

On The GDP, Yet Again.

It seems this GDP question does not want to die. First, out of the blue Michael Kofman and Richard Connolly of Center for Naval Analysis (CNA) write this:


Well, it seems they read my books at CNA. In fact, I would dare to say that Russia's economy is, actually, fifth largest economy in the world. How so? Here is a demonstration in the most profound way--yes, I am not going to be talking about military hardware, where Russia gets a gigantic bang for a buck--by giving visuals for comparison of things people do not need special skills to understand. Here is one:



This is the house for sale in the hell of a nice community near....Mashkov Lake [near Moscow \(no, not Moscow, Idaho\), 75 \(47 miles\) kilometers from the Red Square, near highways, beautiful established community with school, stores, the works](#). The house is on almost half-acre of land, has the area of 190 sq.meters or around 2050 square feet. It is on sale for R5.8 Million, that is, converting directly to USD, $R5.8 \text{ million} / 62.2 = \$93,247$.

As you can see, if I would have been American economist I would immediately try:

1. To find rough equivalent of this house in the United States around the city with such massive gravitas which could at least remotely compare to that of Moscow. Let's try in D.C. suburbs, right? The only thing remotely comparable to this house in Russia I found at Virginia Beach, VA.



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2. As you can see, this house is 4.5 times more expensive than the Russian one, and it is 154 miles (as crow flies) from the US Capital. As you may expected, driving highways will be even longer distance.

So, let us calculate GDP created by building these two houses in Russia and in US. Right! As you may have guessed it already, the United States created 4.5 times more GDP than Russia by building comparable house in a place which, let's be frank, is not exactly Moscow. Mind you, that Russia builds all kinds of real estate, from apartments to houses, like there is no tomorrow. In fact, the house like that near Moscow, near Krasnoyarsk or Voronezh would cost you less, much less. While in the United States for \$93,000 you can buy, [even in affordable Spokane, WA, this:](#)



What a lovely charmingly decrepit piece of...history. Here is how PPP (Purchase Power Parity) GDP works, or, rather confuses most Western think-tank free-loaders who do not understand that most of what they know about the world outside is a baloney or a caricature. Like the fact that China's real middle class which has incomes comparable to that of the average US income is larger than the whole population of the United States. That is a good hint. In the end, for the same \$439,900 in Virginia Beach, VA, one can always buy this IN Moscow:

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And enjoy life on a full acre of nature with around 6,000 square feet of living space. Mind you, you will still have money left to not only furnish this thing but to host a huge housewarming party. I am sure if you are on the extravagant side, there will be money left on strippers too, good ones.

Now, can you scale down, or scale up, Russia's and American economies? Difficult still but it shows you, at least, what all those proverbial \$22 Trillion of the US GDP are worth. Not as much as you may have thought before. Nor the argument that Russians do not earn as much is entirely valid. Yes, many Russians do not earn as much and that is ongoing problem, but, say, R60,000 which roughly converts into \$965, gets you pretty comfortable living practically everywhere in Russia bar some places like Moscow or Sochi, especially if you own you apartment--very many Russians do and by own I mean OWN, not paying mortgage. There is a lot of what is going into those economic considerations. But it has to be understood today that nominal numbers in USD are absolutely meaningless and, in fact, dangerous because they create a false sense of confidence. But then, there is the other factor--a suppressed complex of inferiority. Shanghai skyline today can outshine anything out there, while many people from Western world, who partook in Western propaganda, upon ending up as tourists in Moscow, St. Pete, Sochi or any other major Russian city and cultural center are often subjected to a cultural shock and severe cognitive dissonance. Why do you think Moscow won [tourist Oscar this year](#)?

And then, of course, comes this ever important factor--as Patrick Armstrong calls it--Russia is a *full service economy*, she produces literally everything from socks and shoes to refrigerators, space ships, cars, TV sets and advanced diagnostic medical systems. And, of course, Russia produces weapons, very advanced weapons and at least some people are beginning to get the message:

Russian procurement dwarfs that of most European powers combined.

Beyond delivering large quantities of weaponry for today's forces, Russia's scientists and research institutes are far along in development of hypersonic weapons, such as [Tsirkon](#) and [Avangard](#), along with next-generation air defense systems like [S-500](#). This volume of procurement and research and development should not be possible with a military budget ostensibly the same size as the United Kingdom's. When theory checks in with practice, the problem with the approaches that return such answers is plain for anyone to see.

But you read me for the last five years, didn't you (wink, wink)? Such admissions are extremely important since infuse a much needed cold fresh air of reality into the stale atmosphere of the Western echo-chamber of the military-political analysis wrought with risks of at some point of time BSing policy-makers into the suicidal belief of the invincibility of the American military which may start a war resulting in catastrophic material and reputational losses for NATO forces and thus creating conditions for dangerous "saving face" escalation to a nuclear threshold. THIS must be avoided at all costs and giving Western policy-makers more realistic impression about what they are dealing with in Russia is a good start for finding peaceful arrangements in this new multi polar world. In the end, Kofman and Connolly admit:

Russian military expenditure, and as a consequence the potential for Russia to sustain its military power, is much more durable and less prone to fluctuations than it might appear. The implication is that even at its current anemic rate of economic growth, Russia is likely to be able to sustain a considerable level of military expenditure, posing an enduring challenge to the United States for the foreseeable decades. While ours is an exploratory analysis, it suggests that Russian defense spending is not prone to wild swings, nor has it been dramatically affected by changes in oil prices or U.S. sanctions. Given the disparity in national budget allocations, even as European allies increase their defense spending, Moscow is not going to struggle in keeping pace.

Their piece is a good indicator of Kofman doing at least some homework, unlike it was earlier, [when I criticized Kofman](#), and that is a movement in a right direction. Russia doesn't need to be loved or appreciated, Russians already made their civilizational choice, Russia needs some overly hot-shots in the West to get a shot of the reality for avoiding the confrontation in which the West cannot win militarily. After all, Russia's military history speaks for itself. But do not forget, however, that IMF (which is run by the US) doesn't even [include Russia into the list of a countries with Advanced Economies, while Lithuania and San-Marino are there](#). Good grief.

P.S. I thank the guys from Colonel Lang's forum who pointed me to this piece by Kofman and Connolly.