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Russian government prepares cuts as poverty surges

By Andrea Peters

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Russian political leaders began the new year by announcing major cutbacks in government expenditures in response to an escalating budget crisis. Oil, the mainstay of the Russian economy, is now trading at less than \$30 a barrel, down from highs less than two years ago of over \$100 a barrel. Russian energy giant Gazprom just announced a 2015 third quarter loss of 2 billion rubles (\$26.1 million), compared to a 105.7 billion profit a year prior.

Speaking on Friday at a meeting of government officials, Russian Prime Minister Dmitry Medvedev warned, “The dramatic movement of oil prices is creating serious risks for the fulfillment of the budget.” He called for bringing budgetary outlays “in line with expected incomes,” privatizing state enterprises, and reducing “the size of the state apparatus,” in other words, laying off government employees.

Medvedev’s remarks were underscored by parliamentary leader Sergei Narishkin in comments to the Russian news agency TASS. “Economic realities point to the fact that a correction has to be carried out,” Narishkin opined.

Last week, the government ordered all Russian ministries to submit plans for a 10 percent reduction in their expenses. Finance Minister Anton Siluanov warned that without such steps,

one of the country's major reserve funds, which currently has a balance of \$59 billion, would soon be empty.

The new cuts come on top of last year's 10 percent across-the-board reduction. According to the Kremlin's English-language press, *RT*, health care, education, social security, pensions, culture, tourism and sports are all being targeted. Even these measures may not be adequate to stem the budgetary crisis, as the proposed cuts are based on estimates that assume the price of oil to be \$40 a barrel, more than \$10 above the price at which the commodity is currently trading.

News of the cuts emerged alongside a report by pollster VTsIOM finding that the number of poor families in Russia, as measured by those reporting difficulty paying for food and clothing, grew from 22 percent to 39 percent in 2015. This statistic is much higher than the official poverty rate (with a cutoff of \$112 per person per month), which increased last year by another two million people to around 14 percent of the population. The sharp decline in Russian living standards, which were hammered by last year's recession, when the economy contracted by 3.7 percent and real wages fell by nine percent, is expected to continue into 2016.

On Monday, the country's currency fell further, reaching a new low of 79 rubles to the dollar. It has lost more than half its value since 2014, driving up the cost of imported consumer items, in particular food and medicine. Industry has not benefited from the relative cheapness of the ruble, as non-oil exports and production failed to grow in 2015.

In addition to axing spending, the government is targeting the pension system. In December, Russian President Vladimir Putin indicated that preparations were underway to raise the retirement age, citing the fact that the country's lifespan had risen to 71. This year, payments to retirees will be raised in the first part of the year by just four percent, well below the rate of inflation and three times lower than in 2015, resulting in a cut in their real value.

Former Finance Minister Alexei Kudrin, a right-wing advocate of austerity who is rumored to be preparing to return to the Kremlin, criticized even this modest adjustment. He claimed that if Russia wanted to be a "social state," i.e., one that provides even a modicum of social programs and welfare services—the country would need a growth rate of at least five percent a year.

Rising costs for food, medicine and utilities, along with pension arrears, are driving Russia's elderly population into destitution. The average monthly retirement income for 2016 is projected to be just 13,132 rubles, or \$166, about \$50 more than the official poverty line for a single person. It will be lower, however, for pensioners who continue to work, as their retirement payments are not indexed to inflation at all. In the Siberian city of Novosibirsk, pensioners who went to the post office in January to collect their monthly check were notified that due to "underfunding" and "cash flow" problems, they would not be able to collect their payments.

Households that had previously benefited from social programs providing a modicum of support for families with children now confront a double crisis of falling wages and reduced welfare benefits. Sergei Smirnov, a leading social scientist with the Russian Academy of Sciences, explained to *Gazeta.ru*, "If you have one head of household who works and his wage is falling by 10 percent, and you have a stay-at-home mother with two children, and her sole means of

support is social welfare, then under conditions in which there is no indexing [to inflation], that family will lose somewhere around a quarter of its income.” He added, “Twenty five percent, that is perceptible. That is serious grounds for social discontent.”

Wage arrears are also becoming widespread. As of December 2015, according to official statistics, there were 3.89 billion rubles in unpaid wages nationwide, a number that has been steadily growing since June 2012. The government recently announced a small increase in fines for employers who fail to pay their workers, a measure denounced by the head of Russia’s Federation of Independent Trade Unions because, according to him, the present sanctions were already working and increasing them would “destroy jobs.”

While Russia’s official unemployment rate, which stands at 5.8 percent, is relatively low, the Ministry of Labor recently released data indicating that 631,000 workers are in immediate danger of losing their jobs. Over 60,000 enterprises employing 18 percent of the working population have declared their intention to let go staff. There are, in addition, over 280,000 so-called idle workers, those who either agreed to take an unpaid vacation or work fewer hours, an increase of 74 percent compared to last year.

In an expression of the immense pressure building on Russian households, indebtedness and late payment on consumer debt have grown dramatically. In Sverdlovsk Oblast, a province in the Ural Mountains, past due balances increased last year by over 42 percent. Today, the average borrower in the region spends 45 percent of his monthly income financing his consumer debt. In Novosibirsk Oblast, bank debt exploded to 440 billion rubles in 2015, a 63 percent increase. Similar scenarios can be found across Russia, according to a recent article in *Nezavisimaya Gazeta*.

As living standards buckle under the weight of the economic crisis, public opinion surveys register growing anxiety and disillusionment. Just 25 percent of Russians believe that if they lose their job, they will be able to find another decent form of employment. And one out of every three Russians now has two or more relatives who have recently been laid off, reports VTsIOM. A new study by the Russian Environmental Policy Center found a growing mood of protest in the population, particularly among the least well-off and those outside of the country’s largest urban centers. In mid-November, Russian truck drivers began demonstrations against a newly imposed federal highway tax intended to finance road repair and line the coffers of the Kremlin oligarch whose company owns the toll system that is destroying their earnings.