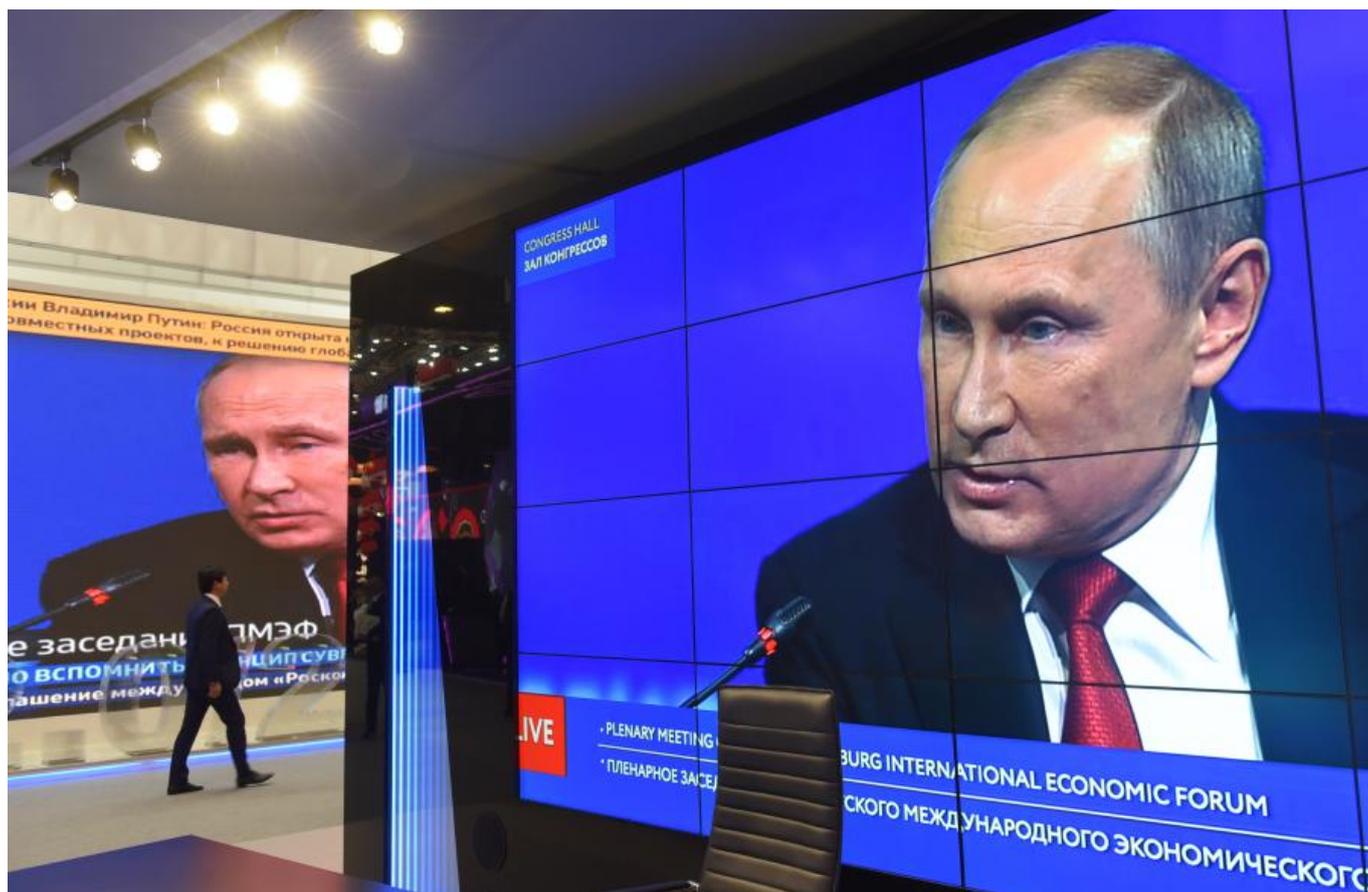


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[“Digital disease” and the cure for it](#)



One notable event during the recent international economic forum in Saint Petersburg has been observed, but not analyzed in detail. As Deputy Prime Minister Igor Shuvalov [revealed](#), on one evening Vladimir Putin talked with members of the government long into the night, discussing “only new technologies and the digital economy.” This vigil gave Shuvalov the impression that “the president is completely on board, and understands that broader growth rates depend on the digital economy and technological leadership.” One month later, Putin set up a council on strategic development and priority projects, dedicated entirely to the digital economy; breakthroughs and booms were promised once again, and now the sector (which hasn’t been precisely defined) is supposed to [grow](#) its share in Russia’s GDP from 1% to 10% by 2024 - i.e. by the end of the next presidential term.

Of course, it could be presumed that Putin turned his attention to free messaging apps, new data transfer technologies, original hardware developments or yet another Yota, but for some reason I feel that the “digital disease” so unexpectedly contracted by the Russian leader is not the result of concerns about country’s economy, but something completely different.

The scarce reports from the Saint Petersburg forum, for example, hint at who could have infected the president. The most likely carrier of the virus was the 23-year-old Russian-born Vitalik Buterin, winner of the

World Technology Award and co-founder of the Ethereum project, who had a separate private [meeting](#) with Putin during the forum. This living legend of the digital economy told the president about “opportunities to apply the technologies he developed in Russia,” and the head of state “supported the idea of establishing business relationships.” It is noteworthy that on the day of this remarkable meeting (June 2), the deputy governor of the Russian Central Bank, Olga Skorobogatova, [announced](#) that “the Russian Central Bank has started work on creating a national virtual currency,” even though the bank previously disparaged cryptocurrencies.

Meanwhile, the Ethereum exchange rate leapt from \$226.50 on June 2 to \$395 on June 13, an increase of 74%, equivalent to an annualized growth rate of 2300% (calculated according to https://www.coingecko.com/en/price_charts/ethereum/usd). For a better understanding of the scale of this event, it must be noted that the gross value of this currency available on the market grew by \$15.8 billion in those 12 days (calculated according to: <https://coinmarketcap.com>), which equals half of the value of the state-held shares in Rosneft. One of the reasons for the jump is that at least \$2 billion was invested in this asset over a couple of days.

Of course, it is impossible to ascertain that this injection was made by the patient himself or some of his well-wishing friends, but we must keep in mind how much the Russian ruling elite is concerned about how Western countries (primarily the U.S.) dominate the global financial system. It recently came out that in the days immediately following the annexation of Crimea, the Bank of Russia [withdrew](#) more than \$115 billion from accounts in the Federal Reserve Bank of New York, fearing for the safety of its deposits as political tension grew. Putin is concerned about these issues not only as president, but also as possibly the richest person in the world, whose assets are [estimated](#) by the majority of experts at \$200 billion. He knows that American officials are [aware](#) of his wealth, so he must be concerned about it; we saw his reaction to the Panama Papers and many other leaks – which will surely continue.

Therefore, we can be almost certain that all Kremlin people are now obsessed with the digital economy. The only thing is that its size is linked with the scale of precariously hidden or semi-legal fortunes, which have little in common with the exorbitant number of \$200 billion introduced by Bill Browder.

In fact, the amounts could be much higher. Experts who estimate Russian billionaires’ assets usually use “civilized” parameters, such as the value of shares in a company or a corporation’s cash holdings. However, the situation in Russia is different from common practices, first of all because the wealth of the ruling class has been and still is made not through country’s prosperity but its impoverishment. The usual calculations don’t work here.

I have written many times that the inflow of petrodollars to Russia in the 2000s and 2010s ([providing an additional](#) \$1.8 trillion–\$2.1 trillion) was less a significant source of Russian “overconsumption” than [underinvestment](#) into the majority of economic sectors. Comparing this situation to that of the Soviet Union, where the depreciation rate in most sectors was 8–10% a year, we can state that the current rates have shrunk by half to four-fifths. For example, Rosenergoatom invests 2–3% of its capital stock, although the current IAEA norm is 11%. If these rates are applied over the last 20 years, it turns out that the structures of Rosatom alone have underinvested almost \$260 billion. This number reaches over \$1 trillion for the oil industry, and over \$600 billion for gas industry. I am not counting investments whose results are virtually hidden from the public: we know that Gazprom [made](#) almost \$60 billion of meaningless investments in just three years – so we can only imagine what the total was over two decades. Therefore, I would estimate the amount that worries Putin (who doesn’t worry about his country) is at least \$1 trillion, while his closest accomplices are most probably satisfied with billions, or tens of billions. This is a realistic estimate of the loot received from the plundering of Russia (from \$1 to \$3 trillion). That said, I don’t think it is strange: It would be funny to talk about \$200 billion compared to the money of the kleptocratic leaders of Palestine (Yasser Arafat had \$24 billion according to the most modest estimates) or Egypt (up to \$70 billion held by Hosni Mubarak).

In other words, the Russian leadership has two equally significant reasons to catch “digital fever”. On the one hand, they understand that the finances of the country that belongs to them are not protected from their geopolitical opponents, and, even though those opponents have been gentlemanly so far, there is a limit to everything. On the other hand, they are anxious about the transparency of their savings and the risk of being found guilty of the biggest theft in human history. Thus, interest in being involved in developing a

cryptocurrency market is fully understandable.

Of course, there will be no digital revolution in Russia in the next few years, just as it didn't happen when the foremen of Perestroika were dreaming of conversion of military technologies, or when Dmitry Medvedev came out with [his article "Go Russia!"](#) It won't happen because the economy and the bureaucrats in charge of it have no desire to improve the production efficiency, reduce costs and upgrade production lines. There are also no people capable of carrying it out: Realizing the scale of the difficulties they would face, innovative young people are finding their niche in more creative spheres. However, there is huge demand for an infrastructure that would help preserve the money collected over the years of service, and provide freedom from the big sinking ship. Therefore, I'm almost certain that there will be a cryptocurrency in Russia (though it cannot be "national" by definition, since its beneficiaries will be Russian structures and private individuals); that Buterin's trip to Saint Petersburg was not futile; and that in the next couple of years exotic financial instruments will see an impressive (but not always rationally explainable) boom.

Because there's just no cure for kleptomania and greed.

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