Russian government implements austerity as economy falters

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Russia's minister of finance, Anton Sulianov, announced Thursday that the state budget is in a crisis. According to official estimates, there is a one trillion ruble ($33 billion) shortfall for 2013 alone, requiring a "budgetary maneuver" (i.e., cuts) in state expenditures over the next three years.

The government proposes to plug the "holes" by deep attacks on the working class, including cutting payments to the state pension fund, decreasing state procurements by five percent, and cutting spending on health care, education, and utilities.

In addition, the ministry may also drain 300 billion rubles from Russia's Reserve Fund (a state-run sovereign wealth fund), and divert income normally used to build up the Reserve Fund to meet budgetary goals. The last time this occurred was during the 2008-2009 economic crisis, when the Kremlin used the money to bail out Russian oligarchs and big businesses.

Though Russia is home to 11 of the world's top 100 billionaires, the government insists that austerity measures are the only solution to Russia's faltering economy. Growth rates have never recovered from the 2008 economic crisis. This year they will hit a low of 2.4 percent, down from a projected 3.6 percent. Prior to the world financial meltdown in 2008-2009, Russia's economy had grown by as much 8-9 percent in some years. Many economists now predict further weakening.

Despite repeated policy declarations that Russia is moving towards diversifying its economy, the country's wealth and state budget remain overwhelmingly dependent on income earned from the energy sector. In the first quarter of 2013, oil provided nearly 50 percent of total budget revenues. The International Monetary Fund is demanding cuts, after warning that lower projected oil prices for 2014 put the Russian budget in jeopardy.

At the same time, Russia faces massive capital outflows, as investors offshore their profits. The *Economist* reports that in May 2013 alone, $9 billion left Russia.

Last month, Russian President Vladimir Putin warned of the coming austerity program, insisting in his annual presentation of the proposed budget for 2014-2016 that the country's slowing growth meant that the state could no longer increase spending. In an interview with news agency *RIA Novosti* around this time, Putin attacked the remnants of Europe's social welfare model, insisting that it created a "dependence mentality" and turned the continent into a pole of attraction for social loafers.

Putin has often used assurances of increasing state spending to shore up his popularity in the face of rising social discontent. Even as his minister of finance announced the government's plans to slash expenditures by $33 billion, Putin is insisting that his "May decrees," social promises issued to the electorate during last year's presidential race, will be fulfilled. This position is entirely at odds with his government's plans, however.

Notwithstanding the Kremlin's claims that it is cracking down on corruption and tax evasion, the finance ministry's latest announcement shows that it intends to place the burden of the country's economic and fiscal decline on the backs of the working class.

The Putin regime is preparing for the latest in the many waves of attacks on Russian workers' social conditions that have followed the restoration of capitalism in Russia and the former USSR in 1991.

In this case, the pension fund in particular is targeted. Proposed budget cuts from limiting transfers to the state pension fund are to be exacted by changing the basis upon which pensions are calculated and distributed.

The changes include: making pensions more dependent on individuals' salary history and length of service; increasing the number of years a person must have worked to receive a pension from 5 to 15 years; increasing the percentage of a person's pension to be financed by his/her own contribution; and providing financial incentives for those who chose to work beyond the official retirement age.

The reforms, going into effect January 1, 2014, will cut the number of people eligible for a pension in Russia, destabilize the pension fund by making it more dependent on individuals' choice to contribute a portion of their salary, and raise the retirement age.

The latter is a particular goal of government officials. While women will be formally allowed to retire at age 55 and men at age 60, those who work additional years without drawing on their pensions could receive as much as 50 percent more once they retire. Given that the average pension in Russia is currently only $350 a month, many will make this choice. With male life expectancy in the country at just over 64 years, many men will die before ever drawing a pension—a fact that policy-makers doubtless welcome.

The pension reform will undermine the minimal benefits of the small increases in state pensions that are currently being implemented. By April of 2014, the average pension in Russia is expected to reach 11,144 rubles (less than $400) a month. In 2016, it is expected to rise to 13,200 rubles (about $440) a month. The current plan to end transfers to the state pension fund jeopardizes all of this.

Even if the promised increases were to be implemented, these are poverty sums, whose impact will be eroded through inflation in basic necessities and in particular, the gutting of state support for health care.

The proposed austerity measures will devastate regional governments. Beyond gutting federal expenditures on health care, education and utilities, responsibility for providing these services will be increasingly offloaded onto the local administrations.

Unable to support these outlays in the face of an increasingly difficult economic situation, experts anticipate that regional authorities in Russia will simply gut social programs. A July 4 article in the online business news agency *Finmarket.ru* warned of the prospect of unrest in Russia's provinces as a result.

While imposing austerity on the population, the Putin regime plans to refocus government spending on the military and infrastructure construction, undertaken wherever possible through so-called "public-private partnerships." The latter, presented as a "growth-oriented" strategy, will be a boondoggle for corporate interests and the corrupt officials overseeing the deals. They will be the biggest beneficiaries of the slated 450-billion-ruble ($13.6 billion) plan.

The Kremlin also remains committed to dramatically increasing military spending, with outlays on defense scheduled to rise by 63 percent from 2013 to 2016. There will also be significant growth in expenditures on national security and law enforcement, which will swell by 9 percent in the same period.

Sections of the liberal opposition, namely former Minister of Finance Alexei Kudrin, have vocally criticized Putin for sticking to his plan for a multi-trillion-ruble expansion of military spending. Kudrin is a well-known advocate of social cuts, including increasing the pension age.