

Economics and politics in Russia: On the eve of an acute crisis

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Abstract

This article presents an analysis of the key challenges facing the global economy, as well as the impact of these challenges on Russia. It addresses main collisions that have emerged in recent years, including the proliferation of etatism and populism, increasing social and political polarization, the growing importance of national issues vs the global agenda, as well as the social, economic and political consequences of using digital technologies against the backdrop of the global economy spiraling into an unprecedented crisis. The pandemic and its global economic impact are analyzed within the context of the 2008–2009 global financial crisis. This is the foundation which we set for discussing Russia’s economic agenda.

Keywords: economic policy, populism, globalization, world trade, digitalization, crisis, modern monetary theory, Russia.

JEL classification: E61, E66, F51, H53, H54, O52.

1. Introduction

We are witnessing the formation of a new paradigm, one that will dominate social and economic policies in the years ahead. This trend was evident as far back as 2019. But in 2020, we have all seen the transformation processes in question rapidly accelerate. With all of the differences between individual countries and regions, one can easily see the common challenges that shape this new paradigm. Despite the specific tasks that Russia must address, its development is an integral part of the global agenda, and it depends on Russia’s ability to find answers to these common challenges. Moreover, in 2020, natural factors have shown that they can still bring about serious crises in the 21st century, just like in prior centuries. With this in mind, it is vitally important that we take a fresh look at the long-term and short-term challenges now facing the economic system for which we are yet to find solutions.

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2. Trends and challenges

Most economic and political discussions and challenges today stem from two factors: technology trends that bring about dramatic changes in all aspects of people's lives, and the resulting social, economic and political discomfort that these trends cause to various social groups. In 2020 one can add to this couple a “natural challenge” in the form of a virus followed by the global pandemic crisis.

The growing social and economic tensions are primarily due to the unprecedented rate of technological development that is happening in both time and space. While the number of car drivers and electric power users grew to 50 million people over periods of 62 years and 46 years respectively, the same result was achieved in 12 years for mobile phone users, and seven years for internet users. Interestingly, the number of Pokémon GO players grew to 50 million users in just 19 days.

Innovations, especially household-oriented ones, are also spreading fast, with poorer countries and regions being just as receptive as their wealthier counterparts. Unlike industrialization, digitalization is spreading nearly simultaneously in every part of the world. More than 60% of people in poor countries use mobile phones. Unlike developed countries, developing economies started using the mobile internet not just when they got smartphones, but even as soon as they got electricity. In other words, poor countries adopt different generations of technologies at one time while simultaneously benefitting from the synergies. This chain of events is adequately described by the “advantage of backwardness” hypothesis, or a delayed adoption of modern technologies (Gerschenkron, 1962).

The rapid propagation of innovations, particularly digital ones, has clear benefits, yet it also entails new risks. Thanks to low “entry fees” and substantial reductions in information costs, the technologies create opportunities for inclusive growth, providing poor population groups and regions with new ways to radically change their lives for the better.¹ However, the risks of abusing and mishandling the new opportunities are obvious.

Then there is also another side of the problem. The speed and radical nature of the technological paradigm shift increase uncertainty even from a short-term perspective, which negatively affects the moods of investors and employees alike. For investors, this means uncertainty with regards to return on investment, since rapidly changing technologies make it difficult to implement long-term projects with corresponding investment. For employees, technological progress implies labor market uncertainty, which in turn reduces consumer demand, exerting even greater pressure under low-inflation conditions, which in the final analysis affects the educational system.

The events of early 2020 have demonstrated important aspects of innovations, a threat and the instruments to withstand to the threat. The new strand of coronavirus, appearing in late 2019 and early 2020, has become a key factor in the economic and political lives of the developed and largest developing

¹ “One area where the potential of digitization is particularly promising is the pursuit of sustainable and inclusive growth. With their low threshold for adoption, non-rival nature, and low information costs, digital technologies are intrinsically inclusive. The most active users of digital technology globally are not necessarily those with higher socioeconomic status” (Long and Spence, 2019).

countries. The rapid global march of the pandemic has turned to be a new and distinctive form of globalization. While economic globalization and its positive and negative consequences have been the subject of numerous disputes over the past several decades, the drastic propagation of the pandemic highlighted yet another risk associated with the globalization process. At the same time information technologies have created new opportunities to live in radically new circumstances—many sectors have moved online almost overnight, and this experience demonstrates new forms of business and organization of social and public life not only in time of crisis (isolation) but for years to come.

All of these circumstances negatively impact economic growth and revenue trends, resulting in the transformation of political preferences. All this leads to changes in domestic policy and geopolitical balance. Remarkably, many of the trends we will be discussing below began long before the COVID-19 pandemic.

Speaking of the consequences of technological challenges and growing uncertainty, we should first point out the trend towards *increased etatism and a crisis of classical liberalism*, or neoclassical liberalism, if we refer to the schools of economic thought. The process started as far back as a decade ago, and was a reaction to the global structural crisis of 2008–2009. This is also the time when the once ultra-positive attitude towards the economic recipes of the late 1970s–1980s, as manifested in Margaret Thatcher’s and Ronald Reagan’s economic policies, started to change. Back at that time, liberalization helped overcome the previous structural crisis, i.e., the stagflation trap of the 1970s, ensuring sustainable economic growth over the next 25 years. The subsequent structural crisis, which started in 2008, prompted a revision of many concepts of the past. The emphasis now is not so much on economic conditions, but on the social and political results of the liberalization that took place during the last quarter of the 20th century, and the associated globalization.

According to the critics, a key problem with the previous stage was that rapid economic expansion was accompanied by decelerating middle-class income growth, which led to greater disparity and a political shift in favor of financial institutions. Not only were the results of globalization unevenly distributed, but many people never saw them at all (Rodrik, 2015).

Criticism of liberalization’s political aftermath was a mirror image of the dirigiste policies of the previous fifty years. Back then, as the right-wing economic liberals were coming to power, they first of all heavily criticized the trade unions and their significant influence on political decision-making, including the formation of the government. According to popular belief, such organizations had usurped voter rights. Now critics believe that this political role has been high-jacked by billionaires and key financial players. “How long will billionaires and their entourages be allowed to determine political life?” asks Simon Johnson, MIT professor and former IMF Chief Economist.² In other words, through their market actions, key financial players can significantly impact individual governments, particularly those of developing countries.

² “The deep structural changes wrought by the Reagan Revolution had created the basis for systematic manipulation of rules governing the US economy, with outcomes ranging from looting (in finance) to the suppression of competition (in the tech sector) and massive costs for households and small business (in health care). Three decades after the revolution started, the bill finally fell due” (Johnson, 2019).

Criticism of liberal economic theory once again led to a change of attitude towards the works by Friedrich von Hayek and Milton Friedman. Going back to the polemic of the mid-20th century, today's economists begin writing about their excessive commitment to the market and deregulation. This trend highlights the limitations of the “supply-side economics” where business development is stimulated through reducing taxes, liberalizing markets (labor market included), and greater competition. Under these conditions, more attention should be paid to the “demand-side economics” of the Keynesian model, since demand has been in stagnation for an extended period of time, particularly among the middle-class according to some estimates.

The criticism of liberal theory does not mean a return to the traditional Keynesian economic model. Economists emphasize the importance of going beyond macroeconomic regulatory measures such as managing demand, for instance, to develop a set of institutional and structural actions on a scale similar to that of F. D. Roosevelt's “New Deal.” Apart from social and economic measures, such a program should include environmental and resources-related restrictions.³

What we are seeing is both social and political *polarization*. In the 2000s, right-wing and left-wing political forces in developed countries could be seen getting closer. Many analysts believed they would eventually assimilate to the point of non-distinction, causing a political party crisis. This indeed happened, but not for the indicated reasons. At some point, the traditional parties simply ceased corresponding to the new and obvious trend for dissociation. The dissociation of social and political forces is becoming a characteristic trait of the day. And just as in the early 20th century, the dissociation is taking place along the line between capitalism and socialism. This applies to all countries, including the United States, where socialism has never been popular, even during the “socialist” 20th century. Moreover, these processes are evident in developing countries as well.⁴

The growing importance of domestic issues as opposed to the global agenda is another key trend. National interests, rather than global or regional issues, are now coming to the forefront, just as they did in the late 19th and early 20th century. Donald Trump's presidency and Brexit are just a few of the most obvious manifestations of the process. Other examples are the political processes taking place in Poland, Hungary, Italy and several other developed countries.

The deceleration of globalization is also related to this phenomenon. Until 2020, it merely slowed down rather than stopping altogether. Global trade accounted for about 30% of the global GDP,⁵ which is a very significant parameter for the global economy. The COVID-19 crisis dealt a devastating blow to globalization, and we are yet to see the scale and duration of its compression.

³ “Instead, we need a comprehensive policy of institutional reform geared toward changing the very structure of the economy: that is, a new New Deal. Such a program would be designed to manage resource and environmental constraints, while preserving social stability and working toward an improved quality of life. It would target a more sensible use of resources, as well as a general relaxation of international tensions and conflict resolution” (Galbraith, 2019).

⁴ “The cause of poverty is the capitalist system we are living in. It is forced on us from the outside rather than created by the people. If we want to fight poverty, we need to fix capitalism, which is dramatically flawed in its current form. Until those flaws are fixed, they will lead to the same results again and again,” says Muhammad Yunus (2019), economist and Nobel Prize winner.

⁵ IMF (2019); ITC Trade Map, International Trade Centre, <https://www.trademap.org/>

The ground, however, had been prepared for these events. Throughout 2018 and 2019, many countries experienced a mounting populist attack on globalization, international trade, migration and technology. Surprisingly, the rhetoric was led by the US Government with its regular threats of trade and currency wars against the world's second largest economy, China. Many countries followed the path of limiting the movement of goods, capital, labor, technologies and data. Mass protests in Bolivia, Chile, Ecuador, France, Spain, Hong Kong, Indonesia, Iraq, and Iran all had different causes, but all of these countries experienced economic difficulties, with growing political discontent about disparity and other problems.

Yet we should not overestimate the role of foreign trade conflicts where political rhetoric, as heavy as it may seem, has not resulted in any serious negative consequences for the economy. Despite the fact that the US imposed its first restrictive and protectionist measures back in 2018, foreign trade growth remained positive in all three of the key international trade area, US–China (4.2%), US–EU (12.2%) and EU–China (10.6%). After the first three quarters of 2019, trade turnover between the US and China declined 13.6% year-over-year, while increasing 6.4% between the US and EU. The total foreign trade turnover between EU member states and China increased by 1.1% over the first 8 months of 2019, as compared with the same period in 2018.⁶ As of 2018–2019, US foreign trade and current transactions did not change substantially compared to earlier periods, and this is despite the fact that several other countries did experience some reduction in trade turnover. That is why one should not believe that the protectionist rhetoric of the American administration had any significant effect on US involvement in global trade and international labor division; rather, some change in the structure of trading partners took place.

As for Russia, global trade conflicts are a key risk (Bank of Russia, 2019). If implemented consistently, protectionism disrupts global supply chains; trade wars lead to a reduction in investment and business activity, which ultimately hampers growth and affects commodity prices.

The political logic of the future will be similar to that of the 19th century, when the world was dominated by national interests, and governments reduced the importance of the global agenda to a secondary role. *Realpolitik*, an agenda or political philosophy put forward by Otto von Bismarck and Benjamin Disraeli, is becoming relevant again, though very few seem to admit this out loud. This time, the said agenda is going to affect economic processes on a major scale.

Against this background, the role of financial institutions—both political, such as the UN, and economic, such as the IMF and the IBRD—is weakening.

The *focus on national security issues* is becoming one of today's most significant trends. There is a substantial political and technological rationale behind this phenomenon. Coronavirus has contributed substantially to this trend since the medical issues and ability to produce subsequent commodities and services have become one of the key questions of national security. Modern communication technologies have drastically changed the ability to control and influence (manipulate) people. The struggle to control 5G is driven by political motives, above all, rather than economic interests, even though 5G has far-reaching consequences

⁶ ITC Trade Map, International Trade Centre, <https://www.trademap.org/>

for economic efficiency. “The presence of a 5G chip implies that anything from a toaster to a coffee maker could become a listening device. This means that if Huawei is widely perceived as a national-security threat, so would thousands of Chinese consumer-goods exports” (Roubini, 2019a). This creates radically new problems for interactions between the free market and political processes.

Another aspect of this same trend is the change of balance in developing civil and military technologies. Civil technologies are coming to the foreground; that is, they can eventually be the basis for developing solutions to military needs. This is true for artificial intelligence and quantum computing. The successful development of these kinds of technology requires a combination of seemingly incongruous factors, such as open research and confidential application for national security purposes, allowing national security issues to be balanced against global scientific processes. It is a very delicate topic since security-related concerns can significantly slow down the search for solutions to scientific and technological issues of the utmost importance. One can only state that there are no clear-cut solutions here.

Things become particularly complex as the rise of nationalism (national isolation) based on the idea of maintaining national security is becoming one of today’s main trends.⁷

The greater importance of national security, in turn, leads to an *increase in the role of political processes* compared to economic ones. More often than not, political measures are used to solve economic issues, and economic competition is replaced with political competition in the process. Sanctions are the most vivid manifestation of this policy as they are increasingly used to limit competition, among other things. The opposition to Nord Stream 2 by the United States, as they promote their LNG in Europe, is one good example of this.

Internal economic issues are also becoming highly politicized in many countries. Many economists see this politicization as a risk leading to another powerful crisis. Indeed, the governments of the leading countries, preoccupied with political struggle, are usually incapable of adopting rapid and efficient anti-crisis measures.⁸

The social and economic consequences of the rapid expansion of the latest (predominantly digital) technologies should get special attention. As has happened in similar situations in the past, new technologies bring both new opportunities and new risks. The balance between the two must be analyzed at all times, but it is impossible to calculate with any precision. We will dwell on just a few of these factors which are currently considered to be the most relevant or arguable in terms of their consequences. They have already led to new requirements for various areas of state regulation.

Antitrust policy should be revised, too. “Digital” is becoming a vital factor for commercial success, and the top five companies worldwide in terms of capitalization in 2019, were all digital. These were Microsoft, Amazon, Apple,

⁷ “A wave of such digital nationalism could have a first-order negative effect on economic and social welfare in the long term. The question of how to balance national-security imperatives with the broader public good must therefore feature prominently in any examination of digitization trends” (Long and Spence, 2019).

⁸ “Just look at the United Kingdom, the other major global financial center, where the political elite have taken the country to the edge of the Brexit cliff. Can they really be expected to handle competently a financial crisis that requires tough political decisions and agile thinking?” (Rogoff, 2019a).

Alphabet (Google) and Facebook. This is not simply a result of their entrepreneurial efficacy, but also of their ability to get big data on various user groups. (In 2020 Saudi Aramco has entered the list but this does not change the following consequences.) Digital companies have become the new monopolists with regards to information access, which is already distorting free market operations, and will continue to do so in the future. Antitrust policy reacts to the issues arising in this area, but its responses so far have mainly been limited to traditional 20th century methods, that is, fines for abusing a dominant position. It is vital to develop new tools that can prevent market distortion rather than just react to it post-factum.

But the issue is not limited to monopolizing information access. Digital giants are also prone to traditional monopolist abuse, especially in the medium and long runs. The extensive use of platform solutions—a sort of “Uberization”—in all aspects of our lives will continue to transform these sectors, leading to more competition between old and new organizational forms, and increased risk of monopolization in these sectors. We can already see how the platform companies have defeated their traditional competitors and are now able to impose their prices on consumers. All attempts to negate these trends with traditional antitrust measures will most likely be inefficient.

The taxation system also needs to be reconfigured. The development of the platform economy (or economic “Uberization”) changes the concept of small and large businesses, especially with regard to the correlation between profit margins and capitalization. A company that has little in terms of tangible assets, and having shown losses for many consecutive years, can quickly grow in capitalization, yielding major dividends to its shareholders. Individual or small entrepreneurs connected to the platform enjoy tax preferences, but acting under the platform they become part of a large or ultra-large business.

Education and healthcare are likely to be uberized soon, which will transform the relevant institutions. This will also encourage the state to revise its regulatory policy in these socially sensitive sectors.

The labor market will be transformed towards growth in self-employment, changing the balance between work and free time. The changes here may run along one of two paths. On the one hand, the number of people working outside of official working hours will grow. On the other hand, digitization and the use of artificial intelligence may result in a reduction of official working hours.

Researchers and politicians see a risk here of mass unemployment and even a delayed realization of Karl Marx’s pessimistic forecast of an employment crisis caused by use of machines (Marx, 1960. Ch. 23). According to Randall Collins (2013), this old forecast did not come true with regards to industrial workers who joined the ranks of the middle class and whose employment is now jeopardized. But in the mid-19th century, a 10-hour working day seemed like a natural thing, and the growth of unemployment and poverty was reasonable for the time. In time, working hours were reduced. Now no one can say that the 8-hour working day of the 20th century is the natural limit. Official working hours may be cut further, while public wealth will eventually be determined by free time, in line with another forecast by Karl Marx. This is why the issue of a 4-day working week put forward by Dmitry Medvedev (Russian prime-minister at the time) in 2019, is quite adequate in light of today’s realities.

As we know from history, new technologies will ultimately translate into better well-being. Humanity usually copes well with regular social and structural challenges. However, the transition towards new technologies and new “rules of the game” turns out to be quite painful, as it comes with aggravated social and sometimes even political problems and conflicts.⁹

Major changes are also taking place in the investment sector. New technologies require less investment as these sectors are less capital-intensive, which leads to higher production efficiency and better labor productivity. It is safe to assume that the role of long-term capital investment will continue to decrease as modern technologies require less capital and provide faster returns. The latter point is all the more important as today’s dynamic and technologically powered world increases the risk on long-term investments; a technological solution that was once considered promising may become outdated before it is implemented and starts yielding profits.

The negative aspect of low capital intensity is the reduced demand for capital, which makes loans cheaper even at the cyclic growth phase. This destroys the traditional instruments of economic policy (interest rates) and reduces the demand for labor (employment) in investment-related sectors. The state must find ways to effectively tackle these issues.¹⁰

Finally, modern technologies also affect government policy in at least two aspects. On the one hand, the government’s role is increased by the substantial transformation of its model (or, more precisely, its governance model). It is becoming clear that nowadays nations are competing in terms of administrative and governance quality, rather than in terms of cheap labor or an abundance of natural resources.

On the other hand, the importance of distinguishing well-being from economic growth is becoming increasingly relevant. Well-being has been considered synonymous with growth for some time, with economic growth seen as its primary (if not only) source. However, the last three decades provided numerous examples where the two decouple. For example, from 1986 to 1990, the adopted Soviet policy of “Uskoreniye” (or acceleration) resulted in a reduction in well-being along with an acceleration of growth rates. At the same time, an extended period of economic stagnation in Japan did not affect the increase in well-being. Rapid growth in adopting digital technologies further aggravates this decoupling; digitization, which lowers the prices of new products and services may have a negative impact on GDP, while substantially improving well-being. In the era of digital technologies, we see a new phenomenon coming to life, a sort of technological deflation. Goods and services are rapidly getting cheaper (not from one generation to another, but within the same generation); new goods and services become affordable to mass consumer segments within

⁹ “And while technological innovation may expand the size of the economic pie in the long run, artificial intelligence and automation will first disrupt jobs, firms, and entire industries, exacerbating already high levels of inequality” (Roubini, 2019b).

¹⁰ “The new technologies also save capital, and so reduce the share of investment in total spending. This is not a bad thing. But it does mean less investment spending, fewer jobs created by that spending, and a lower measured growth rate. This effect of new technologies on investment spending could be offset, but only by more public investment or more household consumption, with the latter fueled either by incomes or debt” (Galbraith, 2019).

a short time. They make people's lives richer, better and more exciting—but these rapid price decreases *statistically (formally)* have a negative impact on GDP indicators.¹¹

The ability to generate well-being by implementing new technologies is becoming one of the most important indicators of a government efficiency.

3. Economic growth and economic crisis

In 2019 and 2020, experts mainly discussed the *prospects of a new economic crisis*. The key questions here are related to the nature of the upcoming crisis, the role of the United States and China as possible sources of global destabilization, and the specific features and constraints of the future anti-crisis policy.

Expectations of the crisis were based on the degree of extended growth in the world's leading economies, first of all in the United States. Given the fact that the global economy underwent a structural transformation just ten years ago, experts believed the upcoming crisis (which would occur sooner or later) would be just another cyclic event that would not imply any structural transformation. Based on what happened during the 20th century, structural crises occur once every few decades, in the 1930s and the 1970s for instance. They result in a radical transformation of the social, economic and geopolitical balance, currency rates and economic paradigms.

Economists and politicians heatedly discussed events that could trigger the new crisis. Various factors were suggested, ranging from active politicization of economic processes through trade wars, up to the coronavirus crisis as a factor influencing the global economy, but mainly global demand trends and the status of commodity markets. Now we can see that the coronavirus outbreak has overshadowed all of the other potential triggers, which are now seen as nuisances in comparison.

The 2020 pandemic has caused all of the subsequent economic and, to some extent, political problems. As it has become clear rather quickly, this is indeed a structural crisis. Just a few years ago this type of crisis seemed impossible; a structural transformation was launched in 2008–2009, and this kind of crisis does not happen every decade. What happened a decade ago might have been just a precursor that indicated the vulnerability of the existing global order, particularly of the global economy. Perhaps, the new structural challenges are the downside of the successful crisis management policy ten years ago, when governments and central banks of the leading countries managed to mitigate the crisis and prevent “creative destruction” (according to Joseph Schumpeter, 1942).

This resulted in both decelerated productivity and a very strange macroeconomic situation in most developed countries. They made it out of the crisis, but were overburdened with debt and budget deficits, with all-time-low and sometimes even negative interest rates. The availability of cheap credit resources allowed the state to neglect budget health and continue growing the national debt, while eroding the investment efficiency criteria for businesses. Economic

¹¹ “Economic statisticians are notoriously unable to apprehend the impact of these technologies, registering almost no effects at all, even though the technologies and their consequences are visible to everyone” (Galbraith, 2019).

growth was not accompanied by higher inflation, as would normally be the case. All these factors taken together resulted in a strange picture, which did not correlate with the traditional system of values known to economists and politicians. The solution they found was purely verbal: they started referring to this situation as “the new normal.”

In 2020, things are changing drastically. The economic world as we have known it is collapsing right before our eyes. When developing an anti-crisis agenda, one should take into account both the emergency objectives of neutralizing the destructive aftermath of the virus outbreak and the medium-term structural challenges that shape the outlines of the new social and economic reality.

It is vitally important that measures to prevent an economic catastrophe are proposed and implemented simultaneously (and urgently), and that solutions to long-overdue structural problems should not be blocked in the process. These are different solutions, and they are often hard to distinguish, as practice shows. It has happened more than once that solutions and institutions which were originally developed as provisional measures, remained in place for decades. And vice versa, solutions that seemed natural and appropriate were urgently revised.

An example of the former situation is the tight government regulations introduced by the leading countries during World War I—this institution, which seemed strictly temporary in nature, proved to be mainstream for most of the 20th century. The opposite is exemplified by the New Economic Policy (NEP) in Russia, which was proclaimed in 1921 as a permanent return to a more-or-less market economy, but proved to be a strictly opportunistic solution which the Bolsheviks used to consolidate their political power. These historical examples may seem far-fetched during the acute phase of the current crisis, but one should not neglect them while developing, suggesting or analyzing anti-crisis measures.

Other factors that make the situation more vulnerable should be taken into account as well. The governments in the leading countries, preoccupied with political struggle, are incapable of taking fast and efficient anti-crisis measures. “Unfortunately, an inexorably growing financial system, combined with an increasingly toxic political environment, means that the next major financial crisis may come sooner than you think,” Kenneth Rogoff (2019a) asserted. Raghuram Rajan also writes about this: “While recessions are, by their very nature, unpredictable, the greatest near-term threat to the economy is not rising interest rates or various financial excesses, but, instead, unforeseen actions in areas like trade or geopolitics” (Rajan, 2019). The on-going pandemic does not make these statements any less true.

However, in 2019, economists focused primarily on the prospects of a cyclic (investment) crisis rather than a structural one. This was based on the fact that the economies of the leading developed countries, primarily the United States, were going through an extended period of growth. While this growth was not as rapid as in the previous two decades, it was still quite steady. It was only reasonable to assume that this situation would not last forever, and that the longer the growth continued, the more likely a new crisis would be. It is well known that forecasts of the exact dates for a crisis are rarely accurate: it is much easier to predict the fact of a crisis (which will happen sooner or later) than the time of its arrival.

The American economy grew steadily for almost 10 years in a row (since 2010), increasing the probability that the trend would be reversed and the US would start moving towards a crisis (or recession). The following events were cited as the most obvious signs of the impending crisis: the actual length of the positive streak in the US GDP; disproportionate increases in stock market values compared with the GDP (which indicates an inflating financial bubble); the inverted yield curve on treasury securities; the US economic (and particularly foreign economic) policy (trade wars against China and the EU, and the 2017–2018 tax reforms).

Now it is clear that none of these circumstances were of critical importance. The duration of economic growth could not have been the key factor. Experience shows that growth can continue much longer, as today's economy has shifted away from the standard 7–8 year cycle. The ten-year growth period is not unique—the US GDP had previously experienced positive growth for a 16-year period from 1992 to 2007. As for unemployment, it was at an unprecedented low in 2018–2019 (less than 4% of the economically active population), which serves as evidence of high income growth rates and consumer activity in the United States.

Anticipation of the crisis, and the crisis proper, adds to the intensity of discussions about potential anti-crisis policy measures.

One problem at the current stage, as previously mentioned, is that the 2008–2009 crisis, while structural in nature, did not result in any substantial structural changes in the leading economies. Governments in developed countries took active anti-crisis measures, which prevented catastrophic consequences from turning the economic crisis into a social and political one. The flip side of this success was rejecting “creative destruction,” i.e. preventing the demise of inefficient companies. The anti-crisis policy was based on the “too-big-to-fail” principle. It was also assisted by expansionist fiscal and monetary policies. The consequences of this approach may be manifested in the next crisis, i.e. the agenda will once again be dominated by serious structural issues.

Another problem is related to the limited tools available for traditional anti-crisis policy in developed countries. High levels of public debt and/or budget deficits in most developed economies of the world, along with ultra-low interest rates, basically hinder the standard anti-crisis measures, i.e. increasing budget spending and reducing interest rates. Having exhausted all of the monetary options for anti-crisis measures, the ECB administration had to announce that fiscal policy would become the key factor to support growth and mitigate labor market problems.

In addition to the fact that reducing interest rates in and of itself is quite a limited-use tool, one cannot help but see the negative structural consequences of this policy. Extremely cheap money erodes the investment efficiency criteria and effectively creates a self-replicating “too-big-to-fail” mechanism. Low interest rates prevent inefficient companies from going out of business, promote market concentration and monopolization, and reduce the motivation to look for more efficient investment projects. One can assume that while low interest rates stimulate business activity in the short run, they start negatively impacting economic trends once they become a long-term factor of economic life (“the new normal”).

Most economists have tended to believe that fiscal policy measures are now more efficient in comparison to monetary policy.

This context gave new impetus to the discussion of Modern Monetary Theory (MMT), whose proponents see no limitations on fiscal expansion in the countries issuing sovereign currencies and issuing national debt in their own currency (Mitchell et al., 2019; Connors and Mitchell, 2017). The concept laid the foundation for economic programs by left-wing politicians, mainly by the Democratic presidential candidates in the United States. Naturally, MMT immediately faced criticism by a number of economists with orthodox views on macroeconomics. Kenneth Rogoff (2019b), for one, called it “a non-modern non-monetary non-theory.”

This is clearly a radical change in attitude towards monetary and, more broadly, macroeconomic policy. Throughout the 1980s to the 2000s, inflation resulting from fiscal and monetary populism was universally considered the main threat to stable growth. There have been heated macroeconomic and political debates around attempts to counter inflation, and these debates were especially acute within the context of transformation processes and stabilization reforms.

Nowadays everything has changed. Macroeconomic trends over the past decade, and the situations in the EU, and particularly in Japan, have made many experts and politicians change their attitude towards inflation. Now the authorities see their primary objective as increasing inflation rather than suppressing it. Experience shows that implementing this measure is more challenging than conducting a disinflation. The authorities have gained extensive experience with disinflation over the past 50 years, which is achieved by a standard set of stabilization measures. Meanwhile, no one has so far managed to stimulate demand which leads to economic growth (accompanied by an acceptable level of inflation).

Modern Monetary Theory emphasizes demand stimulation mechanisms within economic policy as a source of economic growth. This is where it becomes the anti-pode of the supply-side economics, which was used as the basis for anti-crisis measures in the period dominated by liberal economic doctrine, i.e. the doctrine utilized by Margaret Thatcher and Ronald Reagan to exit the previous structural crisis in the 1970s. This is only fair, given the fact that the key macroeconomic problems of the two periods are exactly the opposite—stagflation fifty years ago vs deflation today.

At the same time, analyzing the potential shocks that will push economies towards a crisis requires a very careful assessment of the applicability of MMT and the potential for easing monetary policy in general.

From an economist’s view, the approaching times are unique in their complexity. The world is experiencing a dual shock—on both the supply side and the demand side. This makes countering the crisis an extremely complex task, as attempts to negate the two shocks require absolutely opposite economic policy measures. The key issue is finding the balance between anti-crisis measures while addressing two tasks at one time.

An analysis of the current dual shock requires changing the focus of monetary policy, especially if the demand-side shock prevails (whereas the supply-side shock prevailed in 2008–2009), in which case traditional monetary stimulation results in stagflation. In other words, the economic crisis caused by the pandemic

can follow exactly the opposite scenario (model) from what governments and central banks are preparing for. This is not surprising, because the authorities, just like military generals, more often than not are getting ready for past crises and battles rather than future events.

The threat to global stability is obvious, since the latter is collapsing in slow motion right before our eyes. A key requirement for overcoming the mounting crisis is solidarity between all people, communities and countries; this, plus scientific efforts to find a vaccine, political actions to alleviate public anxiety, and actions by economists to prevent economic disaster. Solidarity must be based on trust. A shortage of these specific qualities characterized social life over the past several decades in literally every country of the world.

Monetary theory and policy issues will be in the spotlight of academic discussions and political struggle for years to come. They will most likely be implemented in some countries and will demonstrate positive effects for some time. But a new cycle will eventually start—that of struggling against populism and curbing inflation.

4. Russia's economic policy before the crisis of 2020

The formation of the new Russian government in January 2020, was a reflection of the society's predominant desire to accelerate economic development. Of course, the GDP rate in and of itself does not matter that much; the growth must ensure a higher level of well-being and technological modernization. This was Vladimir Putin's goal for the new Cabinet, and these were the predominant expectations within Russian society at the time.

Mikhail Mishustin's government presented an economic transformation plan¹² which included a set of financial, institutional and structural measures based on the national goals and national projects which the Russian President established in May 2018. The coronavirus pandemic certainly affected the program, but left key strategic milestones unchanged for early 2020. Reaching them, however, may take longer than originally expected.

The key aspect (or key conflict) of social and economic conditions in Russia is the gap between exceptionally favorable monetary and fiscal parameters and low social and economic dynamics.

On the one hand, the country has a budget surplus, unprecedentedly low inflation (below the Central Bank's target), nearly all-time-high foreign exchange reserves, exceptionally low national debt (denominated almost 100% in the national currency), and a positive balance of payments and trade balance. Add to this low unemployment and high lending activity by the population, including high demand for mortgage lending.

On the other hand, we have low economic growth rates (below the global average level and lower than Russia achieved in 2018), a stagnating quality of life (after six years of decline), and low investment activity (Table 1).

From an economic viewpoint, this gap is particularly obvious if we compare savings to investment as a share of GDP. The Russian economy has enough

¹² A meeting with the Government. 5 February 2020 (in Russian). <http://www.kremlin.ru/events/president/news/62734>

Table 1
Key social and economic indicators for the Russian Federation, 2013–2019.

Indicator	2013	2014	2015	2016	2017	2018	2019
<i>Macroeconomic indicators (growth in physical volume, % change from previous year; unless otherwise indicated)</i>							
GDP	1.8	0.7	-2.0	0.3	1.8	2.5	1.3
Industry	0.4	1.7	-0.8	2.2	2.1	3.5	2.3
Agriculture	5.1	4.1	2.1	4.8	2.9	-0.2	4.0
Construction	0.1	-2.3	-3.9	-2.1	-1.2	6.3	0.6
Wholesale trade	0.7	3.9	-5.5	3.1	5.7	2.4	1.9
Retail trade	3.9	2.7	-10.0	-4.6	1.3	3.8	1.6
Households final consumption	5.2	2.0	-9.4	-1.9	3.2	2.8	2.3
Fixed capital investments	0.8	-1.5	-10.1	-0.2	4.8	5.4	1.7
Share of wages in GDP, %	46.2	47.4	47.8	48.2	47.8	46.4	46.9
Share of profits and mixed income in GDP, %	40.0	38.7	41.0	40.8	41.3	42.5	41.9
Direct foreign investment in Russia, billion U.S. dollars	69.2	22.0	6.9	32.5	28.6	4.8	31.8
Direct foreign investment in Russia (excluding banks), billion U.S. dollars	60.1	17.6	6.3	30.9	27.1	1.9	28.7
<i>Public finance and international reserves</i>							
Consolidated budget surplus (+) / deficit (-), % of GDP	-1.2	-1.1	-3.4	-3.6	-1.5	2.9	1.9
Federal budget surplus (+) / deficit (-), % of GDP	-0.4	-0.4	-2.4	-3.4	-1.4	2.6	1.8
Non-oil and gas deficit of the federal budget, % of GDP	-9.4	-9.8	-9.4	-9.1	-7.9	-6.1	-5.5
Domestic year-end national debt, billion RUB	5722.2	7241.2	7307.6	8003.5	8689.6	9169.6	10 171.9
Foreign national debt, billion U.S. dollars (Ministry of Finance data)	55.8	54.4	50.0	51.2	49.8	49.2	54.8
Consolidated national debt, % of GDP	10.3	13.0	13.2	12.9	12.6	12.1	13.0
Reserve Fund (Stabilization Fund, prior to 2007), year-end, U.S. dollars billion	87.4	87.9	50.0	16.0	0.0	0.0	0.0
Year-end National Welfare Fund, billion U.S. dollars	88.63	78.00	71.72	71.87	65.15	58.1	125.6
International reserves of the Bank of Russia, year-end, billion U.S. dollars	509.6	385.5	368.4	377.7	432.7	468.5	549.8

(continued on next page)

Table 1 (continued)

Indicator	2013	2014	2015	2016	2017	2018	2019
<i>Prices and interest rates</i>							
Consumer price index, December over December, %	6.5	11.4	12.9	5.4	2.5	4.3	3.0
Producer price index, December over December, %	3.7	5.9	10.7	7.4	8.4	11.7	-4.3
Bank of Russia key rate (minimum 1-day repurchase transactions rate 2007–2013, refinancing rate prior to 2007), annual average, % p.a.	5.5	7.9	12.6	10.6	9.1	7.4	7.3
Average interest rate on RUB loans to businesses, annual average, % p.a.	9.5	11.1	15.7	12.6	10.6	8.9	8.8
Average interest rate on ruble deposits by individuals (except for demand deposits), annual average, % p.a.	6.5	6.7	9.7	7.3	6.0	5.5	5.5
<i>Labor market</i>							
Overall unemployment rate (ILO methodology), annual average, %	5.5	5.2	5.6	5.5	5.2	4.8	4.6
Average wages, RUB thousand/month	29.8	32.5	34.0	36.7	39.2	43.7	47.5
Wages in real terms, %	4.8	1.2	-9.0	0.8	2.9	8.5	2.9
Real disposable household income, %	4.0	-0.7	-3.2	-5.8	-1.2	0.1	0.8
Population with money income below the subsistence level, millions	15.5	16.3	19.6	19.4	18.9	18.4	19.2
<i>Banking system</i>							
Number of active lending institutions at year end	923	834	733	623	561	484	442
Banking licenses revoked during the year	32	86	93	97	51	60	43
Bank assets, incremental change during the year, %	14.2	18.6	-1.5	2.1	7.8	6.1	2.7
Debt outstanding by domestic corporations (excluding banks) under bank loans, incremental change during the year, %	11.6	12.7	5.0	-0.1	4.6	7.8	4.4
Debt outstanding by residents under bank loans, incremental change during the year, %	27.7	11.6	-7.3	0.7	12.3	21.7	18.4
Share of overdue loans to domestic corporations, excluding banks	4.1	4.1	6.0	6.1	5.9	5.7	7.1
Share of overdue loans to individuals	4.5	6.0	8.4	8.3	7.3	5.3	4.3
Profit, billion RUB	994	589	192	930	790	1345	2037

Sources: Rosstat; Russian Ministry of Finance; Bank of Russia.

money in private and corporate accounts; but most of these financial resources have not been transformed into investment.

This can be attributed to several factors. The situation may be due to the uncertainty caused by geopolitical trends, as well as to institutional restrictions that do not provide a sufficient level of property security. In an unfavorable institutional environment, even low inflation can have a substantial negative effect on economic growth, forcing people to save rather than invest.

We should also note that it has been a long-standing tradition for Russia's monetary and fiscal policy to ignore the cyclic nature of business, and these policies are effectively becoming procyclical now. This situation has historical and psychological roots. The Soviet economy was fully regulated by the state, and it was considered inappropriate to analyze it in terms of cycles¹³—and thus likewise to use traditional crisis regulation methods that have been the standard since the Keynesian model was developed. The collapse of the communist system was followed by 30 years of high inflation. The government's top priority was to keep inflation down to an acceptable level, and practical measures did not provide for any “fine tuning” tools. Finally, the Russian economy today is in a situation where the investment cycle can be observed and the respective regulatory methods can be used.

Meanwhile, the notion of inflation as the key macroeconomic challenge persists in the minds of the general public and the economists who grew up dealing with this seemingly endless task. This notion continues to dominate macroeconomic policy, which is reflected in a perpetual commitment to tight fiscal and monetary action.

This does not mean that we suggest abandoning conservative macroeconomic measures. The “credit history” of Russia's macroeconomic policy remains very complex and complicated, which is reflected in high inflation expectations and therefore prevents the monetary authority from using quantitative easing.

The weakness of existing institutions also speaks in favor of a conservative fiscal course, which can reduce efficiency with growth in budget spending. Moreover, the current geopolitical situation calls for maintaining reserves to reduce the vulnerability of the country's economic system to changes in foreign policy and economic conditions.

However, with all these caveats and reservations, it looks like the government needs to gradually move towards a more flexible fiscal and monetary policy that would take cyclic fluctuations into account that are characteristic of a market economy.

This was reflected in discussions during 2019 and 2020, concerning economic growth and the reasons it was slowing down. While institutional issues are indeed important, recent discussions on growth-related issues are increasingly focused on macroeconomic factors, primarily on supply and demand, i.e. on the sources of funding for the growth. In our opinion, to some extent this is due to the experience gained in struggling for the World Bank's Doing Business ratings. In 2012, the objective was to radically improve Russia's position in this rating, springing up from 120th to the Top 20 by 2020. The objective was achieved in 2019, when Russia was assigned an acceptable 28th place in the rating, in-between Austria and

¹³ Some authors did raise a question about the “Soviet investment cycle” (Ofer, 1987), but potential measures to counter the cycle were not discussed.

Japan and ahead of China (31st position). However, these positive shifts had no impact on growth rates. Moreover, Russia's economy was growing much faster when the country was ranked in the second hundred, as compared with the period after Russia broke through towards institutional prosperity (World Bank, 2019).

Of course, this is just a formal approach; growth rates are influenced by a combination of multiple factors that this international rating neglects, as authoritative as it can be. But there are two conclusions to draw from this situation, a theoretical and a practical one.

First of all, international ratings cannot serve as a guide (let alone a target) for a country's economic policy, since actual problems in a specific country cannot be reduced to a set of indicators. This was true for the Soviet economy as well, which was focused solely on meeting target indicators. Indicators usually reflect individual factors, and not necessarily the most important ones, such that attempts to meet them do little to address actual social and economic development issues.

Second, the concept by which addressing institutional problems (eliminating barriers to entrepreneurial activities, for instance) plays a key role in accelerating economic growth was effectively discredited. Naturally, nobody talks about that openly, but it is obvious now that formally a negative correlation exists between the indicator of the quality of institutions (rating Doing Business) and economic trends.

As a result, growth acceleration was viewed mainly through the lens of fiscal stimuli and consumer lending from 2018 to 2020. National projects were to become the primary channel for the measures in question. Moreover, with inflation dropping below the 4% target and the budget in surplus, some room was left to maneuver.

The issue of managing aggregate demand became highly relevant within economic policy. This was reflected in the key topics of economic discussions.

These include, first of all, the nature and volume of fiscal demand. In 2019, funding for national projects lagged somewhat, generally staying below the targets set in the federal budget (Table 2). This is not necessarily a negative factor. At least it demonstrates a rather responsible attitude towards budget spending, and a step away from the traditional practice of "development" of budget funds at any cost. However, it is also evidence of the drawbacks from the administrative system that failed to ensure that projects were properly realized. As a result, some of the expenditures were not realized (spent), leading to a statistical slowdown in economic growth. The "signaling" role of budget spending should not be ignored either—the model chosen in 2018 implied the government's leading role in launching a new growth model. In this situation, budget spending below the expected level effectively robbed the private sector of some growth targets and prevented demand for its products from expanding in the process of implementing national projects.

Another factor behind the slowdown was inflation, which was much lower than expected. This represents a radically new phenomenon in economic policy discussions. Throughout the 30 post-communist years, suppressing inflation was seen as the most important tool in maintaining healthy social and economic conditions and ensuring sustainable growth. Official forecasts aimed to downplay inflation, as a rule. (The latter was however related not so much to the quality of macroeconomic forecasts but to the opportunity to receive extra budgetary funds in the course of budget execution.)

Table 2
Execution of expenditures related to budget allocations for implementing national projects in 2019 (operational data, billion RUB).

No.	Description	Consolidated budget of the Russian Federation			Federal budget of the Russian Federation		
		Plan	Cash fulfillment	For reference: % of budget allocation	Consolidated budget allocation as f 12/31/2019	Cash fulfillment	For reference: % of budget allocation
	Total:	2444.2	2238.5	91.6	1750.0	1600.3	91.4
1	Demography national project	728.4	693.7	95.2	522.0	498.3	95.5
2	Healthcare national project	219.7	213.7	97.3	160.3	157.1	98.0
3	Education national project	194.2	175.6	90.4	108.4	98.7	91.0
4	Housing and urban environment national project	243.2	217.0	89.2	105.3	98.8	93.8
5	Ecology national project	69.1	49.2	71.2	55.6	36.9	66.3
6	Safe and high-quality highways national project	297.5	283.4	95.3	142.3	138.2	97.1
7	Labor productivity and employment support national project	7.6	6.6	87.3	7.1	6.2	87.1
8	Science national project	38.0	37.7	99.1	37.9	37.6	99.1
9	Digital economy national project	111.2	83.5	75.1	100.7	73.8	73.3
10	Culture national project	26.2	25.3	96.3	14.2	14.0	99.0
11	Small and medium-size business and individual entrepreneurial support initiative national project	68.4	64.0	93.6	60.6	56.4	93.1
12	International cooperation and exports national project	91.3	81.7	89.5	87.7	78.1	89.1
13	Comprehensive mainline infrastructure modernization and expansion plan	349.4	307.1	87.9	347.8	306.1	88.0

Source: Russian Ministry of Finance.

In 2019, Russia faced low inflation, which resulted in lower revenue for the economic system. Some economists believe that low inflation robbed the national economy of approximately 1 trillion rubles in additional demand, which could also affect economic growth rates. However, in 2017, inflation also dropped below the target set by the Bank of Russia (2.5%), which did not prevent growth acceleration as compared to 2016. Moreover, the nature of this extra trillion rubles remains uncertain. If it comes solely from rising prices, then the apparent real growth rate will remain unchanged (i.e. low), while real household income will probably drop by even more. However, if that money comes from an actual increase in output, then inflation should remain at the same low level. In other words, higher inflation is not necessarily a prerequisite for greater productivity. Inflation only leads to nominal rather than actual growth, even though its presence at a low level usually accompanies economic growth, providing producers with feedback on sectors with growing demand for goods and services.

A discussion of the nature of credit activity as an economic growth factor started in 2019. The economy continued to experience growth in demand for consumer loans, which the Central Bank saw as an important factor for maintaining a dynamic economy—as long as debt growth was not accompanied by a deterioration in debt service. However, the Ministry of Economic Development believes this course of events may have a negative impact on long-term growth rates, since consumer loans limit investment lending opportunities. But personal loans and investment lending are driven by different factors. The latter is determined to a greater extent by the entrepreneurial climate, while the former was generally fueled over the past couple of years by slowing disposable income, which was offset to some extent by consumer loans.

In looking for sources to activate aggregate demand within the country, some Russian economists and politicians turned to the Modern Monetary Theory mentioned above. Naturally, the understanding of MMT in this country differs from how the same problem is viewed in the United States. On the one hand, Russia does not have heavy national debt and budget deficit problems. On the other hand, the ruble, though a sovereign currency, is not a global payment instrument, and economic growth is still weak. In this context, the applicability of MMT first of all means active engagement by the monetary authority to improve aggregate demand, which effectively translates to the Central Bank performing its function as an “institute for development.” This raises the issue of the Central Bank’s independent status. This problem was first raised in 2019, but the intensity of the discussion is likely to grow—not just within Russia but in other developed economies as well.

For Russia, this topic can prove to be especially relevant, as favorable financial and monetary conditions leave more room for experimenting. But this also poses substantial risks. On the one hand, opportunities for an expansionist fiscal policy are limited by the quality of institutions, which reduces the efficiency of budget spending. On the other hand, monetary stimulation will run into existing high-inflation expectations. Besides, after an extended period of high inflation, this figure should be kept below the target level for some time, to help reduce inflation expectations.

The government formed in 2020 was tasked to come up with mechanisms for overcoming the stagnation in economic development and public well-being.

Therefore, it is likely to focus on stimulating demand, both consumer and investment. This is only fair since with low inflation, demand-related factors become the key sources of deceleration.

Consumer demand is mainly focused on the package of social support measures specified in the President's Address on January 15, 2020. The key factor here is the ability to develop mechanisms providing targeted social support, which would substantially increase the efficiency of those measures.

To stimulate industrial production, approximately 3.2 trillion rubles (or 600 billion rubles a year) out of over 6.0 trillion rubles allocated in total through 2024, to purchase machinery and equipment as part of national projects, will be spent within the country.

The government also intends to expand exports beyond the commodity and energy sectors. First of all, we are talking about industries such as metallurgy, civil engineering, timber, chemical and pharmaceutical industries. Industrial exports are expected to grow by 6 billion dollars in 2020, and by about 14 billion in 2021, which is quite an ambitious goal.

Special emphasis has been put on digitizing economic life as the core of technological modernization. Moreover, one can assume that the government will view digitization not just as a factor in increasing productivity and growth, but also as a source of institutional modernization, i.e. as a technological prerequisite for improving the business climate or even as a substitute for such improvement.

Among the more traditional institutional measures, the Bill on Protecting and Encouraging Investment, proposed in 2019, was to be amended to guarantee stable conditions for implementing large-scale investment projects and to improve investment efficiency for state corporations. It is assumed that investment must first of all support the digital transformation of Russian society as the principal driver of social modernization.

The government considers investment growth ("launching the investment cycle") as the key factor in increasing total factor productivity, and achieving economic growth rates above the global average. This is only natural, in view of the shrinking working-age population and the depreciation of production facilities. The expected growth in 2020 was 5% (from less than 1% in 2019), and reaching an annual growth rate of 6%, as a result of which investments would be 25% of GDP, by 2024. This is the target indicator, based on the hypothesis that investment growth should be about twice the GDP growth; and the latter, in accordance with the President's decree, must exceed the global average, i.e. a little above 3%.

5. The pandemic and economic policy

However, by spring 2020, it became clear that the anti-crisis agenda would have to be given top priority in order to combat global structural shocks. The success of the agenda would drive the future of institutional reforms and the nature of the country's subsequent development. It would be reasonable to consider some principles for mitigating the crisis and preventing it from expanding beyond control.

Financial resources available to the government must be paid to the people who generate demand and this would support producers.

Direct support of producers (i.e., companies) is also an option as their problems are caused not by their market inefficiency (lack of competitiveness), but by changes in market conditions that were beyond their control, which is effectively a force majeure situation. However, there are three important notes to make here.

Firstly, the support should not be selective; it should apply to all companies in a given sector or industry. That is, the government should avoid measures that may seem useful at first glance but in fact put companies in uneven competitive conditions. One example of an “attractive yet harmful” measure is the recommendation to introduce a zero-rent rate on regional or municipal property, which automatically deteriorates the position of all other companies renting commercial estate. A moratorium on all rent would have been the right approach, potentially compensating landlords for their losses with budget funds at the respective level.

Secondly, one should distinguish between a company’s insolvency and liquidity issues. It only makes sense to support companies facing liquidity problems, while aid to insolvent companies (i.e. those unable to compete under normal circumstances) would be unreasonable. In this case, it would be more appropriate to ask creditors for help (i.e. so that they would write-off or restructure debt), rather than offer zombifying recovery measures from the state.

Finally, it is important not to create obstacles to business optimization, including employment optimization. This approach requires more subtle mechanisms than just unemployment benefits. Over the last 30 years, Russian businesses have learned to avoid firing staff during times of crisis, but instead reduce their working hours or offer unpaid leaves. Unemployment benefits should apply to those kinds of employees, though perhaps to a lesser degree than those who have lost their jobs altogether. This approach is used in a number of developed countries, and the Russian economy looks mature enough to adopt it. This would be in line with the principle of helping people first.

Now is just the right time to mobilize efforts to ease administrative pressures on business. The abolition of the excessive control and supervision should not be postponed until a better time: it should be conducted more decisively, if not aggressively. During the crisis, it is vital to give people and companies (and the entire country) an opportunity to find solutions to the problems they face. And it is vital that these relaxations are not provided as interim measures. We already hear concerns that going beyond the traditional framework, which is acceptable during a crisis and is actually long overdue, can lead to future trouble. The “if it ain’t forbidden, do it” principle must be strictly followed in practice, not just in theory. It was frequently forgotten during times of stability.

Now it is essential to do everything necessary to improve public confidence in the government. Confidence is the most important economic category. Many issues amid the economic slowdown during the past decade were the result of a lack of confidence. Today, a lot depends on the government for mitigating the crisis, and it finally has an opportunity to drastically change the situation. When adopting regulations, it is important to conduct regulatory impact and anticorruption assessments. I believe that all of the decisions made by the government should also undergo the “confidence test,” i.e. the solution must work to improve the public confidence (of individuals as well as businesses) in the government.

An important aspect of crisis management measures is their source of funding. Economists agree that countering the crisis will require approximately 5–10%

of the GDP. It is important however not to fall into the macroeconomic chaos while addressing the country's crisis management tasks. Russia cannot afford to conduct simultaneously fiscal and monetary recovery policies, as the EU and the United States do. Taking into account substantial reserves and the level of national debt, it would be advisable to rely primarily on fiscal action. Monetary recovery seems much more dangerous given the volatility of the ruble and high inflation expectations.

Savings are high and the national debt is extremely low in Russia. This is why, contrary to recommendations voiced now in the United States and Europe, Russia can resort to borrowing, rather than monetizing its national debt. The latter would spike inflation, which the country seems particularly vulnerable to in light of macroeconomic traditions over the past thirty years.

Macroeconomic stimulation requires an especially careful approach. Dealing with demand-side and supply-side shocks requires different sets of anti-crisis measures. While financial injections help mitigate demand-side constraints, they can cause stagflation under supply-side shock conditions. This is actually what happened during the early 1970s, when the US government responded to the supply-side shock triggered by the oil embargo with the standard Keynesian monetary injection. This resulted in stagflation and a protracted crisis, which the West did not recover from until the early 1980s.

Chasing quantitative growth indicators would be another risk today. With the dynamic nature of modern technologies and rapidly decreasing prices for new goods and services, the world has run into technological deflation. GDP is increasingly deviating from actual well-being trends in general: we are aware of numerous cases where GDP growth is accelerating while well-being deteriorates, and vice versa (improving well-being against stagnating GDP figures). Today, emphasis should be placed on stabilizing the economic situation for individuals and companies, and strategically on structural modernization and better productivity. GDP trends should not be considered in isolation from other parameters as an independent objective for setting short-term economic policy.

The crisis is a complicated time. But this is also the time to pay due attention to the development of science. Society must get its act together and continue with scientific research. This is the only way to understand what happened and to prevent it in the future, as well as to use the new situation to make a leap forward and successfully compete in science. Competitions among people and systems are won by prioritizing the development of science. As the well-known saying goes, you should never let a crisis go to waste. This is especially true for structural crises, which always entail great potential for renovation. And it is important to realize institutional and structural reforms which failed ten years ago. When implementing anti-crisis measures, it is important not to obstruct the view of the future that is starting to emerge.

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