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## [The only way to “unleash” the Russian economy](#)



Despite the hopes of the authorities, the economic crisis in Russia is not coming to an end – on the contrary, a growing number of Russians are still experiencing it. According to [recent data](#), 41% of citizens cannot afford basic food and clothes, while real disposable income has already decreased nearly one fifth since the beginning of the crisis. At the same time, those “at the top” do practically nothing about the economy, whereas the groups of experts who are developing absolutely different programs (as they believe), are now, in fact, offering similar recipes for recovery: both strategies focus on the need to support producers (one through cheaper loans in larger volumes; the other through the reduction of institutional obstacles to business).

It seems to me that the “mainstream Russian economists” are wrong. Given the 20% fall in real income of citizens, the economy cannot grow, no matter how many loans are poured into it and no matter how honest the *siloviki* suddenly become. The only way to “unleash” economic growth is to increase citizens’ incomes, especially for the most disadvantaged, who can only save a minimum part of their income and spend the majority on domestically produced goods and services. Yet this is precisely what the government is absolutely ignoring when limiting the indexation of pensions and benefits and not increasing wages in the public sector.

I do understand that a famous comment of Prime Minister Medvedev’s, “There is no money but you grin and bear it”, reflects the situation with the state budget. However, the situation is too serious so as not to try and undertake some “budget maneuver” aimed at the improvement of the situation of the least affluent citizens. I would suggest at least three priority measures.

First of all, the self-limitation on spending among low-income groups of the population is due not only to decreased income, but also a psychological sense of financial distress. The most important factors in generating this distress include loans (up to 21% of which are overdue), as well as arrears in payments for housing and utilities, fines and similar obligations. 38 million people in Russia have bank debts today, while nearly 12 million citizens are in arrears with their housing and utility bills. Of the cumulative bank debt of 11.3 trillion rubles, 26% of debts are below 50,000 rubles, or 3 trillion rubles total. However, nearly 16 million people are in debt to this amount. The average debt to asset management companies amounts to 26,000 rubles; 200 billion rubles would be enough to cover the liabilities of just 8 million citizens. In other words, 3.2 trillion rubles could bring nearly 20 million Russians back to the ranks of regular consumers, and “switch” their incomes back to being enough to purchase basic goods.

In my opinion, the “stuffing” of the banking system with money should be carried out precisely in this way: the state could receive a special-purpose loan from the Bank of Russia in this amount, for a period of 15-20 years, then redeem citizens’ loans while covering their liabilities to the banks and other creditors within 2-3 years, and pay back the loan after 2030 using budget revenue. Having in fact forgiven debts not exceeding 30-50,000 rubles, the authorities will be helping not the fraudsters but only the most disadvantaged citizens, and will increase consumer demand by 600-700 billion rubles a year.

Secondly, the authorities have to realize that inflation hits the most vulnerable groups hardest, and that the prices of milk, sour cream, eggs, butter, chicken, cereal etc. grow the fastest (up 70% from mid-2014 to mid-2016 on average). In this situation, targeted assistance to those who can afford only basic goods is necessary. There is a well-known mechanism for this type of assistance, which has even been used in the United States –

“food stamps”. Introduced in Russia, this could be very simple: every retiree gets stamps (issued, for example, at face values of 100 and 200 rubles) from their social welfare office. The stamps could amount to 4-5,000 rubles a month, purchased for half their face value. Retailers would then accept them at their face value, and hand them over to the banks which would enter them into their accounts and return them to the state. The most disadvantaged retirees - 10-12 million across the country - would be included in the scheme for a profit of 2-3,000 rubles. The sum of additional money injections would not exceed 250-300 billion rubles a year, but one could be sure that all of this money would immediately go to the consumer market.

In my opinion, the introduction of food stamps is the only effective method of speedily building up sales of domestic food production under the existing circumstances. Shops could easily manage the country of origin of goods in the case of payment by food stamps (which, additionally, could not be used for tobacco products and alcoholic beverages, and could only be accepted upon presentation of a pensioner ID card), and neither would it be a big deal to issue the stamps (taking into account experience with the issue of excise stamps).

Thirdly, a considerable portion of the income of the most disadvantaged Russians is spent on public transport (in Moscow or Saint Petersburg, let's say as well as their suburbs, as much as 2,000 rubles a month). The total amount of funds redistributed from the regular expenses of retirees and low-income citizens to transport companies has amounted to 300 billion rubles per annum in recent years. In my opinion, it is reasonable to return travel privileges at least to retirees in one form or another, for at least the period in which the state is refusing to introduce indexation of pensions based on real inflation (which is due according to law). I do understand that it is quite difficult to compensate for the loss of income in some regions of the country. However, I am convinced that such a measure can and should be implemented in Moscow (where the municipal authorities are carrying out large-scale reconstruction of the same streets every year, at a cost of billions of rubles), or Saint Petersburg (where the municipal budget finances the most expensive stadium in the world for the Gazprom “Zenith” football team).

The three above-mentioned measures could instantaneously increase real consumer demand by 90-120 billion rubles, or 3-4% a month. On the one hand, this is not too much. However, at the same time it is practically everything the state can afford. Besides, it's not only about the absolute value of additional expenses, but also the change of vector from the negative to the optimistic. This would symbolize the passage of the long expected “bottom-line” of the crisis. On the other hand, such measures would have a significant social effect, while underlining a radical change in the priorities of the authorities, which have recently focused on spending budget funds exclusively on the military and police. Any change of such policy will be perceived by society as a powerful foundation for optimism and a change in the behavioral model towards boosting consumer spending.

Of course, the problem should obviously not be reduced to consumption by retirees. There is a mass of citizens in the country who do not live, but rather survive, under the present circumstances. This includes highly qualified employees such as nurses and doctors, teachers and engineers, public sector employees (except for civil servants and “servicemen”). The increase in income of these categories of citizens is also a more effective means of “unleashing” economic growth, compared to financing the bridge to Crimea, or the new lines of the Baikal-Amur Mainline. But as long as the economists who even consider themselves liberals are focused on options for saving businesses and not citizens (producers and not consumers), the prospects for the recovery of the Russian economy will remain dire for many years to come.

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