

# Don't Expect an Economic Miracle in Putin's Russia

**The main task of Putin's new economic policy will be to collect as much in taxes as possible**

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Amid all the speculation about the recent [government reshuffle](#) and what it signifies, one thing is certain: the new Russian government was not assembled to enact change or generate ideas. On the contrary, it has all the hallmarks of one big supervisory body. Prime Minister [Mikhail Mishustin](#) and a significant number of his deputies previously worked in the Federal Tax Service, and many other ministers have come from corresponding oversight agencies.

This supervisory government is not designed to achieve a breakthrough or rapid growth. The government's tasks are pragmatic: to hold onto power and the cash flows that enable the



ineffective, but that's not the only reason. Society, which wants stability and improvement in living standards, must be fed somehow, while the private sector is dying and no more than 5 percent of the population works in commodities.

In this sense, state investment plays a Rooseveltian role: providing people with work and food rations via a state salary and involving what's left of private business in state contracts. But state investment has a very low rate of return; the money essentially recirculates. In order to pay salaries from it (and, along the way, pay millions of officials, state sector workers including teachers and doctors, as well as pensioners and so on), it must be swiftly received back into the budget.

Since printing money isn't an option considered by the Kremlin, which has studied Venezuela's experience so closely that it prints even less than it could, money can only enter the budget via taxes, either on natural resources or on consumption.

This is a vicious circle, and the end result is that the main task of PEP is to collect as many taxes as possible. This is why the man who successfully transformed the Federal Tax Service—Mishustin—is now head of the government. And what we can expect in terms of the future development of PEP is an increased tax burden: at the very least through a further increase in the collection rate, and most probably through other measures, too.

Simply raising taxes is a dangerous path, as it risks sparking public resentment. Russia already has a large combined tax burden: bigger than in most developed countries, and much bigger than in the United States and China, though the devil is in the detail.

For now, Russia has relatively low property taxes, so raising these is certainly an option (for individuals, if not for industrial enterprises, which might struggle to pay). It also has a uniquely low income tax, though salaries also take into account very high social taxes.

There are those, however, who don't pay social taxes, primarily recipients of dividends and fees, self-employed entrepreneurs, investors earning an income from property price increases, and so on. If investment is of little interest to the authorities, then raising income tax on capital revenues, including by introducing a tax on savings interest, is an obvious solution. The only thing standing in its way for now is fierce lobbying from within the authorities themselves: high-ranking officials are only human, and don't want to pay high taxes on their savings and investments.

More new taxes could also be introduced, such as the tax on sole traders that has been gradually unrolled in recent months. If taxes are raised, then the level of inequality will decrease, which will go down well with society.

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It's unlikely that we will see any new elements in economic policy in the near future. Financing will be allocated to the national projects (a giant road map for developing Russia's infrastructure), and the state corporations will grow, along with the number of people employed by the state sector. Taxes will continue to increase, while the redistribution of

wealth among society will be ongoing. The long-serving heads of the central bank and Finance Ministry will ensure that inflation does not become a problem.

And after a while, the media and society will as usual start to criticize the authorities and expect a new wave of personnel changes, so that they can once again start making predictions and forecasting change.

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