have gained from the process outnumber those who have lost. The majority of Russian citizens live better today than they did under Communists having acquired a vast array of consumer goods.

People have sought out opportunities to alleviate hardships and discovered ways to supplement their incomes. Those that have been denied wages have found second jobs, informal paid activity, or alternative occupations. Almost half the population has started growing a variety of food items for self-consumption and sale. Half the pensioners have jobs. People have run down savings and sold family heirlooms. There is evidence of income transfer from adult children to parents and vice versa.

At the same time, employees have lacked institutional means to mount organized protest. In the Soviet days, discontent was ventilated through party cells in the factories and workplaces which have been disbanded. The citizens have gained individual freedoms but have lost the apparatus for collective action. The factory strike committees, hastily put together by activist groups, have occasionally been dominated by managers and regional bosses who, while responsible for wage arrears, have pitted workers against the federal authorities. At the same time, the Communist Party of the Russian Federation led by Gennadi Zyuganov has failed to mount a new vision and a credible alternative.

The critical issue is the potential for Russia's pro-reform constituency to prevail over the disaffected part of the electorate in the 1999 Duma elections and the presidential elections set for 2000. Public discontent, so far contained, can overturn the already damaged prospects for market reforms in the forthcoming elections.

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