

## RUSSIA

# A potentially explosive situation



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The global agenda is dominated to a very considerable degree by the growing Russia-US confrontation. The sharp verbal exchanges between Moscow and Washington, mutual expulsion of diplomats, economic sanctions, military manoeuvres on the border of Russia and NATO states increases tensions between these

two world powers. The “Countering the American Adversaries Through Sanctions Bill” signed by President Trump on August, 2, 2017 brings the confrontation to a new level. In my view the US has adopted a strategy of regime change in Russia.

To understand the new developments let's look at the

background to the events. The tension between Russia and the West has grown since 2007 when President Putin for the first time publicly disclosed major differences between Russia and NATO. It was a shock as at this time the West conveniently considered Moscow as a junior ally prepared to ‘follow the line’ whatever the line, and whatever

damage it might do to Russia.

The storm of confrontation burst open and strong in 2014 after the coup d'état in the Ukraine backed by the US and their allies. The unexpected side effect of the return of Crimea (historically a Russian territory) back to Russia provoked a particularly angry reaction from the West. The storm turned into typhoon when Russia started to support self-determination of highly industrialised Donetsk and Lugansk regions (also former Russian regions included into the Ukrainian Soviet Socialist Republic after the 1917 Revolution to increase the industrial capacity of agrarian 'traditional' Ukraine).

The irritation of the 'masters of the world' reached a peak when Russia started giving effective military assistance to the legitimate government of Syria (our decades-long and most reliable ally in the Middle East), fighting hoards of terrorists covertly supported by the West. It looked like a real mutiny against the established global order, whereby the West, after the destruction of the USSR, has unilaterally assumed the role of a judge who decides on what is right and what is wrong anywhere in the world.

These developments provoked mass expectations from both governments and ordinary people in many countries, suggesting that Russia was back as a powerful counterbalance to US imperialism, replacing in a sense the Soviet Union. Of course if somebody bloodies the nose of an arrogant bully (as is the case in Syria) it raises hopes all over the world that there is a force that can challenge the dominance of the US-based global oligarchy.

But we should not allow ourselves to be carried away by sweet dreams that the USSR is back. (It will be back! But somewhat later.) The row between the US and Russian ruling groups is better characterised as 'inter-imperialist rivalry'. The gist of the matter is that the Russia-based oligarchic group is increasingly determined to fight for its unholy right to plunder Russia's natural resources while their 'class brothers' in the West are challenging this right. The big sharks tried to swallow what until recently was a smaller fish but failed as it gradually developed into something

equally big. Hence it was particularly painful for the Western establishment to realise that Russia is falling out of its control.

It is not! At least not quite. In fact the class composition of the ruling group in Moscow is similar to that in the West: the government is dominated by comprador monopoly capital and the top state bureaucracy closely connected with big business. (Their symbiotic connection makes corruption an indispensable part of the Russian social, economic and political system). The reigns of economic power (the posts of the Head of the Government and his two First Deputies, the Central Bank, the Finance Ministry

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and other major economic bodies) are strongly in the hands of pro-Western liberals who pursue financial and economic policies destructive to the development of Russia. It is sufficient to mention that Russia keeps over 100 billion US dollars in American banks while incessantly crying about the need to attract foreign investment.

Therefore the changes in Russia's foreign policy, no matter how significant they look, can hardly be perceived as a mutiny. After the admission of Crimea back into Russia the Kremlin has avoided doing the same thing in relation to the Lugansk and Donetsk regions, whose population at the

referendums also decided on self-determination just like the population of Crimea did several months earlier.

There is of course a strong element of historic, centuries-old rivalry between the East and the West which both sides tried to camouflage in the 'romantic' years after the destruction of the Soviet Union. Then the West, not yet sure of its success, portrayed itself as a charity organisation keen to facilitate the return of Russia to the family of 'civilised' nations.

The problem of the West is the existence of the informal 'power group' in the Government opposed to the 'economic bloc' representing the views of the Army, Security Services, Foreign and Interior Ministries, Intelligence community, Attorney General's Office, National Guard and some other agencies. These bodies by definition must take a more patriotic stand as their raison d'être is the defence of the country from the increasingly hostile West. Hence there is a covert struggle between the "pro-Western" and "patriotic" groups in the Russian leadership.

The 'power' group exerts considerable influence on President Putin's foreign policy in favour of protection of Russia's national interests, despite the attempts of the pro-Western 'liberal' group to keep Russia as a junior ally of the West. Thus the US has to increase coercion to get the Russian leadership back into line. The first sanctions introduced after Crimea joined Russia in 2014 did not do much harm to Russia. More than that they had a very positive effect, provoking a badly needed trend for import substitution particularly in hi-tech industries which had been suffocated by imports.

Therefore the US started to tighten the grip. The "Countering the American Adversaries Through Sanctions Bill" hits the most vital areas of the Russian economy – the oil and gas industries, the revenues of which form more than 50% of the State Budget. The Americans cannot stop the production of oil and gas (although they can make it more difficult by banning transfers of vital technologies). But they can block the exports of gas to consumers by imposing severe restrictions on foreign credits for the new pipeline projects

'Northern Stream-2' and 'Southern Stream', thus limiting the capacity of Gazprom to sell energy to Europe and make profits. This in its turn will cut the flow of gas money to the State Budget with inevitable economic, social and then grave political consequences.

But what is more, the new sanctions for the first time hit not only the closest friends of President Putin but all the top businessmen connected to the ruling group in the Kremlin. Section 241 of the Bill demands among other things that:

*Not later than 180 days after the date of the enactment of this Act, the Secretary of the Treasury, in consultation with the Director of National Intelligence and the Secretary of State, shall submit to the appropriate congressional committees a detailed report on the following:*

*(1) Senior foreign political figures and oligarchs in the Russian Federation, including the following:*

- a) An identification of the most significant senior foreign political figures and oligarchs in the Russian Federation, as determined by their closeness to the Russian regime and their net worth.*
- b) An assessment of the relationship between individuals identified under subparagraph (A) and President Vladimir Putin or other members of the Russian ruling elite.*
- c) An identification of any indices of corruption with respect to those individuals.*
- d) The estimated net worth and known sources of income of those individuals and their family members (including spouses, children, parents, and siblings), including assets, investments, other business interests, and relevant beneficial ownership information.*
- e) An identification of the non-Russian business affiliations of those individuals.*

*(2) Russian parastatal entities, including an assessment of the following:*

- a) The emergence of Russian parastatal entities and their role in the economy of the Russian*

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*Federation.*

- b) The leadership structures and beneficial ownership of those entities.*
- c) The scope of the non-Russian business affiliations of those entities.*
- (3) The exposure of key economic sectors of the United States to Russian politically exposed persons and parastatal entities, including, at a minimum, the banking, securities, insurance, and real estate sectors.*

This is a hardly hidden ultimatum to the Russian business elite – either you comply with the US political line or you have a strong chance of losing your wealth. Given the fact that practically all oligarchs with Russian passports acquired their wealth by illegal means and that corruption is an indispensable part of the economic and political mechanism in our country it would not be too difficult for the Americans to get evidence of the criminal nature of the Russian oligarchs' property. And they are being told in no uncertain terms that their continued support of President Putin and his team might lead to very dire consequences – including the confiscation of wealth.

The same concerns the top management of major parastatals including giant oil and gas companies

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Rosneft and Gazprom. It is hardly a secret that while these companies are formally state-owned in fact they are totally controlled by their management in the interests of the management! So the US sanctions will hit hard on the people who have informally privatised the parastatals.

One of the American government agencies has recently reported that Russian nationals keep in various offshore institutions over one trillion US dollars. This is more than four times the State Budget for this year. (The country can do nothing for four years and still retain its current level of spending). So the Russian business elite really has something to lose as a result of the new US sanctions.

And there is no return to business as usual. Paul Craig Roberts – a former deputy finance minister in President Reagan's Administration – has recently written a sharp article stressing that the US elite has taken a final decision to put Russia into a category of enemies alongside North Korea and Iran. In Robert's view any attempt of the Russian ruling class to restore relations with the USA is doomed to failure.

In the meantime the cohesion of the ruling group is getting weaker. Rivalry between various factions hidden until recently from the public eye is rapidly coming to the fore. The court trial against the former Minister of Economic Development, Ulyukaev, accused of extracting a bribe from Sechin, – the powerful head of the Rosneft state oil corporation – is revealing. Think of that! One of the highest state officials demanding a bribe from another very high official. And Sechin reported this 'incident' to the police! Unbelievable. Yet it illustrates the nature of relations inside the ruling group.

While the worsening relations with America might look like the biggest headache for the ruling group, in fact the greatest threat to it comes from within the country.

In the power play of the various "Kremlin towers" (rival groups in the Russian leadership) one important, in fact decisive factor is left out – the people of Russia. And this factor is gradually preparing to move into action. Of course on the surface there is complete stability. Russians are

people with a high level of tolerance. It is difficult to get them moving. But once the nation starts to move, it is impossible to stop.

The fact is that the model of proxy Capitalism is dismally failing in Russia. The growing social tension might have very unpleasant consequences for the ruling group.

And the indices are there. The national economy is in the state of permanent crisis. It depends on oil and gas exports and the holes in the state budget are patched by the increase of exports. In the export structure the products of machine-building industries constitute only 6% which gives our national economy a semi-colonial nature. What development can one talk about if the budget expenditures for education and medical care for 2017 are targeted at 6%, while the expenditures for defence and law enforcement stand at 29.4%. The size of the budget cake for the "national economy" is 12.7% though the level of depreciation of fixed assets in manufacturing stands at 60-70%. In fact the economy is being moved by Soviet-made machinery.

This state of affairs is not accidental. The banks into which the oligarchic government enthusiastically pumps hundreds of billions of US dollars prefer to speculate with the exchange rates rather than to invest into the real sectors of the economy. The banks reluctantly give credits at an 18-20% interest rate while the average level of profitability stands below 10%. Such "wise" financial policy of the Government can only result in the destruction of manufacturing.

As a result the middle class which is a critical social base of any bourgeois regime constitutes an insignificant 20% of the population and is rapidly dwindling. Small and medium businesses are suffering from a combination of the terrible pressure of big monopolies, fiscal agencies and criminal elements. The level of social inequality is staggering with 1% of the population possessing nearly 75% of the national wealth. On the other side the poverty level even by official statistics has reached an unprecedented 13% – over 22 million people. Unofficial estimates are much higher – up to well

over 50%.

The social opportunities that should propel able young people to the top are not working. The recent mass demonstrations in Moscow and other Russian cities were dominated by the young and well-educated, with a very considerable involvement of senior school pupils. This is a very significant development indicating that the post-Soviet generation with no experience of living under Socialism is beginning to reject Capitalism as a system that offers them no future.

As the years after the destruction of the USSR go by, people increasingly compare what was there before with what they have now. Free education and medical care, free housing and very cheap communal services, zero unemployment, low crime and

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excellent free facilities for holidays – all this is perceived like a dream for tens of millions of young Russians. A recent opinion poll has shown that the view that the Soviet Union should be recreated is supported by 68% of the people. The considerable growth of sympathy towards Lenin and Stalin is another indication of the dissatisfaction in the society with the current state of affairs.

Thus two major factors (external pressure and internal discontent) are merging to create a potentially explosive situation. So the feeling in the ruling group of Russia is increasingly that of a besieged fortress. It is natural in such cases for state leaders to turn to the nation with an appeal to rally behind them to combat an external threat. It

works to a degree furthermore that NATO conducts military manoeuvres on the borders of Russia. But essentially the hatred of the 'mafuta mingi' is so strong and social inequality is so great that people are likely to applaud rather than condemn the confiscation of Russian oligarch's assets in the West.

Given the fact that corruption penetrates all levels of State institutions and also the growing level of social inequality, people will hardly be ready to defend the regime that deprives them not only of basic necessities but of the future. Unlike in 1941 when Nazi Germany invaded the USSR and met the powerful resistance of the Soviet people, the forces inside the besieged fortress are unlikely to be ready to sacrifice their lives for the current ruling class of Russia, composed of a tiny group of oligarchs and top bureaucrats.

So the main threat to President Putin's ruling group comes not from outside but from inside Russia. We are coming closer and closer to the situation described by Vladimir Lenin: "when it is impossible for the ruling class to maintain their rule without any change; when there is a crisis, in one form or another among the 'upper classes'... leading to a fissure through which the discontent and indignation of the oppressed classes burst forth. For a revolution to take place, it is usually insufficient for 'the lower classes not to want' to live in the old way; it is also necessary that 'the upper classes should be unable' to live in the old way." (Lenin Collected Works, Vol 21, Progress Publishers, Moscow, 1964, pp 213-214)

Vladimir Putin is going to win the presidential elections next March. The real test of his support however will come later when internal and external forces increasingly at work will exert pressure on his regime. He has been in power longer than even CPSU General Secretary Cde Leonid Brezhnev (18 years). Cde Brezhnev's time is recalled with warmth. Putin can hardly expect history to make a similar assessment of his rule.

Two prominent Russian academics have recently (and independently from one another) published well researched studies predicting a revolution in Russia around 2020. ■