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**Consequences of Widening Income Differentials, Social Stratification and Environmental Degradation: The Situation and Perspectives in Russia**

**1. Macroeconomic Background**

In 1991, Russia rejected communist ideology and chose democracy as a higher form of protecting human rights, basing its choice on the West and Western democratic values. As it is well known, these values consist of two parts: political freedom and a market economy.

Today, we have practically no problems with political freedoms, which Russian citizens are provided by their new constitution. These freedoms are not only declared, but are also carried out. Today, 250 parties are registered in Russia. The parliament and president are elected. Russian citizens can organize meetings and strike, and they can publicly demand the dismissal of the government and the president. They can freely travel abroad, and there is no such freedom of expression anywhere as there is in Russia. And all of that is true.

However, today the main problem for Russia as well as for all other independent states of the former USSR (with the exception of the Baltic countries) relates to the second part of democratic freedoms. Namely, choosing such a model of economic development, which

would provide its citizens with the most vital democratic rights - the right to work and earn decent wages, the right to a pension, the right of accessible medical care, the right to an accessible education, and the right to a clean environment.

Paradoxically, today, more and more people in Russia are beginning to realize that even under the communist police state of the USSR, they were much more socially protected, than now under the democratic Russian government and with all political freedoms.

What happened in Russia? In 1991, Prime Minister Gaidar and his team began economic reforms based on neo-classical monetary economic concepts developed by so-called "Chicago school" of J. Sachs and M. Friedman and which became known as "shock therapy". They were guided by rather successful conservative-liberal transformations made by President Reagan in the United States and Prime Minister Thatcher in Great Britain. However, by the early 1990's, when the Russian school of young economists was engulfed by this monetary theory, it was practically no longer applied in the West, although the main conservative-liberal reforms that took place in the 1980's in Western countries corresponded with the theories of their remaining informal institutes and were accepted by society. But they were not accompanied by destructive norms and traditions and had a soft evolutionary character.

The methods which young Russian reformers used did not take into account the specificity of the Russian economy and unfortunately, they were not in the interests of the majority in society. Many leading Russian and Western economists pointed out that the recommendations

made by such advisers as Jeffrey Sachs would probably have been good for Colombia, Nigeria, or Tunisia, but not for a powerful industrial system with a highly creative and technological potential, which was actually true in the case of the Soviet military economy. Thus, not everything should have been discarded and the positive elements of the old system should have been retained during the reform process, as it was done in China and Vietnam. ( See V. Loginov, deputy director, Institute of Economics, Russian Academy of Sciences, "The Influence of the Market Economy on Social Processes", *Ekonomist (The Economist)* No. 12, 1997, pg. 20.)

The conservative-liberal reforms in Russia were carried by relying on a number of basic concepts:

1. Liberalization of prices, and as a result, the depreciation of savings of all enterprises, organizations, and private citizens.
2. Privatization of enterprises and the service industry and the introduction of vouchers, which was an attempt to share the basic capital of the country with each citizen. Unfortunately, this program was not successful.

The conservative-liberal reforms based on the monetary economic concept were imposed in Russia blindly and mechanically, and after six years, this "experiment of the century" has brought us extremely sad consequences.

We can see the results on a macroeconomic level in Table 1 "Social-Economic Indicators of Russia," which appears in the article titled "Russia and

the Economic Order of the XXI Century", by V. Kushlin, Economist, Russia, No. 12, 1997, pg. 6). Namely:

1. The decrease of the Gross Domestic Product in Russia by 42% during 1991-96.
2. A drop in industrial manufacture by 50 %.
3. A fall in the manufacture of consumer goods by 58%.
4. An increase of unprofitable enterprises in the country reaching 48.3% by June 1, 1997.
5. The increase in the country's imports reaching 51%.

The dynamics of basic macroeconomic indicators for 1996-97 can be seen in Table 2, based on data provided by the State Committee of Statistics. (See "Socio-Economic Evolution of Russia: Results of 1997 and Scenarios for the Nearest Future", Dr. Sergei Glazev and Dr. V. Manevich, *Russkiy Ekonomicheskiy Zhurnal* (Russian Economic Journal), 1998, No. 1, page 3.)

While analyzing the first two lines in Table No. 2, it is important to note that the information regarding the volume in industrial production requires a correction because of a 5 % divergence in the data provided by regional state committees.

The degree of the fall in Russians Gross Domestic Product (GDP) during the past 6 or 7 years exceeds the borders of stability of the macroeconomic system. In 1997, the GDP for Russia was approximately \$450 billion, which was only 6% of America's GDP, 10% of Japan's, and 39% of Great Britain's.

In 1997, investment activities continued to fall, so that in comparison with 1996, the volume of investments fell by 5%. Mutual of non-payments continued to increase, with the result that by December 1, 1997, the total of amount of unpaid debts of industries, agriculture, construction plants and transport reached 789.9 trillion rubles (non-denominated) which comprised 33% of Russia's GDP. Russia's internal and external debts have reached \$200 billion, which is almost half of the country's GDP.

What do these general macroindicators mean for the population of Russia? For the general population, they mean first of all an extensive social deterioration and a collapse of the social welfare. Namely:

1. A reduction in the consumption of basic food products and clothing.
2. A worsening in the housing situation.
3. A deterioration of the free public health service.
4. A deterioration of free public education.

## **2. Social Collapse of Society. Wealth, Poverty, and Hunger.**

For the largest part of Russia's population, the situation is worse than before the reforms. For most people, the most negative consequences of the liberal economic reforms are as follows:

- Increasing unemployment.
- Low wages.
- Long delays in the payment of wages, pensions, grants, childrens'

stipends, and benefits for invalids and veterans.

According to data provided by the International Organization of Labor, the number of unemployed in Russia has grown from 3.6 million in 1992 to 6.7 million in 1996. Russian state statistics cite 4 to 5 million unemployed and trade unions 20 to 25 million. The period in which it was possible to postpone the appearance of mass open unemployment is now drawing to a close. According to Deputy Prime Minister Oleg Sysuyev, a number of large enterprises are likely to go bankrupt by the end of 1998.

During the years of economic reforms, there was an unprecedented fall in real wages. According to official data, they have dropped by 50%, but independent analysts state that they have fallen even more. According to the data of independent scientists, the real value of average wages and pensions declined between 1991 and 1997 by 78% and 67% respectively. There is no other industrial country in the world where wages are as low as in Russia. According to polls taken in September 1996, the absolute majority of workers - 85% - was not satisfied by its level of wages. Less than 5% of the workers were satisfied. At the beginning of the 1990's, the difference in the levels of wages was 1 to 4 and at the present time it is 1 to 26. (See "Monitoring of the Social-Labor Sphere" by Dr. E Antonenkov and Dr. O. Petrov, published in Ekonomist (The Economist), No. 4, 1998.)

According to official Russian indicators, the relationship between the poorest and richest is 1 to 13, but other data indicate that the differentials are much greater. Moscow has become the absolute champion in the differentiation of incomes not only for Russia but

also for the entire world. In Moscow, the differential of incomes between the poorest and richest individuals is 1 to 56, and 35% of Moscow's population has incomes below the subsistence level, which is 804 thousand rubles (about 130 USD per month.)

The delays in the payment of wages have grown from several months to one or two years. At the end of 1997, salary debts were about 50 billion rubles (not denominated) and by June 1998, wage arrears had reached a total of 66.8 billion rubles, or nearly 11 billion dollars.

In many regions of Russia, these payment arrears have given rise to strikes, protests, blockage of roads and railroads, and taking enterprise directors as hostages.

According to official statistics, the number of people in Russia's population whose incomes are below the subsistence level has decreased from 22% in 1996 to 20.8% in 1997, which comes to more than 29 million people. And those whose incomes are on the subsistence level make up 44% of the population, which is more than 53 million people. Today, the subsistence level for adults in Russia is 435 rubles per month (70 USD), 439 rubles for children and 307 rubles for pensioners (50 USD).

Academician Tatyana Zaslavskaya determined that approximately 40% of Russia's population lives below the poverty line and another 36% lives only a little above it. Independent researchers define the poverty line as 150 rubles per month (24 USD) and found that 13% of their respondents did not even reach this level. This means that 15 million people in Russia are literally starving. Many families cannot pay for their utilities, housing, and medical treatment, not to speak of education, sports, or the opportunity to rest.

The growing social inequality has led to a splitting of society. In 1996, almost half of all incomes (47.1%) were concentrated in the hands of one-fifth of the population, while 60% of the population earned only 35.5% of the incomes. Informal data have indicated that only one thousand people in Russia earn salaries in millions of dollars and about ten thousand earn from one hundred to five hundred thousands of dollars per year.

Russian businessmen consider themselves as being rich only if they earn no less than 20 or 30 thousand dollars per month. According to Forbes Magazine, among the richest people in Russia today are former Deputy Prime Minister Vladimir Potanin, who is now a businessman and is worth 1.6 billion in USD, the head of the gas company Gazprom, Rem Vyakhirev, who has 1.2 billion in USD, and the executive secretary of the Commonwealth of Independent States, Boris Berezovsky, who is worth 1.1 billion dollars.

The basic sources of fantastic and quick enrichment of the so-called "new Russians" is not labor, but their proximity to state structures, their use of state money, licenses on exports and the sale of petroleum and other valuable raw materials for personal enrichment, their use of perks and privileges in buying state property, and complete tax exemptions. For example, during the first year of reforms, more than two-and-half thousand commercial banks were created, into which the state deposited money into budget accounts to pay workers in defense enterprises, the army, etc. What did the banks do? In the best cases they used the money to make more money, and in

the worst cases they sent the funds abroad - forever. During the past seven years, the amount of money detained by the banks in this manner has reached 876 trillion rubles (not denominated).

While a few thousand people quickly enriched themselves at the expense of the entire society, most people in the country became beggars. Monetary concepts of reform in Russia turned into reforms for a select few and many refer to this reform as "robbery of the people". It is interesting to note that the new Russians" are not in a hurry to invest their billions in the domestic economy. While Russia is appealing to the International Monetary Fund, America, and other Western countries for loans and investments, the illegal outflow of capital from Russia increases each year. For example, in 1996, the outflow was ten times higher than direct foreign investments in the national economy - the investments were 2.2 billion USD and the outflow of capital was 22.3 billion. According to Roy Medvedev, a well-known social critic and chairman of the Socialist Party of Russia, the annual drain of capital from Russia annually is between 20 and 30 billion USD. In an article which appeared in *Nezavisimaya Gazeta*, (Independent Newspaper, No. 6, 1998), Dr. Vyacheslav Dashichev wrote that during the period of Russian reforms, 300 billion USD were leaked to the West, but today, Russia is trying to convince the IMF to give her a so-called stable credit of 22,6 billion USD.

### **3. Decline in Science, Education, and Culture. Collapse of Welfare.**

As a result of the reforms that have been introduced, there has been

an unprecedented decline in science, education, public health, and culture. (See Table 3.) During the period of reforms, allocations for research have decreased four times, with the result that they comprise only 1.73% of Russia's GDP! The public importance of scientific work has fallen drastically, so that the wages of Russian scientists are on the minimum subsistence level. Because of this distressful situation, 200 thousand scientists and experts have left the country during the period of reforms. And this process is continuing. The federal subsidy for scientific development comprises only 0.2% of the federal budget for 1998.

There is much to be desired in the destroyed public health system, which now comprises only 2.8% of Russia's GDP, while in the United States, it is 14%. Between 1996 and 1987 (which was the beginning of perestroika in the USSR) the death rate of the population has increased by 34%. Between 1992 and 1995, Russia's population declined by 2.7 million. Life expectancy for Russian men and women is less by 15 to 17 years and 7 to 10 years respectively. Life expectancy for men in Russia is 57.6 years, which ranks the country in the 135th place on the world scale, and

Russia's expectancy for women ranks 100. Thus, the life expectancy for Russian citizens is lower than even in the majority of African countries. (See "Social Structure of Society and the Goals of Reform" by Dr. V. Ivanchenko, *Ekonomist (The Economist)*, No. 4, 1998.) Children's death rate in Russia is 16 per thousand for infants who live to one year (in Japan it is 5.) Only 10% of Russian children are still in good health by the time they leave school, while 40% are chronically ill.

Free medical care is seriously threatened in the country. Today, state hospitals have neither medicines nor the money to pay doctors, and numerous social facilities, such as hospitals, clinics, and kindergartens have been closed.

Russian culture is in complete decline.

The state has no money for the upkeep of main national libraries, not to speak of the thousands of local libraries and museums. Both libraries and citizens cannot purchase books or subscribe to newspapers, whose circulations in millions have fallen to hundreds and thousands. But Russia continues to be a reading and educated nation.

The basic social welfare system inherited from the Soviet Union has been falling apart. Now the IMF and the World Bank are urging the Russian Government to end all subsidies for housing and municipal services by the year 2000. A poll sponsored by the Public Opinion Foundation in June 1997 found that only 60 % of the respondents were paying their rent regularly. It is estimated that between one and two million people - about 1% of the population - are now homeless in Russia (not counting the refugees.)

The quality of education has also fallen, including that of secondary schools and high schools. Salaries for teachers and professors are on the subsistence level or lower. Higher education is quickly becoming not free and it seems to me that in three or four years, there will no longer be only any free higher education. All of this testifies to the extremely negative (and many analysts already use the term

"catastrophic") socio-economic situation in Russia. This is confirmed by analyzing the various indicators which appear in Table 4, (Economist (The Economist, No. 4, 1998, page 80.) World practice and economic studies have confirmed that these indicators would be much lower if the government wanted to provide its citizens with public peace and well-being.

#### **4. War, Migration, Crime**

The Russian Federation is a multi-national state, with more than 100 nationalities and it has numerous unsolved national problems. Today, separatism in the various regions has become a common phenomenon. Economic, ethnic, and political conflicts between the center and its regions have led to numerous wars and armed conflicts, and the Russian Northern Caucasus are on the eve of a Large Caucasus War. Namely, between Chechnya and the Moscow center, Chechnya and Stavropol, Chechnya and Dagestan, Chechnya and Ingushetia, and Ingushetia and North Ossetia.

During the recent war in Chechnya, there were almost 80 thousand casualties from both sides.

Today, there are four million homeless children in Russia and more than five million internal refugees. Only one million 200 thousand of them have received state support.

The current socio-economic conditions in the country have given rise to a high crime rate. For example, a serious crime is committed every 10 minutes in St.Petersburg. Privatization of property, the fact that the authorities

and the criminal world often work together, and the corruption of all levels of authority have reached a dangerous point for Russia's safety. A new term has been coined in the world - "the Russian mafia." In 1996, the number of crimes per 100 thousand was 6 to 6.5 thousand, including latent crimes. Ordinary citizens have become defenseless and very often members of the police work together with criminal groups.

## **5. Deterioration in the Environment**

Natural resources became the main source for the realization of economic reforms and the transformation of the economic system. Many of the natural resources have become irreplaceable. While the production of manufactured goods have sharply fallen, the export of energy and raw materials have greatly increased. Between 1992 and 1996, exports have increased as follows:

- Natural gas has gone up from 88 billion cubic meters to 128.
- Crude petroleum - from 66 million tons to 105.
- Aluminium - from 1 million 190 thousand tons to 2 million 616 thousand.
- Copper - from 188 thousand tons to 542.
- Round wood - from 12.4 million cubic meters to 15.4

In many parts of Russia, the burden that has been placed on nature has reached critical dimensions. The predatory use of natural resources of Russia for the quick enrichment of the old and new nomenclature began in 1992-93. At that time, they had very easy access to the use of natural resources, which were more abundant than anywhere else in the

world. At the same time, it was common practice to grant Western companies cheap rates for processing raw materials, which usually involved ecologically dirty manufacturing practices and technologies. As a result, all of these processes had an extremely negative effect on natural resources and the environment

Since 1996, the state ecological management has declined. The Ministry of ecology, the ecological department in the government, and the ecological commission of the Security Council have been liquidated. Since 1995, there were significant reduction in Russia's overall budget:

In 1995 - by 0.6 %

In 1996 - by 0.6 %

In 1997 - by 0.4 % and

In 1998 - by 0.4 %

## **6. Nuclear Waste of Civil and Military Production and the Environment**

The main problem for Russia is the processing and storage of radioactive waste. The accumulation of radioactive waste near NPP's has exceeded their capacity.

In June 1998, a new disasters comparable to Chernobyl was avoided when a forest fire was stopped only 500 meters from the Voronezh nuclear power plant.

We must also take into account that 11 reactors of the Chernobyl type are still functioning in Russia - four at Kursk, three at Smolensk, and four in St. Petersburg. A new RBMK was planned to be built in Kursk.

The same problem exists with the lack of implementation of international treaties regarding nuclear weapons reduction. Today, approximately 200 retired nuclear submarines with nuclear fuel wait to be "disarmed" in the north and far east of the country. People call them floating nuclear bombs.

In addition, as of 1992, a very dangerous situation has existed with 13 flooded nuclear reactors and their parts, which are located in the gulfs of Novaya Zemlya, the Karskoye Sea and in the Far East. The total amount of liquid waste dumped by Russia in the northern seas by 1992 was 23.8 thousand curies and 16 thousand curies of hard waste. That situation also does not help improve the problem of the environment.

There is also a very dangerous situation in the Urals where the well-known Mayak military installation is located and has poisoned the surroundings for forty years. Experts consider it to be the "dirtiest" place in the world, where one billion curies of radioactivity has already accumulated. A new storage place for radioactive waste is also being built in this area, in spite of strong opposition expressed by the local population and nongovernmental organizations in the Urals.

Radioactive waste accumulated in Russia during its existence as a

nuclear power is a tremendous threat to the environment not only for Russia but for the whole world. According to the estimates of serious scientists, the total activity of radioactive materials on the territory of Russia is about 7 billion curies. Unfortunately, the economic monetary reforms in the country do not promote an improvement in the environment, but on the contrary, they promote its deterioration.

Thus, as a result of the economic reforms that were introduced in Russia, the country has emerged as one of the most disturbing world centers of social instability. There are mass actions of civil disobedience and strikes, in which all parts of the population, including scientists, academicians, teachers, doctors, and miners are taking part. Whereas their earlier demands focused on receiving their unpaid salaries, now they are demanding that the president and entire government be dismissed. Such collective decisions have already been adopted by numerous regional parliaments, including those in Sakhalin and Belgorod.

## **CONCLUSIONS**

1. Many independent experts believe that the socio-economic situation in Russia is catastrophic. Some of them do not exclude the possibility that some macroeconomic indicators will register periods of growth, at least for some economic branches in some regions. What they do exclude, barring a miracle, is the possibility of a long term trajectory for the country as a whole in which the impending social

catastrophe can be somehow averted (Stephen Shenfield, US). The majority of experts believe that today, Russia is on the eve of economic bankruptcy and a new social revolution.

## 2. Perspectives and Scenarios for the Future:

a.) Russia will receive 22.6 billion dollars from the IMF, the authorities are strengthening the tax laws, improving the investment climate, recovering manufacture, and improving the regulation of market mechanisms. And thus, the crisis will be gradually alleviated. But I want to underline that the continuing deep deterioration of the situation for the majority of the population is inevitable.

b.) At the present time, everything continues - the nonpayment of salaries, pensions, and grants, the decline in manufacture, the increasing criminalization of society, regional separatism as well as international conflicts, and a new impending war in the Caucasus. In the best case, a dictator will come to power. In the worst case, the communists will take revenge. In the best case, Russia will become a source of raw materials for developed countries. In the worst case, Russia will dissolve like the USSR, and there will be ten new states comprised of the center, the Urals, and the Far East and a large war in the Northern Caucasus. The situation of these scenarios is particularly dangerous because Russia has nuclear weapons.

Although I am a pessimist, I hope that these scenarios will not take place. You know that a pessimist is a well informed optimist.

3. The socio-economic and ecological situation in Russia has highlighted a rather interesting detail. Namely, the stratification of society and different levels of consumption in Russia reflect the relationships between various different countries in the whole world. Certainly, Russia's economic decline creates a curved mirror, but nonetheless, it is interesting to look in it. In the early 1980's, economically developed countries, in which 26% of the world's population had lived - consumed 80% of all energy resources, 85% of all paper, 79% of steel, and 86% of all other metals. And in spite of the progress in the world economy and Rio de Janeiro in 1992, the precipice between the developed and developing countries has not been closed.

According to a report issued by the 1995 UN Trade and Development Conference, in 1965 the difference between the incomes of 20% of the richest inhabitants of the earth were 30 times higher than the incomes of 20% of the poorest, and in 1990, it was already 60 times. I would like to remind you that in Moscow, the difference in the incomes of the richest and poorest citizens is 1 to 56. Today's global contradiction and the problem of allocating the planet's limited resources for the benefit of the entire world population - has not been solved by the intellectual elite of the world. Everything remains as it was 30 or 20 years ago. If China, India, Brazil, Indonesia, and Russia will want to enjoy the comforts and high standards of living of the West, which is theoretically possible in view of their potential, the contradiction between the people's high expectations and limited world resources will be even greater. It can bring the world to an

ecological catastrophe - unless the problem of sustainable development will not be effectively decided by the collective mind of all mankind.