

Living Standards of Russians Will Twofold Deteriorate



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After having attended the Moscow Economic Forum I was surprised to find that among a vast number of participants I failed to meet at least one who would share the opinion that the government of Russia has an elaborate economic policy. The majority of participants are sharing the opinion that the authorities are enthralled by illusions. There was a belief that oil prices would not fall below 80 dollars per barrel, but they have fallen; that after accession of Crimea the West would not impose any sanctions, but they have imposed ones; that after imposition of sanctions we would obtain credits in Asia and the Chinese investments would flow in Russia, but there is no such flow; that after devaluation there would be no price rising, and the prices have risen, and etc. It stands to reason that onset of any crisis should be followed by increase in borrowings, interest rates reduction and cuts in taxes; the government of the Russian Federation increased taxes, interest rates were sent sky-high and borrowings absolutely paralyzed; and the regions, such as the Rostov Region, which dared to make a try for to get themselves out of the crisis classically by increasing budget deficit, such politicians as Evgeny Bushmin, Chairman of the Budget Committee of the Council of the Russian Federation, by the way, Senator from the Rostov Region, were threatened with “public flogging” and obstruction. However, contrary to general opinion, I respectfully disagree with the majority opinion. To the best of my belief, the government has got an elaborate plan of actions, but this plan as distinguished from the opinion of the majority of population of Russia is aimed to decline living standards of Russians and the Cabinet is dealing successfully with this task. I would like to explain my reasons. If we would consider the GDP breakdown, in simplified form, net exports will make 5-7 %, supply expenditure will make 10-12 %, fixed asset formation - 20 % (this ratio has already fallen to 10 %) and net consumption and services will make 60-70 %. It has been proven that fixed investments should make about 40 % for sustained development of any country. For this indicator China is the world leader; as regards CIS countries, Belarus which is in the lead is followed up by Kazakhstan where this index makes 27-28 percent. And now we shall consider sources for increasing fixed assets formation in Russia. Neither net exporting nor army and state employees can generate such sources. At our disposal remains only net consumption. Under existing investments at the rate of 10 per cent, there is only one possibility to achieve 30 %: twofold crash

of living standards of Russians, from 60-70 % to 30-35 %, in other words, to cut per head consumption in half and, as a result, to cut the service sector by as many. But it's unlikely that population unaccustomed to live in conditions of mobilization development without any extraordinary events will support such actions of the government and, therefore, “a war” is necessary. The authorities manipulate the environment of international process in their favour, for purposeful, for its own ends, fall of living standards (consumption standards) of population. A great many of people failed to pay attention to the fact the Central Bank of the Russian Federation has got a right “to crash” the Rouble only since January, 2015, but the Bank made it two months earlier. Why? Because it was an ideal window of opportunities – the West imposed sanctions, and oil prices have fallen in half – these are “objective” reason and “enemy”. Actually, there were no reasons for the Rouble crash as, according to the applicable comprador model, the Rouble stock in hands of population (without notice of state corporations) in Russia is still in line with currency holdings. And even if all inhabitants of Russia brought their Roubles for exchange on dollars at the exchange rate which was actual in November, there would be plenty currency for everyone. But what did the government do? Let's put the case that you have \$100, on security of this sum you are issuing 100 Roubles. It is obvious that at any time these Roubles can be exchanged for dollars at the rate of 1:1. But if the issuer declared that he has no intention to exchange more than \$50, the remaining \$50, so to speak, “will disappear”. The rate of exchange will make 1:2 and the issuer will keep both \$50 and 100 % of the Rouble supply. That's what the Russian monetary authorities did when they abandoned exchanging Roubles for dollars upon their availability, and determined a new equilibrium point. According to this logic, the released Rouble supply should be brought to the real sector of economy, and for this purpose institutes of project financing which are distributing loans according to formula “public funds + own costs” are necessary but not the banks which formula includes interest on principal. As a result, closing the majority of commercial banks and merging of the rest of the bank in several state-owned megabanks and the state-owned banks of “bad debts” (unrecoverable loans) is expected in the coming days. A positive note is that the production sector will grow! And this is a closing idea.