

Is Neoliberalism Killing Russia?

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Putin's approval rating is high, but it has declined over the past year. The decline is mainly related to domestic policy. Apparently, the public perceives recent Kremlin economic policy as a continuation of the disastrous policies that Washington imposed on Russia in the 1990s when Russia was loaded up with foreign debt while state assets were privatized and plundered by oligarchs sponsored by the West who "cashed out" by selling the assets to foreigners.

The approval rating of Putin and the government dropped in response to the recent increases in the retirement age and value added tax. The former raised concerns about pension security and reminded Russians of the collapse of Soviet pensions. The latter reduced consumer disposable income and lowered consumer demand and the economic growth rate. These policies represent austerity imposed on the domestic population instead of on foreign creditors and reflect the neoliberal view that austerity leads to prosperity.

Russia is experiencing capital outflows due to the Russian private sector's repayment of loans to Western creditors. Russia has experienced over \$25 billion a year of capital outflows since the early 1990s, accumulating to over a trillion dollars. This money could have been invested in Russia itself to raise the productivity and living standards of its citizens. The outflow puts the ruble under pressure, and the interest payments draw money out of the country away from Russian uses. If it were not for these outflows, the value of the ruble and Russian wages would be higher.

The US sanctions give Russians every reason not to repay their foreign loans; yet Russians continue to enable their own exploitation by foreigners, as neoliberal economists have told them that there is no alternative.

Russia's economic problems are due to the looting of the country during the Yeltsin years, to the imposition of neoliberal economics by the Americans, and to financialization as a result of the privatizations.

Russia's stock market became the darling of the West in the mid-1990s as underpriced mining, oil and infrastructure were sold for a fraction of their value to foreigners, thus transferring Russian income streams abroad instead of leaving the income to be invested in Russia. In effect, Russians were told that the way for their country to get rich was to let kleptocrats, oligarchs, and their U.S. and British stock brokers make hundreds of billions of dollars by privatizing Russia's public domain.

Washington took advantage of the gullible and trusting Yeltsin government to do as much political and economic damage as possible to Russia. The country was torn apart. Historic parts of Russia such as Ukraine were split off into separate countries. Washington even insisted that Crimea, long a part of Russia and the country's warm water port, was retained

by Ukraine when the Soviet Union was dismembered.

People's savings (called the "overhang") were wiped out with hyperinflation. Privatization was not accompanied by new investment. The economy was not industrialized, but financialized. The proceeds from privatization were deposited by the Russian government in private banks where the money was used to privatize more Russian assets. The banking system thus served to finance the transfer of ownership, not to fund new investment, and the proceeds were transferred abroad. Russia was turned into a financial colony in which proconsuls created wealth at the top.

Today privatization continues in the de facto privatization of public assets, such as charging fees for use of federal highways. As the Russian economic profession has been brainwashed by the Americans, the country is devoid of economic leadership.

We have pointed out on more than one occasion that it is nonsensical for Russia to indebt itself by borrowing abroad in order to finance investments. The Russians were sold a bill of goods that the central bank cannot issue rubles unless the rubles are backed by dollars. This advice served to prevent Russia from using its own central bank to fund public infrastructure and private investment projects by issuing rubles. In other words, Russia might as well not have a central bank.

Apparently, Russian economists do not understand that Russia does not spend borrowed foreign currencies inside Russia. If Russia takes a foreign loan, the borrowed money goes into central bank reserves. The central bank then issues the ruble equivalent to be spent on the project, and the cost of the project goes up by the pointless interest paid to the foreign lender.

As far as we can tell, the Institute of Economics of the Russian Academy of Sciences is so brainwashed by neoliberal economics that their minds are closed to correct policies. The failure of Russian economic leadership imposes far more costs on the Russian economy than do Washington's sanctions.

Intellectual leadership is weak with many in the intellectual class favoring integration with the West rather than with the East. To be part of the West has been an important goal since Peter the First and Catherine the Great, and the Russian Atlanticist Integrationists cannot let go of the ancient goal. This goal no longer makes sense. Not only does it imply Russian vassalage, but also Europe is no longer the center of power. The East is rising, and China is the center and will be until the Chinese destroy themselves by copying the Western neoliberal policy of financializing the economy.

Although Putin is a leader and has a sense of Russian purpose, many officials use their office not in service to Russia but in service to their own wealth, much of which is held abroad. Corruption and embezzlement seem to be the purpose of many office holders. Scandals abound among members of government and reflect badly on Putin and Medvedev.

The Russian government's popularity was at a peak when the government showed it had the intelligence and will to reincorporate Crimea into Russia. However, the Russian government, hoping to reassure Washington and Europe, refused the requests of the Luhansk and Donetsk republics to be reincorporated into Russia. Russian nationalists, the majority of the population, saw this as kowtowing to the West. Moreover, the Russian

government's decision has resulted in Ukraine's ongoing military assault on the breakaway republics and to the arming of Ukraine by the West. Instead of acting decisively, the Russian government enabled the continuation of conflict that can be exploited by Washington. The Russian people understand this even if the government does not.

By failing to show firmness, the Russian government encourages the crony system of oligarchs who want a government that they can use for their narrow interests. Their interests include participating in the system of Western plunder known as "globalism." These client elites of the West oppose a powerful Russian state that could assert itself on the world stage and offer an alternative policy to the West's policy of plunder. The influence of this narrow interest group on government policy indicates that the Russian government is compromised.

Putin is trying to break free of the West's grip by directing Russia's economic orientation to the East. His effort is helped by the American sanctions. But Russia remains sufficiently mired in the Western system to be vulnerable to sanctions and is only slowly extracting itself.

Various aspects of Russia's difficulties and transformation into a power with a foot in both West and East are discussed by commentators. What goes unacknowledged is that Russian economic policy is constrained—indeed, crippled—by the neoliberal brainwashing given to Russian economists by the Americans in the 1990s. Consequently, Russia is enfeebled by an economic policy that encourages privatization and foreign ownership, and by financialization of economic rents, that is, of income streams that do not result from productive investment but from such factors as location and rise in value due to public infrastructure development, such as a road built across a property. In a financialized economy credit is used to transfer property ownership instead of to finance new plant and equipment and construction of infrastructure.

The Russian government and central bank have been blinded to the fact that Russian infrastructure projects and private investment are not dependent on borrowing dollars abroad or by acquiring dollars by selling Russian assets to foreigners. Such projects can be financed by ruble creation by the Russian central bank. Money that flows into productive projects that raise output is not inflationary. Generally speaking, such projects lower costs.

For Russia to succeed, Russia needs an economic re-education and a government that finds its footing in Russian nationalism and discourages Western provocations with firmer responses.

It is our view that the Western world, indeed all of life, has an interest in a Russia too strong to be attacked or provoked as a strong Russia is the only way to curtail the Western aggression that is leading to nuclear war.

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Dr. Paul Craig Roberts and Prof. Michael Hudson are frequent contributors to Global

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