

# Behind The Lines!

Winter 2014

## **ОРУЖИЕ ИЛИ МАСЛО?\*** **\*GUNS AND/OR BUTTER?**

Language and translation are fascinating phenomena. The often-recited economic expression “guns and butter” bears witness to same when viewed from the Russian language perspective. For example, the Russian word “*масло*” (maslo) translates ambiguously as both “butter” and “oil.” Rendering its equivalent correctly in English depends entirely on context. Translators and interpreters deal with linguistic ambiguities like this every day. Given the rapidly shifting sands in the current world oil market, the politico-economic implications of the Russian term for “oil/butter” in the sense of the specialized phrase “guns and/or butter” is as relevant as today’s news. More pointedly, inasmuch as President Vladimir Vladimirovich Putin has clearly embarked on a more assertive and troublesome course for Russia, the disturbing question is the foreign and domestic impact of this new development in world politics – both for Russia and abroad.

The classic macroeconomics model “guns and butter” posits that a nation must balance its investments and priorities between the defense and civilian sectors of the economy. The choice becomes an either/or option in less developed or weak economies while the world’s strongest economies can support the both/and option. Russia’s reliance on marketing its vast oil and gas resources over the past decade or so has provided Putin the luxury of both “guns and butter.”

Domestic oil production along with vast resources of natural gas have allowed Putin to produce a \$50 billion dollar Olympic showcase, support military incursions in sovereign Ukraine, seize the Crimean Peninsula and incorporate it into the Russia state, and conduct extensive land, sea and air military exercises not seen since the collapse of the Soviet Union. 2014 was a capital year for the Putin Doctrine. Russian combined arms exercises conducted throughout the past year are expensive to plan and execute, and even more so for a country with a one-dimensional economy based on oil and gas revenues. Both oil and oil condensates are critical components for the operation of Tu-160 strategic bombers, nuclear-armed submarines, and T-90 heavy tanks. The obvious question arises: can Russia sustain this new and expensive endeavor in the world arena for the long term?

Russia needs a benchmark of approximately \$100 dollars per barrel of crude in order to balance the books. As the price of oil hovers around \$60 per barrel as of this writing, the diminishing coffers begin to send shudders throughout the Russian financial system. The ruble continues to drop somewhere in the range of 60-65 rubles per US dollar (a precipitous loss in the range of 50 percent during the course of 2014), inflation in the Russian marketplace is steadily increasing and heading towards 10 percent or beyond in 2015, and the Russian projected growth rate continues to stagnate at almost zero through the next year. While Putin has turned to the Russian central bank to compensate for the shortfall triggered by OPEC’s surprise decision not to increase oil production (a singularly disturbing and surprising turn of events for Russia at best), this interim infusion of Russian capital is only a short-term fix.

Russia’s growing economic concerns, negative growth, and creeping inflation resulting from diminished oil revenues appear real and troublesome. One indicator of the gravity of these concerns will be the extent to which Russia diminishes or continues to pursue its increasingly aggressive and expensive defense posture in 2015. Guns or butter? A new arms race? Putin has stated on several occasions that Russia will not become engaged in an arms race with the West again. But his recent actions belie his statements.

The validity of the Putin Doctrine will be seriously tested in 2015 as the sanctions imposed by the West really start to bite and the volatile nature of a barrel of crude begins to erode the already fragile Russian economic system. Economic implosion awaits Russia if/when a barrel of crude drops and remains near \$50 per barrel.