

Saving the Economy by Outlawing Dollars

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State Duma deputy and Liberal Democratic Party member Mikhail Degtyarev has introduced a bill that would obligate the government to seize Russians' dollar accounts and forcibly exchange them for rubles.

Obviously, the first thing to happen if legislators pass the bill is that Sberbank would go bankrupt.

Second, Russians will be split into two groups: those with ties to the authorities and who can therefore trade their dollars at official Central Bank rates, and those without connections who would be forced to buy dollars according to black market rates. Also, all of Russians' accumulated savings in rubles would be devalued overnight for lack of a benchmark to determine their worth.

In other words, if you have good connections with the authorities, your stash of rubles will buy you, say, \$100,000 with which you can buy a Mercedes. But without those connections, the same stack of rubles would get you only \$1,000 on the black market, and you would have to settle for a bicycle. That is how it works in countries like Turkmenistan and Venezuela.

Of course, it would be pointless to even mention such a ridiculous bill if not for one thing: Despite its absurdity, the Degtyarev bill might be the only way, however crazy, to relieve the accumulated stress on the Russian economy.

That stress is due to the fact that Russia's economy is becoming increasingly uncompetitive. The large army of government inspectors demanding bribes rendered medium-sized business unprofitable a long time ago. Even the major manufacturing plants owned by Kremlin-friendly oligarchs are slipping into red owing to the same problems with corruption and construction and operating costs that are 80 percent higher than those faced by competitors in Europe. As a result, many of Russia's largest export industries such as aluminum, steel and copper will cease to be profitable within only a few years.

That, in turn, means the unemployment rate will increase, and many Russian workers will be thrown out on the street. In another few years, Russia will turn into a giant Pikalyovo. At the same time, leaders would have to reduce the bloated, parasitic state bureaucracy to reverse that downward trend, but that is incompatible with the foundation and fundamental vision of this regime.

The liberal wing of the government has long known about this problem and wants to resolve it by devaluing the ruble. But that is a purely palliative measure that would give only a few years of breathing room.

Second, with world oil prices high, it will be difficult to weaken the ruble. Central Bank head Elvira Nabiullina tried to weaken the ruble soon after taking the helm, but its value crept back up anyway.

Degtyarev proposes a radical measure that would divide Russia between companies controlled by individuals with close ties to President Vladimir Putin and who thus have access to dollars at favorable rates from one side. On the other side are all the other service-related companies catering to them that would have to settle for dollars at rates set by Putin's friends.

At first glance, it might seem far-fetched, but back in 1999, wouldn't it have sounded equally far-fetched if someone had said that Russian leaders would abolish free elections, bankrupt and take over the major independent media outlets and jail Yukos CEO Mikhail Khodorkovsky?

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