

# Seizing Russian assets

The U.S. and other Western powers have frozen \$300 billion in Russian assets. The Western powers seem ready to start giving the interest these assets earn to the Ukrainians to help finance their war effort. Russians, of course, are outraged and believe such a policy is theft of resources that are rightly theirs. While few Americans care what the Russians think on this issue, Americans should pay attention to the effects of the policy. The policy will have benefits and costs.

One benefit is obvious: the Ukrainians will have more money to buy weapons. The interest payments can provide a steady stream of funding, which may help the Ukrainians persevere during times when Western countries interrupt their aid payments. Recently, we saw the U.S. have trouble getting Ukrainian funding bills through Congress. This disruption hurt the Ukrainians on the battlefield. Ukrainians had to ration their ammunition. Faced with an enemy with less firepower, the Russians

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war is resolved, Russia thinks of, once again, attacking a neighbor. Suppose Russia believes that the West will seize its assets after it invades its neighbor. If this fear of seizure is great enough, then Russia may refrain from attacking another country.

There is a cost to this policy, but it is even less obvious than either of the benefits. The policy of seizing interest payments and using this money against the country that owns the assets could have an unintended effect. Any country that may engage in hostilities that will anger Western powers will not want to put their investments at risk. Therefore, countries like

were able to make tactical advances.

There is another benefit, a less obvious one. The policy may deter a country from committing hostile acts. Suppose that years from now, long after this Ukrainian

China and Russia may decide to put their money in financial institutions that promise never to seize their money for political reasons. As a result, the Western powers will have less money in their financial institutions.

When Western banks have less money, Western firms will not be able to take out as many loans to buy new plants and new equipment. Without these productivity-enhancing purchases, firms will produce less output, leaving the Western countries poorer.

When Western policy makers decide whether or not to seize Russian assets, they need to do a comprehensive analysis. They need to balance the benefits of seizing the interest payments against the costs that come with this policy. In some ways this policy decision is typical. Almost every policy decision is going to have benefits and costs. This one is no different.

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