Can We Please Stop Comparing Russia’s Economy to Italy’s?

Description

In the realm of foreign policy discourse, few memes have been more prevalent or misleading than the oft-cited comparison of Russia’s economy to that of Italy’s. The phrase, first coined by Senator Lindsey Graham in 2014, has been wielded like a blunt instrument by Western policymakers and commentators, the implication being that Russia’s economy is feeble and inconsequential when contrasted with the collective might of the West. This soundbite, depressingly, has informed and shaped our approach to Russia, and it is high time we abandon it.

For if Russia’s economy were as small and unimpressive as the statistics suggest, how could it withstand the sanctions imposed upon it? Why has President Joe Biden’s declaration that “the Russian economy will be cut in half” failed to materialize? Did not French finance minister Bruno Le Maire tell a French radio station that the West’s goal was to “cause the collapse of the Russian economy” and bring Moscow to heel? How does a nation with an economy purportedly the size of Italy manage to exert such global influence, to the point where U.S. Treasury Secretary Janet Yellen recently stated that Western sanctions are themselves putting U.S. dollar hegemony at risk?

On paper, Sen. Graham’s observation *seems* accurate; both Russia and Italy are close to each other in terms of nominal gross domestic product, or GDP, which has been the preferred method of measuring a country’s economic size and power since World War II. The figure is produced by determining the total cost of all goods and services either produced or sold in a country within a given time frame. According to World Bank data, in 2013, Russia’s nominal GDP was around $2.29 trillion while Italy’s was around $2.14 trillion. As recently as 2021, Russia’s nominal GDP was around $1.78 trillion while Italy’s stood at $2.11 trillion.

Yet error in this comparison lies in the reliance on measuring nominal GDP itself, as it fails to account for exchange rates and purchasing power parity (PPP), which accounts for the standard of living and productivity (and from there, per capita welfare and, importantly, resource use). Renowned French economist Jacques Sapir has pointed out the inadequacy of this metric, arguing that Russia’s GDP, when measured in PPP ($3.74 trillion in 2013, $4.81 trillion in 2021), is closer to Germany’s ($3.63 trillion in 2013, $4.85 trillion in 2021) than Italy’s ($2.19 trillion in 2013, $2.74 trillion in 2021). This is a crucial distinction, and it is both puzzling and troubling that so many continue to parrot the Russia-Italy comparison.

But even the PPP figures do not fully capture the significance of Russia's economic power. Sapir further expanded his analysis in an essay for *American Affairs*, a policy journal, and noted that the PPP measurement "may not yet reflect the real importance of the Russian [economy] when strategic, geopolitical issues are at stake."

Sapir notes that, over the past fifty years, Western economies have become increasingly dominated by service sectors, which, while contributing to GDP calculations, lose their importance during times of conflict. In such situations, it is the production of physical goods that matters, and by this measure, Russia's economy is not only stronger than Germany's but also more than twice as robust as France's. Furthermore, Russia's dominant position in the global energy and commodities trade—as it is a key producer of oil, gas, platinum, cobalt, gold, nickel, phosphates, iron, wheat, barley, buckwheat, oats, and more—provides it with substantial leverage over markets and economies, making it less susceptible to sanctions and less easily cowed by Western pressure. This reality has not been lost on many nations in the Global South, who have been reticent to support Ukraine in its struggle against Russian aggression.

Though Senator Graham made a significant mistake in deploying the Russia/Italy economic comparison, he can perhaps be forgiven on the grounds that he is a politician. The same, however, cannot be said for a number of economists and foreign policy experts who have repeated the line over the years up to and including the present.

Yet the persistence of the Russia-Italy myth among these professionals is perhaps not surprising given the allure of the service sectors in the West. The spectacular growth of these capital-intensive sectors, along with their nominal wealth and productivity, has led many in Washington and various Western capitals to not just embrace them, but also to politically, culturally, and ideologically prefer them. We Americans take particular pride, for example, in the success of our tech giants as drivers of innovation, growth, and national prestige. The Internet, and the various applications that flourished on smartphones, are considered by many to be inherently democratizing, effectively serving as a conduit for American values and an enabler of U.S. national interests.

This love for service sectors results in a tendency to view the labor-intensive industries of the past—energy, agriculture, resource extraction, manufacturing—as antiquated relics. But this skewed perspective has left us unprepared for a world in which tangible goods are once again of vital importance, as evidenced by our struggles in the face of the war in Ukraine. The conflict has "exposed a worrisome lack of production capacity in the United States." In Europe, the United Kingdom has noted that "it will take 10 years to replace weapon stocks gifted to Ukraine and rebuild British weapon numbers to an acceptable level." The EU, for its part, now cut off from cheap Russian energy, faces the terrifying possible prospect of rapid deindustrialization.

It is high time that we admit how much we severely underestimate the relative size and power of rival economies, including and especially Russia's. It would also behoove policymakers to reevaluate their current policy approach to economic statecraft—sanctions are not a one-size-fits-all solution, particularly when dealing with a nation that wields significant economic power.

But above all, let us resolve to never again utter the words "Russia has an economy the size of Italy."

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