"The Cold War Will Look like Child's Play Compared to New US Sanctions"

OE Watch Commentary: In a recent interview with *The Financial Times*, Herman Gref, Head of Sberbank, a state-owned Russian banking and financial services company, commented on the negative effects that a new round of US sanctions would have on Russia. His comments were repeated by *Interfax.ru* and many other Russian language news outlets. The accompanying passage transcribed from a *YouTube* video discusses his comments and puts them in context.

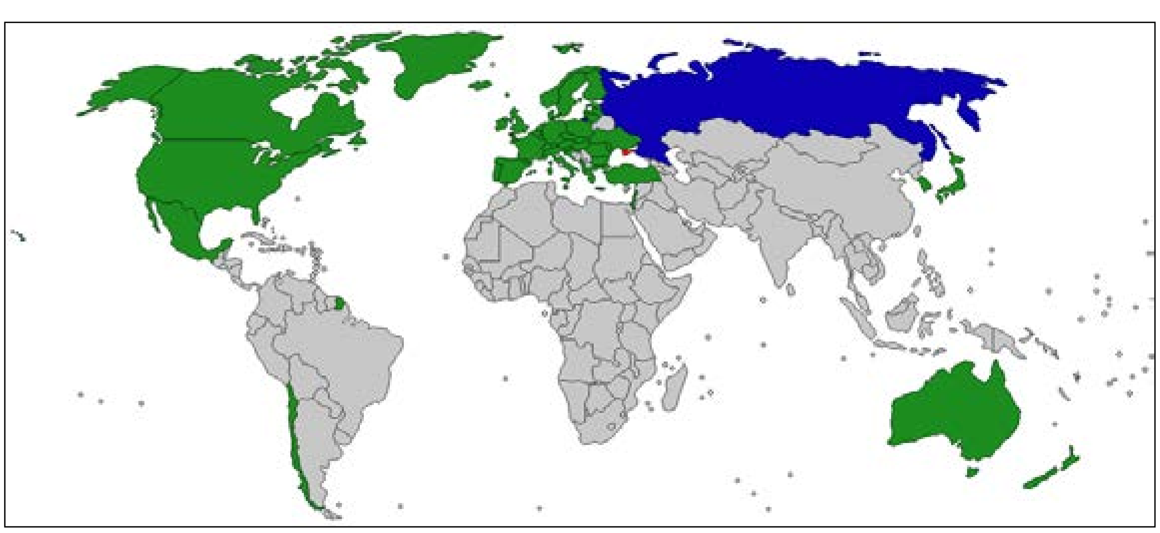
In addition to strongly stating the negative effect Russia's exclusion from the international SWIFT system would have, Gref said he is counting on President Putin to adopt large-scale reforms if and when he is re-elected in March 2018. He specifically notes a reform proposal made by Aleksey Kudrin, the Russian Minister of Finance 2000-2011. Kudrin's proposal recommends reducing the role of government in the economy, which is more in line with Gref's previously stated advocacy against a cryptoruble and for the legalization of cryptocurrencies, wherein he sees the future of currency in general.

According to the author, Gref is right to worry, because an exclusion from the worldwide system of money transfers would signal a cardinal shift from pinpointed, targeted sanctions, to a more systematic approach to affect Russia overall. As the author sees it, Putin will likely downplay the gravity of the sanctions, nevertheless, the "cleptocracy" will feel the hit. Despite his clear disdain for those in power, the author builds his case systematically, suggesting the government's next move will likely be one to protect the interests of the oligarchy.

The author claims that Putin's party, United Russia, already has a plan. As announced at the recent party convention, the party's plan would move the tax burden from the business sector to the consumer sector, to alleviate the pressure on businesses, thus spurring economic growth.

While tax schemes abound, the real danger for Russia in the threat of next round of US sanctions is the continual backsliding of the economy. The author sites the dilemma faced by the Russian government of paying pensions while attempting to limit the growth of the national debt, which in 2018 will require 1/20th of the funds coming into government coffers just to service. So far the gap has been covered by reserve funds, but starting this year, according to the budget, the debt will be serviced ironically by a fund started to support the national pension fund by investing in infrastructure.

Furthermore, the author notes that even rising oil prices would not help, because increased expenditures go primarily towards funding national security and law enforcement. Meanwhile, industrial production has taken the fastest dive since the 2009 economic crisis, unemployment is rising, and Russia has increased its ownership of American bonds, so the US has levers on the Russian economy at both ends. As one of the 472 commentators to the report states, "Sanctions are what's imposed, but "shanktions" are the result." **End OE Watch Commentary (Hall)**



Map of countries which implemented sanctions against Russia following the annexation of Crimea in 2014.
Source: By Zhitelew, modified by Elmor via Wikimedia Commons, https://commons.wikimedia.org/wiki/File%3ASanctions_2014_Russia_(Crimea).png, CC0 Universal Public Domain.

"Every government has its mafia, but Russia is the only mafia with its own government."

Source: Тэнгу, "Греф: 'Холодная война покажется детской забавой' по сравнению с санкциями США. Отключение от SWIFT ('The Cold War Will Look Like Child's Play' Compared To US Sanctions. Exclusion from SWIFT)," *Youtube.com*, 25 December 2017. https://www.youtube.com/watch?v=8qrF0BuiB30

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The politicians announced the need to increase taxes. The government considers it necessary to increase the tax burden on consumers to speed up economic growth. The Head of the Ministry of Economic Development, Maksim Oreshkin announced it at the Unified Russia Party convention. According to Oreshkin, the new taxes, which they will work on introducing after the 2018 presidential election, must include transferring the tax burden from businesses to individuals. "Moving the tax burden from investors to consumers is a structural change, which will aid in economic growth," Oreshkin said.

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As paradoxical as it might sound, even an increase in oil prices won't solve the budget problems. "Additional resources go primarily towards security forces," says an analyst for the Center for Development at the Higher School of Economics, Andrey Chernyavskiy. So, in November (2017) the expenses portion of the budget was increased by 361 billion rubles, and of that – 180 billion rubles – were designated for national defense and security, and law enforcement.

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The reports of increased unemployment are even more alarming in the context of other negative indicators demonstrated by the domestic economy recently…RosStat (Russia's State Statistics Agency) announced that industrial production in Russia had gone down by 3.6 percent in November 2017, after zero growth in October. This is the fastest drop since the crisis of October 2009, when the Russian economy took a nose dive as part of the worldwide downturn.