

The Russian oligarchy and the politics of social catastrophe

Evgeny Kostrov
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After three years of war, the Putin regime is increasingly unable to control its explosive social consequences, which have exacerbated the internal contradictions of Russian capitalism.

In an effort to overcome the social and economic consequences, Putin hopes to make a deal with US president Donald Trump, but he is unable to make it without certain guarantees that would allow him to reduce opposition from ultra-nationalist forces and discontent from the Russian working class.

While Trump is interested in a deal that will allow the US to exploit the raw material resources of Ukraine and Russia at the expense of its imperialist rivals in Europe, he is increasingly dissatisfied with Putin's dragging out the negotiations. Now, these tensions are exacerbated by a global trade war.

A peace treaty, even if it is reached, no matter how much verbal guarantees and ostensible actions accompany it, will only be a temporary truce. Unless the working class intervenes independently, it will inevitably lead to a new war, even larger and more barbaric than the one that has been going on for the past three years. Moreover, the global trade war unleashed by Trump's tariffs further deepens the political and economic instability of all capitalist governments and intensifies the global drive to war.

In order to understand the class dynamics and the way forward for the working class in this volatile situation, it is important to review the current state of the economy and social relations in Russia.

What is behind Russia's economic growth?

The last two years of war have brought industrial production growth in Russia that exceeded the "peaceful growth rate" before the pandemic. Many defenders of the Putin regime use this fact to justify his reactionary policies.

On February 7, Prime Minister Mikhail Mishustin reported to Putin that the Russian economy grew by 4.1 percent in 2024. This growth was attributed to a 4.6 percent increase in industrial production, with the manufacturing sector growing by 8.5 percent for the year. In 2023, industrial growth rose by 4.3 percent. Two years of industrial growth above 4 percent followed a modest 0.7 percent growth in 2022, with Russia's GDP contracting by 1.4 percent in the same year. By comparison, in the post-2008 crisis and pre-pandemic period, industrial production grew at an average annual rate of 3.2 percent.

However, the recent growth has been based primarily on the growth of military spending and military production and its surrounding industries. That is, the industrial growth of the Russian economy is based on the production of means of war and destruction. In fact, in the non-military sectors of the economy there is a general stagnation or even decline—as in

the coal industry or the unprofitable activities of Gazprom (whose net loss amounted to 1 trillion rubles for 2024).

The Center for Macroeconomic Analysis and Short-Term Forecasting (founded by current Defense Minister Andrei Belousov) emphasizes that the main growth factor in 2023-2024 has been the military industry and the growth of consumer spending. Moreover, together with the decline and stagnation of Russian exports, the domestic market remained the only serious driver of the Russian economy.

Economic growth based on military production and growth of consumer spending cannot last long. The dependence of economic growth on these two factors creates huge imbalances in various sectors of the Russian economy, putting enormous pressure on the profit margin of the oligarchy. Therein lies one reason for the desire of sections of the Russian oligarchy to end the war in Ukraine with a deal that would ease the pressure of sanctions on Russian capital.

Current estimates of the Russian economy already recognize a future economic slowdown in growth rates, with analysts surveyed by the Bank of Russia suggesting a growth rate of 1.6 percent for 2025, which would be below the global average growth rate. Thus, economic growth through war is already coming to an end and the ruling regime faces new challenges.

The contradictory nature of wage growth

One of the most striking phenomena of this war economy has been a record increase in average wages in Russia. In the last year alone, average wages have risen by 9 percent in real terms. It would be naive to believe that the wage growth is due to the desire of Russian business or Putin's regime to improve the lives of the working class.

The two main reasons for this wage growth are the outbreak of war in Ukraine and labor shortages in a number of sectors of the Russian economy. The war in Ukraine has enormously inflated federal budget spending from 24.8 trillion rubles in 2021 (\$295 billion) to 40.2 trillion rubles (\$497 billion) in 2024. The main expenditures went to increase the army and military production (RUB 13.1 trillion or \$156 billion for the year). At the same time, revenues did not keep pace with expenditures, resulting in a large budget deficit for all three years of the war: 3.3 trillion rubles in 2022 (\$39.2 billion), 3.2 trillion rubles (\$38 billion) in 2023 and 3.5 trillion rubles (\$42 billion) in 2024.

To cover the deficit, the Russian state has resorted to increasing domestic debt and reducing liquidity in the National Welfare Fund (NWF) by \$64 billion. The NWF is the main reserve for Putin's regime in case of serious crises. If spending remains at the same level, the liquid part of the NWF will be exhausted within a year.

Thus, wage growth has primarily occurred among the security forces

and the manufacturing industry engaged in military production. This emerges clearly from the uneven character of wage growth in the different regions of Russia.

The leading regions in the manufacturing industry are all directly linked to military industry: Moscow, Tambov, Kaluga, Ryazan and Tula oblasts; St. Petersburg, Udmurtia and Ulyanovsk oblasts; Kurgan and Sverdlovsk oblasts. According to *Novye Izvestiia*, the most impressive growth took place in the Kurgan Region, which is very dependent on the military industry: industrial production grew by 24.9 percent, growth in manufacturing industries amounted to 32.5 percent and production of finished metal products soared by 203 percent.

The increase in the wages of certain categories of workers and in regions associated with the war intensifies the disproportions within Russian capitalism. The uneven development of the regions is intensified by the general stagnation of civilian production.

Only in eleven regions of Russia has the average salary exceeded 100 thousand rubles (about \$1,190). Twenty-six regions did not even reach the national average (about 60 thousand rubles or \$714). At best, 44 million people employed in the military industry, in the heavy industry close to it, in logistics and in construction experienced such wage growth. The remaining 28 million people employed in other industries (primarily in medicine and education) have actually become poorer due to rapid inflation. Thus, general social inequality has grown. The top ten percent of income earners now control over 31 percent of the total cash income of the country's population. By contrast, the bottom 10 percent own just 1.9 percent of all income and live on less than \$170 a month.

In this sense, the words of Sergei Smirnov, Doctor of Economics, are illustrative:

When the growth of wages in certain industries is 24 percent and the country's GDP grows by 2 to 3.5 percent, this is impossible. Or rather, it can happen temporarily, but it cannot be sustained for a long time. Otherwise, all the proportions are broken. As a result, all these wages get into the consumer market and worsen the quality of life of low-income groups, because those who receive 24 percent more go not only for a car, not only for household appliances, but also go to the food market.

As for the second reason for wage growth: A severe labor shortage has been a structural problem of Russian capitalism for a long time, because of the brain drain, the demographic crisis and the destruction of the education system after the dissolution of the Soviet Union. The war in Ukraine has significantly exacerbated this tendency. Part of the male population went to war under contract or was mobilized. Another part switched from civilian to military industries, which led to a labor outflow to better-paid industries. Even under these conditions, however, industry still faced labor shortages.

Over the past five years of war and pandemic, according to Rosstat, Russia's population has decreased: by 1.43 million in 2021; by 600,000 in 2022; by 495,000 in 2023; by 596,000 in 2024. In total the population of Russia decreased by 3.1 million people. The main reasons for this population decline are: 1) high mortality from the pandemic, which the authorities "forgot" about with the start of the war; 2) the war in Ukraine; 3) mass emigration of citizens afraid of mobilization or repression; 4) increased deportations of foreigners by the Kremlin.

The shortage of personnel in 2023 was estimated by the Institute of Economics of the Russian Academy of Sciences to be about 4.8 million people. It will only increase with the further course of the war, political instability and deterioration of medicine, which further deepen an already severe fertility crisis.

The situation in the Kuznetsk coal basin

One of the most acute manifestations of the dire situation facing significant sections of the working class in Russia is that of the workers at the Inskaya mine in the Kuzbass region in Siberia.

They have been facing non-payment of wages for six months now, with a total debt of about 65 million rubles (about \$773,800). It is not the first time that the workers have protested against the management and appealed to the local authorities. They have already held a hunger strike in October and a strike in December 2024. Despite the promised help from the state, however, the miners face complete neglect from the authorities and business. Moreover, taking advantage of their plight, military commissions have offered miners to go to war in Ukraine, promising them huge sums of money.

Based in the Kuznetsk coal basin (Kuzbass) in the village of Belovo, Inskaya is just one of a growing number of mines that do not pay their workers and have come to a halt in coal production. The total debt of such mines amounts to 220 million rubles (about \$2.6 million) and is set to increase in the near future.

The current crisis of the mines is directly related to the sanctions imposed by NATO since the war, the fall in global coal prices and their inability to compete on the world market, except for selling coal below cost. The balanced loss of Russian coal producers amounted to 68.7 billion rubles (roughly \$818 million) in the first eleven months of 2024, with the share of loss-making enterprises reaching 53 percent. And this is against a profit of 400 billion rubles (\$ 4.76 billion) in 2023.

The obvious conclusion drawn by Russian capitalists from this was the complete disregard for the labor of workers, who kept working at the mines, allowing them to function, even when they would not receive wages. While the weakest mines went bankrupt one by one, their owners were able to save good sums of money and thus provide themselves with a safety cushion.

Although the bankruptcy of mines and non-payment of wages to workers is bound up with the global conjuncture of falling coal prices, it is only the most acute manifestation of the systemic crisis in the Russian coal industry, which began with the restoration of capitalism. Coal mining is one of Russia's important raw material export-oriented industries. It is carried out in more than 20 regions of the country, with the largest scale in the Kuznetsk coal basin, where more than 50 percent of Russia's coal is extracted.

Throughout Putin's regime, coal production and exports have grown almost continuously. While in 2001 coal production was 269.3 million tons, in 2021 it was 432 million. In the same period coal exports increased fivefold from 41.7 million to 210.5 million tons. The dependence of the coal industry on export growth became apparent after the outbreak of the war in Ukraine and the coal embargo of Western countries against Russia. The coal industry had to reorient its European exports to Asian markets. However, this has failed. While in 2022-2023 exports managed to remain at the level of 2021, in 2024 coal exports fell to 195 million tons.

Thus, the coal industry faced stagnant export growth in 2021-2023 and a record drop in 2024. The growth crisis of the coal industry has been passed on to the working class. The Russian oligarchy will pursue a program of job cuts, wage cuts and closure of unprofitable mines, which will inevitably cause an increase in unemployment in coal mining regions.

The situation with the Kuzbass miners is only the most vivid manifestation of a general trend. The coal industry in Russia, while important, has long suffered from structural problems associated with the

restoration of capitalism. The focus on exports has led to a complete disregard for the environmental impact of coal mining in the regions. Moreover, all profits from coal mining were effectively concentrated in the hands of the owners of coal companies and mines, as well as local and state authorities. As a result, despite the important position of miners in the Russian economy and the high economic growth of the last two years, Kuzbass, the leader in coal production and export, is one of the poorest regions in Siberia in terms of average wages.

Inflation with no end in sight

Another major economic and social issue is inflation. This problem took on a serious character in the first year after the coronavirus pandemic began. At the end of 2021, official inflation in Russia amounted to 8.4 percent, in 2022 it rose to 11.9 percent, in 2023 it was at 7.4 percent and in 2024 at 9.5 percent. Food inflation, which hits the poor the hardest, was even considerably higher.

Initially, inflation was conditioned primarily by the crisis in global supply chains and the impact of Western sanctions on the Russian economy. Then it was exacerbated by overheating from the growth of the war economy.

The authorities claim that the causes of inflation lie in excessive growth of consumer demand, which, in their opinion, inevitably led to overheating of the economy and price growth. The growth of consumer demand is also blamed for the labor shortages and the growth of real wages. The situation on the labor market is such that with a huge shortage of personnel, it becomes easier for Russian workers to fight for higher wages. Unemployment in Russia now officially stands at only 2.4 percent. Under such conditions, it is difficult for capital to directly undercut wage growth.

Thus, the Putin regime's domestic policy is full of contradictions. To support the war, the Kremlin has been forced to inflate government spending enormously, adopting a policy of budget deficits covered by domestic debt and reserves. This, coupled with increased labor shortages, has led to record wage increases for the working class in the manufacturing sector, as well as rising incomes for the military and their families, while other sections of the working class have been impoverished. Rising wages inevitably put pressure on the rate of profit, causing the capitalists to retaliate by increasing the prices of goods and services, which hit the poorer sections of the working class first, and intensify the exploitation of the working class more broadly.

Behind the statements and policies about a "cooling" down of the economy and stopping inflation lies the Russian oligarchy's desire to stop wage growth and shift the burden of the crisis onto the working class by triggering a vicious cycle of recession and bankruptcy through high interest rates, thus encouraging capitalists to cut production, increase labor intensity and layoffs.

The policies of Russia's Central Bank have been aimed at increasing unemployment and reducing wages. The policy of high interest rates (21 percent since November 2024) aimed at reducing 10 percent inflation is the Putin regime's main measure in shifting the burden of the crisis onto the workers. At the same time, it is an attempt to create an economic framework that would make it possible to continue and expand the war if there is no deal.

With labor shortages and the general economic stagnation of civilian production, this policy threatens a real social catastrophe for the Russian working class. In the long run, this will affect all layers of the working class, regardless of whether they are employed in military or civilian production. Already, the Russian government is preparing amendments to

the Labor Law which would double the amount of overtime allowed from 120 to 240 hours. At the same time, overtime pay would only be paid beginning from the 121st hour. The changes would allow employers to effectively add an entire 13th month of work to the average work year.

The origins of the reactionary policies of the Putin regime

In today's problems, Putin's regime is facing the product of the disastrous destruction of the Soviet Union and the restoration of capitalism out of which it emerged. All of its policies demonstrate how incapable it is of dealing with these fundamental problems in a progressive way. The bankruptcy of Putin's regime reflects the general historical bankruptcy of Russian capitalism and the world capitalist system more broadly.

Russian capitalism emerged after the Stalinist dissolution of the Soviet Union as a huge source of cheap raw materials for the imperialist countries. Having plundered Soviet state property and appropriated the nuclear arsenal, the Russian oligarchy staked its fortunes on enriching itself through the export of raw materials and the relatively cheap labor of the Russian working class, while retaining a certain regional influence and "sovereignty."

In practice, this meant the dismantling of the social achievements of the October revolution in the form of health care and education, as well as the general standard of living of the working class. This was generally accomplished in the 1990s through the "shock therapy" under Boris Yeltsin. However, the new ruling class had to consolidate itself in order to further integrate itself into the world capitalist system as an "equal partner." This was the historical role of Putin's regime.

It became the mainstay of the Russian oligarchy's wealth accumulation and thus the custodian of Russia's vast social inequalities. When Putin rose to the head of the Russian state in 2000, there was not a single dollar billionaire in Russia. In 2008, the number had reached 87. In 2021, it was already 117. This year, it grew to 146, according to *Forbes*. Over the past year alone, the oligarchs were able to increase their fortunes by \$48.7 billion. They now own a combined capital of 63.3 trillion rubles (about \$737.3 billion), more than the total bank deposits of the rest of the country. The role of the Putin regime has been to protect the interests of this oligarchy at the expense of the Russian working class.

The looting of the Soviet legacy led to an even greater technological backwardness of Russian industry, which only increased the need to import technology from more developed countries to maintain social stability and further the functioning of the economy. Fixed assets of production were increasingly worn out. Russian and foreign capital was invested primarily in the extractive sector, which brought instant profits. The problem of long-term technological development was of little concern to the Russian oligarchy, which was satisfied with its position and sought to preserve it.

As a result, Russia has become highly dependent on imports of more advanced technologies from the imperialist countries. Once these were cut off by sanctions, Russia had to turn to more imports from China. However, these have been insufficient to substitute for decades of lack of investment and for the imports from the imperialist countries.

A vivid example of the depreciation of fixed assets is the crisis of cargo transportation in Russia, which was aggravated by the war in Ukraine. Previously, the truck transportation fund was mainly replenished by imports of European vehicles, but with the development of sanctions, the structure of imports changed towards Chinese trucks.

Today, the trucking industry is facing a serious crisis of wear and tear on its fleet. A sharp 89 percent drop in imports earlier this year indicates that

Russian companies have become less likely to renew their fleets, with the average age of their vehicles has already reached 23 years. At the same time, according to Arthur Consulting, the shortage of employees in the freight transportation sector is 20 percent and continues to grow rapidly.

Experts surveyed by Forbes before the announcement of Trump's tariffs predicted a 20-30 percent increase in transportation rates in the near future. This means that further price increases, including for food and essential goods, are almost inevitable, which is another refutation of the oligarchy's fairy tale of inflation caused by high consumer demand.

There is also the problem of labor shortage. It has long been one of the main manifestations of the demographic crisis in the country, which was a direct result of the restoration of capitalism. Between 1994 and 2024, Russia's population never went back to its historical peak of 148.5 million people reached in 1993, despite all the Putin regime's demonstrative policies to improve demography.

With the outbreak of war in Ukraine, the birth rate has fallen to record depth, inevitably creating a new demographic hole that will exacerbate labor shortages in the future. That is why the Russian nationalists dream of a demographic population boom that will solve all problems like a magic pill.

In launching his adventurous invasion of Ukraine, Putin clearly did not expect it to drag on for three years of bloody war, killing over a million people on both sides. The war has exacerbated all geopolitical contradictions. It has accelerated NATO's military build-up, helped flood Ukraine with weapons and strengthened the position of neo-Nazis in the state apparatus. In addition, the pressure of sanctions on the Russian oligarchy has not abated, but rather continues to intensify.

Certain advantages of the Russian army on the battlefield are just a military conjuncture, based primarily on the internal crisis of the Zelensky regime and the reorientation of U.S. imperialism toward China and the Middle East. Even if a deal is reached, the internal contradictions of both US and Russian capitalism will intensify. For Russia, any deal with US imperialism would involve the opening up of significant portions of its raw materials to direct exploitation by the imperialist powers and an intensification of the oligarchy's attacks on the working class.

Moreover, any such settlement would be of a temporary character. The aggression of the imperialist powers against Russia and China would not only continue but intensify, including in other regions of the globe. If no deal is reached, the war in Ukraine will continue, which means military spending will remain at the same level or increase. In such a case, the repressive policies of the Putin regime and its pressure on the working class will be intensified. All this will be accompanied by a new barrage of nationalist and religious propaganda and imperial chauvinism.

Prospects for the development of the class struggle in Russia

The reactionary policies of the Putin regime thus open up serious questions for the Russian working class. Two perspectives are now open before the workers.

If matters remain in the hands of the oligarchy, the scenarios confronting the working class will differ only in the pace the social catastrophe and the war will develop. The imperialist drive to carve-up and subjugate the Soviet Union would not only continue but accelerate, as the imperialist powers simultaneously prepare for war with China and fight amongst themselves for a new imperialist redivision of the world. The oligarchy, itself torn by rivaling factions and conflicts, will continue to align itself with one or another imperialist power, while intensifying its attacks on the working class.

The second perspective is the only one that offers a way forward for the

Russian working class: It is based on its independent mobilization in a struggle against both imperialism and the Russian oligarchy and its policies of social catastrophe. Such a mobilization is only possible on the basis of the most consistent and revolutionary program of socialist internationalism and in conjunction with its class brothers and sisters internationally.

The development of such a program in the working class requires a continuous struggle for the development of socialist consciousness, for the revival of the internationalist traditions of the October Revolution and the restoration of the historical truth about Leon Trotsky's struggle against the Stalinist degeneration of the Soviet Union.

The building of a section of the International Committee of the Fourth International in Russia and the other former Soviet republics is a necessary step for the Russian working class to unite its efforts to overcome the present crisis of world capitalism and the reckless and dangerous policies of both the imperialist powers and the Russian oligarchy with the international working class.



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