Section 1. The socio-political context

1.1. The economic policy of 2009: between crisis and modernization

1.1.1. The main outcome of the crisis year: institutional stability

The previous year began with catastrophic expectations of an unprecedently devastating economic crisis that would involve a financial collapse, a fall of oil prices below 30 USD per barrel, an uncontrollable devaluation of the ruble, a profound drop in production, mass unemployment and social instability. However, nothing of this kind actually happened. Moreover, there even emerged some new positive trends, including a considerable reduction in the rate of inflation.

The results of the past year are very important from the point of view of the functioning of economic-political institutions. This was the second major crisis to be passed through by post-communist Russia's political system based on the 1993 Constitution. In both cases the system demonstrated sufficient stability and flexibility, as well as its ability to respond to a crisis without causing any major political shocks. And one can even notice some progress in this respect. In 1998, Russia's political institutions were unable to undertake adequate and timely actions in order prevent a dramatically unfolding crisis, and the government launched an active anti-crisis policy only when the country was already on the brink of a financial catastrophe – or perhaps had even plunged into it. This time, however, the political system managed to sufficiently quickly adapt itself to the radical change in the market situation and to adeptly switch over to the mode of anti-crisis management.

One could point to a lot of problems and flaws in the Russian anti-crisis policy of 2009, and to offer – in retrospect - some alternative policies. However, it should be acknowledged that the authorities managed to brace up to the challenge and did not lose control over the situation, although at the outset of it there had been apprehensions that the weakness of Russia's institutions and the immaturity of the political class could bring about some grave economic, social and political consequences.

The most important result of Russia's current ordeal is that the country, most likely, will now ascend to a new level of trust that will be built between the main subjects of its economic life. The government has proven that it can rapidly take and implement important decisions (at least in an extraordinary situation). The Central Bank has shown that it can indeed be a creditor of last resort capable of rapidly finding new instruments for resolving problems – whenever they might emerge. The social institutions have proven their capacity to function in crisis conditions and to neutralize the mounting tensions on the labor market. Finally, it has been proven in actual practice that the authorities were absolutely right in their decision to embark on a course toward accumulating reserves that could be used for alleviating a major crisis, which was especially important in view of the particular vulnerability of the Russian economy to sharp fluctuations of external markets.

The global crisis has again emphasized the necessity for our country to undergo a full-scale technological, economic and social modernization. The Russian economy has turned out to be very unstable in terms of its production indices (the fall in the country's GDP and industrial output was one of the deepest in the world) and the situation on its stock market. However, as instability also poses serious threats to long-term development, this country needs to obtain some instruments capable of ensuring stability of development. This goal can be achieved with the help of modernization and diversification, and it is not by chance that these two issues were the focal point of the political discourse that was started last year on the initiative of the President and the Government. Both issues were promptly put on the strategic agenda of Russia's state authorities.

1.1.2. The specific features of the anti-crisis policy of 2009: Russia against the background of other countries[1]

In contrast to the situation of 1998, Russia's anti-crisis policy in 2009 had to respond to global challenges, while taking into account both the anti-crisis measures that were being implemented by the leading countries of the world and the specific features of this country's own development in the previous years. The global character of the crisis does not mean that it unfolds along the same lines in every country hit by it, and that there indeed exist some universal recipes for successfully curbing its proliferation. Moreover, the results of last year have indicated that the following two factors are of especial importance for the anti-crisis policy of any country: the particularities of the economic situation as it existed before the crisis, and the specific features of the crisis as it was unfolding in a given country. Accordingly, two large groups of countries can be singled out, which can be further subdivided into several sub-groups.

The first group consists of the countries which prior to the crisis had strong macro-economies – that is, low inflation and a moderate budget deficit. For them, the key problem was to prevent a deflation shock and the development of the crisis under the scenario typical of 1930s. As an anti-crisis measure, these countries could apply a stabilizing soft monetary and fiscal policy. This group comprises the USA, Japan, China, and many European countries (Germany, France, the UK).

As far as the specific features of the anti-crisis policy are concerned, this group of countries can be sub-divided into two sub-groups:

– the relatively small countries that were pushed into crisis by the effects of global processes, but then soon started to recover. At the peak of the crisis these countries were pursuing a stabilizing soft fiscal policy, but by now they have gradually begun to abandon such methods. Among the members of this sub-group are Israel and Argentina, where interest rates already started to go up last year.

– the world's biggest countries whose economies started to rebound in the second half-year of 2009, mainly due to measures that involved government support of the economy. The abandonment of these measures is considered to be dangerous both from the national and international points of view. The only measures to be abandoned there after the acute phase of crisis is over will be the extraordinary steps taken by the government in order to ensure liquidity.

The second group is represented by the countries which before the crisis had been characterized by either macro-economic problems or by an unstable foundation for economic growth. For these countries, the main danger was that of falling into a stagflation trap similar to the 1970s crisis. They were forced to focus on the implementation of stabilization programs such as those usually recommended by the IMF, including a reduction of budget expenditure and an increase of interest rates for the purpose of stabilizing their national currencies. Many

[1] This section is based on the materials prepared in co-authorship with K. Iudaeva.

of these countries encountered serious problems in the banking sector, and so had to carry out nationalization and recapitalization of the banks.

Three sub-groups of countries can be singled out here:

– the countries with very serious problems that emerged prior to the crisis and still remain unresolved. At the present time, these countries are forced to pursue rigid macro-economic policies. Among the countries that were in an 'overheated' state even before the crisis, there are the Baltic States, Island and Ireland, Ukraine, and some others;

– the countries which were faced with some macro-economic disbalances at the beginning of the crisis, but managed to localize these phenomena and then pursue a less rigid policy (in particular, a softer monetary policy). These countries include Russia, Hungary and some other East European countries that have been less severely hit by the crisis. After the acute phase of the crisis was over, both Russia and Hungary began to pursue the policy of cutting interest rates;

– the countries where the impact produced by the first wave of the crisis was relatively weak, but the situation became aggravated later because of the authorities' reluctance to pursue a responsible economic policy. These countries, most probably, will switch over to a policy based on the standard stabilization package recommended by the IMF. This is especially true in the case of Greece.

The measures of the 2009 anti-crisis policy can be divided into four categories[1]:

– resistance to the banking crisis, i.e. the prevention of the banks' collapse by taking extraordinary liquidity provision;

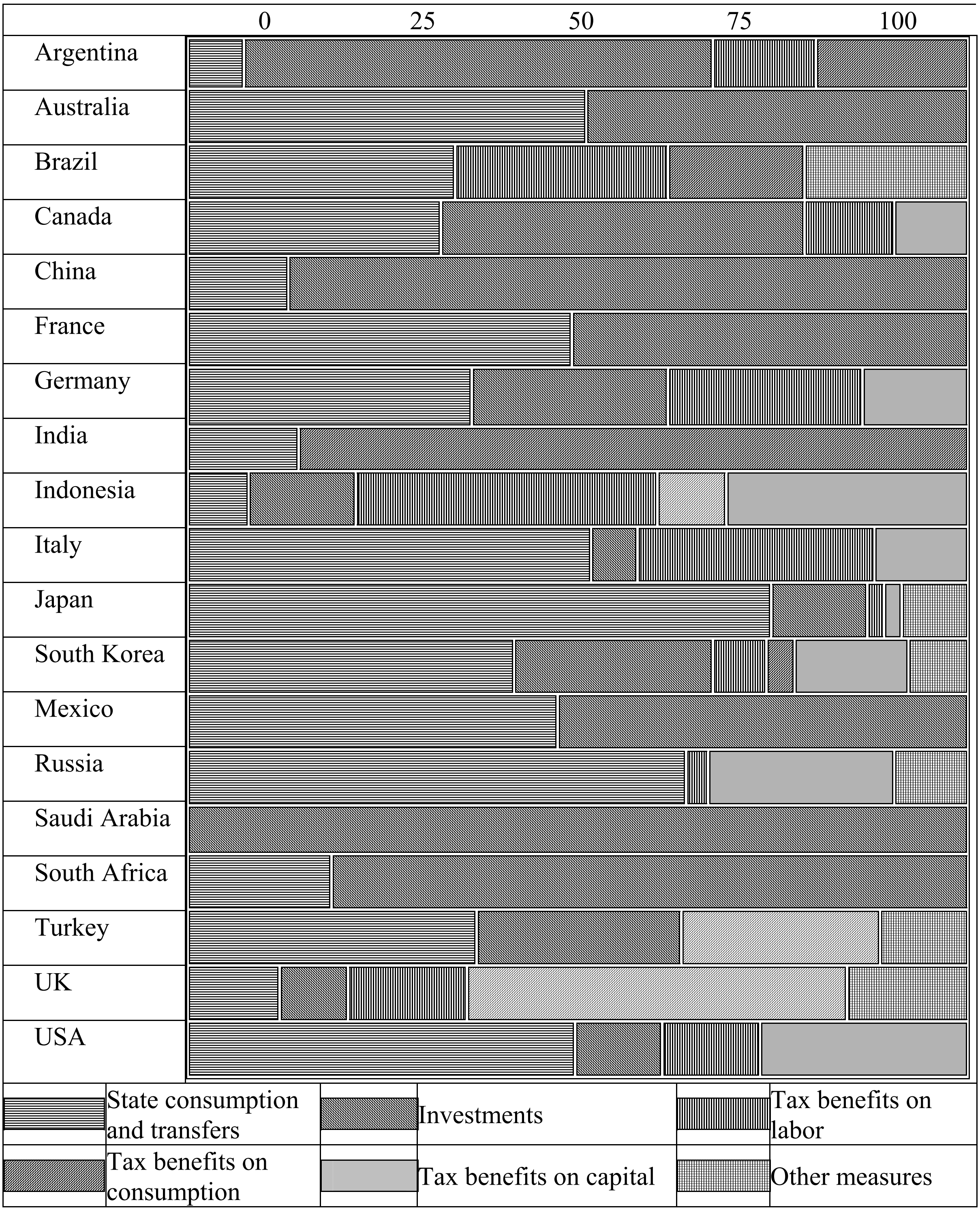
– the measures of monetary policy, including a switch-over from the anti-inflation policy to a quantitative easing policy aimed at sustaining economic growth and broadening the access to credit resources. In this connection, it is important to adequately understand whether it was stagflation or deflation that posed the main danger to a given country;

– government support to the real sector of the economy (stimulation of demand), i.e. to those branches of the economy that are oriented towards domestic demand and are crucial for securing domestic employment;

– government support to the population; here, the key role is played by the employment policy and the easing of social tensions.

The actual combination of the measures that were actually applied differed from country to country, because the authorities had to take into account the specific features of how the problems brought about by the global crisis were manifesting themselves (see *Figure 1*).

[1] For more details on the system of anti-crisis measures, see: Mau V. *Drama 2008 goda: ot ekonomicheskogo chuda k economicheskomu krizisu* [The Drama of 2008: From Economic Miracle to Economic Crisis] // *Voprosy Economiki* [Issues of Economics]. 2009. No 2.



Source: IMF.

Fig. 1. The composition of anti-crisis programs in 2009.

1.1.3. The outlines of Russia's anti-crisis policy

The specificity of Russia's anti-crisis policy in 2009 was determined by the following factors.

First, the level of inflation by the beginning of the crisis had been high (Russia was the only member of the G-20 where inflation topped 10 %). As the crisis triggered a rapid fall in production, the country was on the verge of falling into the stagflation trap, which means that, from the macro-economic point of view, the character of the crisis in Russia turned out to be substantially different from that observed in the majority of the world's countries, where deflation was the main danger. Therefore, the RF Central Bank had, first of all, to increase the real interest rate so as it could become a positive value, and only then to begin reducing it in proportion to decline in inflation.

Secondly, the effectiveness of budgetary stimuli was undermined by the high level of monopolism in the Russian economy. The experience of the pre-crisis years clearly indicated that any expansion of budget demand would result in a rise of prices, and not in a rise of supply. Thus, the role of the classical budget stimuli (first of all, investments into infrastructure and construction) could not be prominent. It was more likely that a certain stimulus to the economy could be given by a cut in taxation. So, in the end of 2008, a number of taxes were reduced.

Thirdly, the effectiveness of budget-support measures was further undermined by the weakness of politico-legal institutions (especially those concerned with law enforcement) [1].

Fourthly, the current global crisis vividly demonstrated the structural vulnerability of the Russian economy and its one-sidedness and inefficiency (although, in fact, this has always been evident). The current crisis is not only cyclic but also structural. For Russia, the issue of modernization has become even more urgent in crisis conditions, and so anti-crisis and modernization measures should be taken in conjunction and supplement one another.

The role of social policy

So, this explains why such a prominent role, among all the anti-crisis measures that were actually implemented in Russia, belonged to *social assistance to the population* (an increase of pensions, the creation of the institution of public works organized at the place of principal employment) and support to individual enterprises (in this second instance, this support, as well as the reasons for its allocation and the forms it took also had a social tinge – see *Table 1*).

The Russian anti-crisis budget turned out to be one of the most socially oriented in the world. Apart from political reasons, there were some economic reasons for such a budget to emerge. The demand generated by social assistance is mostly confined to the poor strata of the population, and is primarily focused on the domestically-produced commodities (which have become relatively cheap because of the devaluation of the ruble) that are turned out by the more competitive sectors of the economy. Such expansion of demand can serve as a better stimulus for the economy than a budget-funded demand for infrastructure objects or housing construction.

[1] For more details concerning the quality of Russia's politico-legal institutions, see Freinkman L., Dashkeev V. *Rossiia v 2007: riski zamedleniia ekonomicheskogo rosta na fone sokraniiaiushcheisia institutsional'noi stagnatsii* [Russia in 2007: The Risks of Slackening Economic Growth Against the Background of Continuing Institutional Stagnation] // Voprosy Ekonomiki [Issues of Economics]. 2008. No 4.

Table 1

Russia's anti-crisis budget

	2009 Plan	2009 Actual
Total, billion rubles	2,244.00	2,412.00
Sectoral measures	1,625.80	1,734.90
Assistance to population	593.7	652.6
Contributions to anti-crisis fund of Eurasian Economic Community	24.5	24.5

Source: RF Ministry of Economic Development and Trade.

The crisis has exacerbated the problems posed by the existence of mono-functional (or single-enterprise) towns. The government was aware of the serious (primarily socio-political) threat associated with such entities; but at the same time, it also saw the emergence of some new opportunities for their restructuring based on a real (and pin-pointed) modernization policy. As there could be no universal solutions in this sphere, it was decided to work out some individual programs for the development and transformation of single-enterprise towns that would involve a variety of measures – from their diversification to (in exceptional cases) their complete liquidation.

Support for the real sector of the economy

The government began to provide *support for a number of businesses* that had been placed on the list of 'system-forming' enterprises. The major instrument of providing such support was state credit guarantees. It had taken a lot of time for this mechanism to be developed, and so it began functioning only in mid-2009. On the one hand, it thus became possible to stabilize the social situation, but on the other, restructuring and innovation were being hampered by such measures because, in fact, many system-forming enterprises were (and still are) 'system-forming' bankrupts, and so rescuing them could not be of any help in terms of solving the problems of modernization.

Unlike many other countries, in Russia the owners and managers of the companies that had been saved by the State were not replaced and suffered minimum personal losses. This fact has an adverse socio-psychological effect, as it clearly demonstrated that big enterprises could indeed blackmail the government.

Growth stimulation was also carried out by means of interbudgetary transfers.

Macroeconomic stimulation, in its classical form, has never been practiced in Russia as yet. The anti-crisis budget was adopted in this country only in late April 2009. Moreover, the injections of liquidity into the economy, which first were made through the budget channel, were then sterilized by putting them through the monetary channel. Thus, the credits received by commercial banks from the Bank of Russia at the time of devaluation were returned to it in an amount that was practically equivalent to the volume of money emission related to budget expenditure. As a consequence, up until recently, there had been a constant shortage of liquidity which resulted in the stocks of finished products dwindling to 7.5 % of GDP, while the rate of inflation in the second half-year 2009 dropped almost to zero. It can be expected, however, that in 2010 this situation will change, because the banks have practically completely repaid their unsecured credits, while the Bank of Russia has been repeatedly cutting the interest rates on mortgage transactions, thus increasing the demand for them. In 2010, the nominal expenditures of the federal budget will remain high - at the level of the year 2009 (the budget is balanced when the average annual price of oil amounts to about 105 USD per barrel).

The banking sector

A number of measures designed to *support the banking sector* actually enabled it to keep afloat without any serious shocks. As in the case of the real sector, the emphasis was placed on preserving the existing institutions and owners. As regards the banking sector, this could be achieved by providing them with the necessary liquidity. It was for the first time that the RF Central Bank actually assumed the role of a full-fledged creditor of the last resort. In so doing, it prevented the destabilization of the banking sector. In a striking contrast to the situation of 1998, the bank panic was resolutely nipped in the bud.

Nevertheless, in the medium-term perspective, this policy can have some negative consequences, because the banking environment has not been properly cleaned up. However, it can be assumed that the Central Bank simply decided not to try to deal with structural problems at the peak of a crisis. If this is the case, we can expect that, in 2010, unless any new banking shocks take place, some measures will be taken to make the banking sector more healthy.

There have been no significant changes in the situation with bad debts as yet. Because the standards of capital regulation have been made more lax, it is now possible to disguise the real state of affairs and to make the banking sector appear stable, while in reality the quality of its assets may actually be worsening. In the autumn of 2009, a law came into force that authorized the banks to increase their capital by federal savings bonds in order to write off bad assets. However, the law has turned out to be a dud: with demands towards capital's quality being too lenient and the policy of bad-debt prolongation remaining intact, the banking sector is still able to indefinitely postpone the resolution of this very unpleasant problem. Thus, the danger of a banking crisis has not been averted.

Monetary policy

As far as its *monetary policy* is concerned, Russia embarked on the course of smooth devaluation of the ruble which was completed in January 2009, and (for the most part) discontinued the targeting of the exchange rate of the national currency. It was indeed a very important and difficult decision. Throughout Russia's post-communist history, its monetary authorities devoted much more attention to economic growth than the RF Constitution required them to do. Beginning with the low rates of refinancing and the technical credits of 1992, and then ending up with the policy of curbing the strengthening of the ruble in the 2000s, Russia's monetary authorities were always ready to sacrifice the goal of lowering the rate of inflation to the needs of supporting the real sector. The negative effects of this policy were being routinely sterilized by the actions of the RF Ministry of Finance[1]. Nowadays attempts are being made to develop an anti-inflationary policy by means of smoothing the fluctuations of the ruble's exchange rate. When implementing this policy, the monetary authori-

[1] For more details concerning the paradoxes of Russian economic policy – when the Central Bank is concerned with economic growth, and the Ministry of Finance with the stability of the national currency, see Iudaeva K., Godunova M. *Uroki krizisa dlia Rossii: makroekonomicheskaia politkca* [The Lesson of the Crisis to be Learnt by Russia: Macroeconomic Policy] // Ekonomicheskaia Politika [Macroeconomic Policy]. 2009. No 6. Pp. 39 – 40.

ties could encounter serious resistance as soon as it becomes clear that strengthening of the ruble contradicts the current interests of producers oriented to the domestic market, as well as the current interests of politically important exporters. It cannot be denied, though, that low inflation is indeed a crucially important factor from the point of view of the strategic interests of this country's development, and in particular the need to increase labor productivity and the general effectiveness of the national economy.

However, the experience of 2009 has indicated that devaluation is not a panacea against low competitiveness. Many had expected that the miracle of ten years ago would repeat itself, and so the country would once again see a rapid import-substitution growth. Those hopes were dashed. Although the devaluation of the ruble has conduced to some growth in the production of food commodities (meat, milk, butter), as well as textiles, footwear, cellulose and chemical fertilizers, the restoration of growth will not be as spontaneous as it was in 1999, and some new forms and instruments of regulation will, apparently, also have to be found.

There were several reasons for the old success story failing to repeat itself. Firstly, ten years ago the world's economy was on the rise, and so demand for Russian exports was practically unlimited, while what we are faced with now is global recession. Secondly, in the late 1990s, Russia was experiencing the beginning of recovery growth, which means that it was in possession of considerable idle industrial capacities, and almost no new investments were required to achieve industrial growth. Whenever the occasion required, such investments were available at the world market. Thirdly, at present, devaluation has taken place in most of Russia's trade partners in Eastern Europe and in the territory of the former USSR. In other words, the competitiveness of these countries has increased, and Russian goods have become less attractive in price. Fourthly, as a result of the almost ten-year-long boom, part of Russia's real sector has become more dependent on deliveries of bought-in foreign parts and equipment; the position of these enterprises is adversely affected by the ruble's devaluation. And finally and fifthly, the scale of the 2008 – 2009 devaluation was incomparable with 1998 (40 % vs. almost 400 % drop in the value of the ruble).

Although the adopted anti-crisis policy has indeed made it possible for Russia to stabilize the situation and to bring it under control, it is still not free from some serious flaws and limitations. Its major flaw is the absence of real steps toward anti-crisis modernization. In late 2008 and early 2009, a lot was being said of the necessity to take advantage of the crisis in order to accelerate the process of modernization and to single-out the modernization aspect from among the anti-crisis measures being taken. However, in practice, attention was mainly focused on the attempts to avoid destabilization, which in fact implied the preservation of the status quo.

However, it should be said that achieving an effective combination of an anti-crisis (or even a post-crisis recovery) policy and a modernization policy is actually a very difficult task, and so this goal could hardly be achieved within the framework of one calendar year. As a rule, anti-crisis measures must be launched without delay, which means that they cannot be thoroughly elaborated and accurately adjusted to a long-term strategy of development. Unlike anti-crisis measures, modernization requires some serious conceptual elaboration.

Especially noteworthy in this context is the warning offered by Nouriel Roubini, Professor of Economics at the Stern School of Business, New York University. He noted that, in the course of the 2009 recovery, 'markets have gone up too much, too soon, too fast'. Such a recovery is fraught with the risk of a new bubble and some very unpleasant social cataclysms that may follow in a number of countries.

1.1.4. The priorities of Russia's economic policy in 2010

The top general priorities of Russia's socio-economic development are modernization and diversification of its economy. However, modernization is a long-term issue that deserves to become a subject of a special public discussion. For modernization to get under way, it is necessary that, along with relevant theoretical studies and practical recommendations, there should be a demand for modernization on the part of society's elite – or even society as a whole. Meanwhile, in present-day Russia, the predominant attitudes and political instincts are, as before, inclined towards rent-oriented behavior based on the expectation that high prices for energy carriers and the finance flows of the previous decade will come back sooner or later.

Yet another problem is associated with the necessity to comprehend the all-embracing character of modernization. Modernization cannot actually be limited to some individual sectors of the national economy (primarily the military-industrial complex), or even to the whole of the economy; instead, it should encompass all the spheres of the vital activity of society, including its economic, political and social aspects. In its turn, this will cause a cultural (ideological) renaissance as well.

As far as anti-crisis modernization is concerned, the following high-priority areas can be singled out.

First. The sustenance of macroeconomic stability; the pursuance of the course toward cutting inflation to the level of below 5 % and then keeping it at that level; the development of strategies for discontinuing fiscal assistance to the economy and for gradually reducing the budget deficit; the coordination of the monetary and budget measures designed to prevent an uncontrollable growth of money in circulation and a new upsurge of inflation in 2011 – 2012.

The contours of Russia's monetary policy should also reflect these tasks. It should take into account the prospects for transferring the ruble into a regional reserve currency. Even if at present this task may seem to be fantastic to some persons, its implementation in the medium-term perspective is actually quite possible. However, at the same time it is necessary to avoid anything that can make these prospects more remote (for instance, launching uncontrollable inflation or introducing currency controls). What is needed is the development of a phased program of measures designed to strengthen the international position of the ruble, with the phases being logically interlinked while no being anchored to any specific dates.

Second. An increase in the effectiveness of budget expenditures. The solution to this many-sided issue should be achieved by several means, including the development of mechanisms for singling-out the high-priority expenditures – instead of rapidly increasing such expenditures in times of boom, and then sequestering them in times of crisis; the improvement of the budgetary process and the sustenance of its continuity, when expenditures cover the work performed or the services delivered, and are not anchored to the formal framework of a calendar year; a reform of the budget-funded institutions, the singling-out of treasury enterprises and budget-funded and autonomous institutions and the change of mechanisms of their financing; the improvement of the system of state procurement.

Third. A transition from the policy of employment conservation to the policy of stimulating the creation of new jobs and increasing the mobility of labor force, which will involve a reduction in the administrative pressure on the enterprises for the purpose of employment conservation; an increase in the funding of the programs of support for the jobless and their re-training, a more intensive attraction of investments and a more robust stimulation (including fiscal) of green-field investments and other forms of creating new jobs; the development of a program of resettlement and retraining for the residents of unpromising mono-function (single-enterprise) towns.

When implementing measures of social stabilization, the government should abide by the principle that the State should help people – and not enterprises and their top managers and owners. This help should not be limited to the payment of unemployment benefits: people must be actively drawn into various educational projects oriented to professional retraining or improvement. In order to emphasize the importance of providing support to enterprises (especially the big ones), it if often argued that by doing so the government supports huge groups of workforce. However, the goals of structural renovation of the economy by no means imply that it is indeed necessary to keep the whole lot of the existing enterprises and to sustain the current level of employment. Moreover, modernization inevitably leads to a rise in unemployment and to a jobless recovery. Therefore, the provision of support to redundant workers is an imperative element of any sound modernization policy.

Fourth. Stimulation of modernization and the development of the medium- and long-tem crediting of medium and moderately large (non-oligarchic) businesses; the implementation of the privatization program which will favor such businesses; a reduction in the administrative load on businesses (especially large and medium-sized ones), including tax administering; the adoption of administrative regulations addressing the provision of government services.

Fifth. Two aspects of antimonopoly policy should be singled out: the overcoming of monopolism per se (anti-trust) and the stimulation of competition. The first aspect is of limited importance; sometimes it can even be dangerous (with regard to new rapidly growing sectors and enterprises) because it hampers the introduction of innovations. Anti-trust as such cannot attract new companies to the market and cannot stimulate an inflow of investments and innovations. These tasks can be solved only by some positive means – that is, by actions in favor of business, not against it. The number one priority should be the creation of proper conditions for the development of competition, such as the lowering of hurdles for business, the formation of the necessary infrastructure and the provision of support for innovations.

Sixth. The financial sector should be reformed with taking into account the globalization of financial markets and the recommendations of the G-20. From the institutional point of view, it should be necessary to switch over to the financial market standards adopted by all major financial centers of the world.

Seventh. Privatization of part of the assets nationalized or acquired by Vneshekonombank (Bank for Development and Foreign Economic Activity), which can be achieved, among other things, by establishing share funds or by transferring these assets to the trust fund of the pension system. This move can help to overcome the consequences of the revolutionary privatization of the 1990s which, while being very effective from a political point of view, did not ensure the proper legitimacy of the newly-established private ownership relationships.

Eighth. The development of integration processes, from finalizing the establishment of the Customs Union to the creation of the Common Economic Space (CES). When forming the CES, it would be advisable to focus on the harmonization of the corresponding legislation with that of the EU (to an extent that is not harmful to economic growth), which would make it possible to intensify the process of integration between the CES and the EU. It is equally important for Russia to complete the negotiations on its accession to the WTO and to join the OECD. This process, provided that it is carried out step by step, will make some long-term impact on institutional modernization in Russia, because the integration associations will provide a framework for competition between relevant jurisdictions, which would urge the partner countries to create more favorable conditions for businesses and citizens alike.

Ninth. Clarification of approaches to pension and medical insurance reforms; an increase in social demand for the funded pension system and to the long-term stability of the distribution system; an increase in the length of the period of transition to new rates and tariffs.

Tenth. Elimination of the problem of mono-function (single-enterprise) towns.

Eleventh, and last (but not least) – giving high priority to all areas of human capital, primarily education, health care and the pension system. The crisis has only increased the importance of the development of the socio-humanitarian sector as a key area and base of modernization.

1.1.5. The risks of the forthcoming period

The general characteristic of the current global crisis is the vagueness of its major parameters[1]. Numerous different forecasts have been offered to date, but still nobody can say with confidence just how long the crisis will last, and whether or not there will a 'second wave', and if it indeed comes, what shape it will take. 'I have never known such a prolonged period where the lack of visibility about future orders is so pronounced'[2] – this statement of one European industrialist clearly reflects the mood which is prevalent today among the intellectual and business elite.

The recession is coming to an end and economic growth rates are recovering, which inspires certain optimism. The governments and money authorities have proved their ability to rapidly respond to a very grave situation and to prevent a serious economic destabilization and a collapse of the banking system – which would otherwise certainly have been followed by a full-blown catastrophe.

However, there still exist some serious doubts. On the one hand, the crisis did not begin with a recession – it was only in a number of countries including Russia that a slump in production and the onset of the financial crisis coincided in time. Correspondingly, the end of the current recession does not necessarily mean the end of the crisis. On the other hand, economic growth so far has been associated mainly with efforts initiated by authorities. The main contributing factor is the budget incentives being introduced in the USA and China, and so the current growth is actually, to a great extent, rather artificial. Massive injections of liquidity can easily lead to a serious macroeconomic destabilization and inflate yet another financial bubble. Although less loud than before, there is still a lot of talk about a new wave of the crisis. And these misgivings are totally justified.

The financial difficulties being experienced by Dubai and Greece indicate that the crisis is far from over. The problem of sovereign debts has again resurfaced, although so far this has not been noted in the most developed countries. However, the rates of debt growth in developed countries are so high that one cannot exclude the possibility of sovereign debts emerging even there, which could cause a chain reaction in various countries and in various sectors of the economy. The problem of bad debt accumulation in the banking system remains acute. For the time being, these debts are being disguised and not written off , which can become – in a not so distant future – a serious factor of macroeconomic destabilization.

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1 See Ye. Gaidar, *Krizis v Rossii* [The Crisis in Russia] Ekonomicheskaia Politika [Economic Policy]. 2009. No 6.

2 Milne R.. *EU Business Wary over Recovery* // Financial Times. 2009. Nov. 12. P. 6.

However, the case in point is not the individual spheres of economic life that remain unregulated and so can trigger a second wave of the crisis. There exist some systemic risks which can become a source of serious destabilization both in Russia and across the global economy. So, it is worthwhile to consider these risks in more detail.

The most important among these risks appears to be macroeconomic destabilization, substantial growth of the public sector (mass-scale nationalization) and moral hazards (the risks of dishonest behavior or irresponsibility), which can result in conservation of the existing economic structure. We believe that the most important of these risks are as follows:

– macroeconomic destabilization;
– substantial growth of the public sector (mass-scale nationalization) and moral hazards (the risks of dishonest behavior or irresponsibility);
– restoration of the ideology and practices of Big Government;
– the tendency to preserve the status quo and the abandonment of any plans for true modernization of the country's economy and individual enterprises (business as usual).

The key problem is the accumulation of potential risks of macroeconomic instability, which can give rise to political instability. Last year, the governments of many highly-developed countries pursued expansionist budgetary and monetary policies designed to resist deflation. The currently pursued policy of cheap money and budget injections will inevitably result in significant growth of the sovereign debt of a majority of developed market economies, and it can also make high inflation more than probable in the not-so-distant future. In the latter half of 2009, the press was becoming increasingly optimistic about the situation, as reflected by the statements like 'Time has come for us to declare victory over the crisis and to abandon stimulating policies'[1]. This is actually the reason why the issue of an *exit strategy* – that is, the ways and methods of achieving disinflation and reducing state debt – is periodically being raised today in the discussions carried on by politicians and economists. At the same time, doubts as to the reality of the risks of uncontrollable inflation are still vociferously expressed by some experts[2].

The political problems associated with such a policy are no less evident; these have to do not only with the switchover to an *exit strategy*, but also with the political and economic consequences of its implementation. Politicians in developed countries (and first and foremost in the USA) are urging their colleagues to persist in their efforts aimed at maintaining budget incentives. An early reversal to budgetary conservatism may result in launching a recession, as it indeed happened in 1937. However, an excessively active large-scale inflow of money into the economy is fraught with the risk of high future inflation[3]. As demonstrated by the experience of the 1970s, it can become increasingly difficult to escape from this trap.

Two models of public authorities behavior have come into being by now. For instance, the United Kingdom, which previously has pursued a policy of huge financial injections into the economy, will now apparently be forced to increase taxes and cut budget expenditure. Germany, which has traditionally pursued a very cautious economic policy, is now going to bal-

[1] *Goodhart Ch.* It Is Time to Declare Victory and Withdraw Easing // Financial Times. 2009. Dec. 1. P. 28.
[2] Some international organizations and a number of prominent economists argue in favor of the inflation-proofness of the current monetary policies. See, for example, *Trade and Commodity Report, 2009* / UNCTAD. Geneva, 2009. P. 39, and the articles by Paul Krugman and Robert Skidelsky published in the *Financial Times* in May - June 2009. For a detailed argumentative backing for this viewpoint, see Richard Koo: a Personal View of the Macroeconomy / Nomura Securities. 2009. July 30.
[3] См.: *Giles Ch.* BIS Calls for Wide Global Financial Reforms // The Financial Times. 2009. June 30. P. 3.

ance her state budget while having the tax burden reduced in order to stimulate production and to achieve an increase in tax receipts on this basis. The USA, as a country in possession of a world reserve currency, and as such capable of monetizing its state debt, will apparently continue the current stimulating policy for a very long period of time.

It is even more difficult to correctly assess the political and economic problems and obstacles in the way of implementing the post-anti-crisis policy. A policy combining a tough attitude to budget expenditure with increasing interest rates would produce painful effects under any regime, but such a policy is even mode dangerous from the point of view of immature democracies – that is, those countries where the voters, because of their poverty, are strongly inclined to succumb to populist slogans. It can be already noticed, in the behavior of the governments of those countries that are preparing for elections, that they are somewhat prone to populism – which can now be said even of those who until recently have been actively opposed to it. The politicians exercising a prudent attitude to state expansion are, in fact, extremely rare.

There clearly exists a real danger for developed countries to get into a vicious circle of populism – and possibly to start going though this circle again and again. The situation is, in fact, rather simple – and it has becobe well-known from the experience of Latin America of the 20th century[1]. Of course, one should not overestimate the experience of the 20th century by regarding it in absolute terms, but nevertheless, this experience can provide some important information concerning the potential course of events.

Another serious problem is mass nationalization – be it implicit (hidden) or explicit (open), as well as the increasingly dirigiste trends observed in the economic policies of the world's leaders. When the State saves debtors and fills banks with capital by increasing its guarantees against private deposits, it thereby assumes the risks arising as a result of the actions of all the main participants in economic life – bankers, depositors and borrowers. In their struggle against the effects of the global crisis, the governments of the majority of developed countries often resort to measures that can discredit the fundamental principles of a market economy – that is, personal responsibility (meaning primarily the responsibility of entrepreneurs) for the consequences of private decision-making. The policy of nationalizing losses in its next phase inevitably leads to nationalization of risks.

Effective nationalization of companies faced with a difficult situation is thus achieved through granting financial aid to them. Nationalization is carried out through at least three channels: by buying-out the debts of individual companies; by recapitalization in exchange for shares; and by inflating the accumulated obligations. The governments are inclined to take over the liabilities (obligations) of financial institutions – both by granting guarantees and by

[1] There exists a classical description of the populist Latin American cycle suggested in the 1990s by R. Dornnbusch and S. Edwards. *Phase 1* – the initial government measures aimed at implementing a populist policy in response to depression or stagnation result in significant industrial growth and, accordingly, growth of the real incomes of the population which are satisfied by both domestic production and imports. *Phase 2* – there emerge macroeconomic bottlenecks associated with shortages of goods or the balance of payments deficit; the foreign exchange reserves allocated to support the national currency exchange rate gradually shrink. *Phase 3* is characterized by a rapidly increasing inflation and / or shortages of goods, and also by further deterioration of the balance of payments, as well as by capital flight and demonetization of the economy, which inevitably results in devaluation, a considerable drop in the revenues of the population, and – almost always – in the government losing political control. *Phase 4* – the transition to orthodox stabilization carried out by the new authorities (not infrequently, a military regime). (For more details, see *The Macroeconomics of Populism in Latin America* / R. Dornbusch, S. Edwards (eds.). Chicago and London: The University of Chicago Press, 1991. P. 11–12.)

direct capital inflow. True, the present-day nationalization has one specifically distinctive feature: it is something that is desperately needed. The nationalizations of the 20th century were ideologically motivated. Their authors – from the Russian Bolsheviks to the British Laborites – were convinced of that state property is always managed more efficiently than private property. By the turn of the century, the world had already got rid of that illusion, and so mass-scale nationalizations gave way to the policies of deregulation and privatization. And now there has emerged one entirely new phenomenon: nobody (or almost nobody) believes that the institution of state property can indeed ensure efficient economic performance. However, throughout the civilized world the anti-crisis policy has resulted in serous strengthening of the state sector[1].

In addition to direct nationalization, there occurs an overall growth of dirigisme; in other words, the number of individual decisions made by power institutions is increasing; it is they (and not the market) that decide who is right and who is wrong; and the State is prepared to instruct economic agents as to which services they must provide and which commodities produce. The bankruptcy of *Lehman Brothers*, on the one hand, and government aid to *Bear Stearns, AIG* and *CitiBank* on the other, which can hardly be viewed as market measures, were the outcome of some individually taken decisions – a situation that is fully compatible with the logic of a centrally managed economy.

And finally, systemic risks are associated with the emergence, among market players, of those who are 'too big to fail'. In the contemporary Russian terminology, this phenomenon has been named 'a system-forming enterprise'. There exist two major arguments in favor of their preservation. Firstly, the commodities or services produced by them are very important for society. Secondly, their closure may have some grave social (and sometimes even political) consequences.

Of course, in any historical period there existed enterprises whose collapse could entail some big social and political losses for society. However, the modern economic growth phenomenon *per se* implies not only the emergence of some new businesses (and companies) but also their departure from the scene as a result of competition. Competition – and no 'untouchables' – are the two fundamental principles of modern economic and – more broadly – social progress. Those who are granted government support find themselves in a privileged position – despite being less effective, they are able to prevail over their more effective competitors.

Also, there emerge moral hazards. If the State contributes to lowering the risks faced by a private form, the latter can indeed afford it to risk even more recklessly because it always hopes to be bailed out by the State.

There is yet another problem. While in the second half of the 19th century small business forms were seen as a source of innovation and dynamism ('small is beautiful'), nowadays most of the governments have demonstrated by their actions that, however wonderful small firms might be, it is always better and more secure for a firm to be big. This can significantly change the paradigm of economic development by hampering (at least temporarily) the dynamism of post-industrial renovation.

The current policies across the globe are largely focused on preserving many of those 'giants' which actually are remnants of the economy of the past. This became especially visible

[1] "…Political labels lost all meaning. With governments of all persuasions nationalizing banks and pumping money into the economy what now distinguishes left from right, liberal from conservative, socialist from capitalist, Keynesian from monetarist?" (*Thornhill J.* A Year of Chocolate Box Politic // The Financial Times. 2008. Dec. 24. P. 6).

in the case of the Russian Government's granting its guarantees to a number of companies, as practically none of those who had received state guarantees or money managed to produce in return any coherent modernization program.

Yet another serious problem dealing with the 'too big to fail' paradigm is the resurrection of the ideology of the Big Government. As the problems of the current global crises are frequently explained by insufficient regulation, the State is regularly called on to increase its interference in economic life. It is true that so far the proponents of such views have mainly been pointing to the 'necessity' of toughening the regulation of financial markets and institutions, including at the international scale. However, such a move can easily be followed by a return to state regulation of production and commerce. Russia is particularly vulnerable in this respect because of her tradition of the State's participation in the economy. In any case, the RF Law on Trade adopted in late 2009 and the State's desire to actively interfere in the process of pricing created a dangerous precedent for the future, especially bearing in mind Russia's 'credit history' of dirigism.

It is not only in Russia but in developed market democracies as well, that the wave of criticism of the liberal model of the past thirty years has brought popularity to the thesis of the necessity for the State to more actively interfere in the economy in order to overcome the risks of its spontaneous development. However, a balanced analysis of the current situation testifies to the questionability of such a solution, because state regulation *per se* implies certain systemic risks. 'Top government officials … are calling for the creation of a powerful systemic risk regulator. to reign in systemic risk in the private sector. But their [the US] government is now the most serious source of systemic risk', wrote, and not without justification, John B. Taylor, Professor of Economics at Stanford University[1]. This accusation holds true not only in regard of the US Government alone.

Finally, it should be pointed out that Russian society has so far failed to develop any pronounced demand for renovation and modernization. As far as contemporary Russia is concerned, the desire to preserve the status quo means waiting for the prices of Russian exports (fuel-and-energy resources and metals) to rebound and for the economy to return to the pre-crisis model of growth. 'Preserving the status quo on belief that oil prices will move higher and that fiscal can be tightened later…Moscow is trying to live through this crisis without visible reforms in fiscal, banking, natural monopolies or any other area'[2]. This is how the situation in this country was described by J P Morgan's analysts who visited Russia in June 2009. Theirs was a rather accurate assessment of the feelings expressed by the political elite and the public at large. These feelings are hardly surprising: in the public mind the economic boom of 1999 – 2007 – just as the onset of the current crisis – was formally linked to the movement of oil prices (as well as prices for natural gas and metals). Naturally, the exit from the crisis is also viewed as being dependent on growth of prices for energy carriers. The hope that soon 'everything would be all right once again', and we would return to the policy of 'well-being growth management' was clearly predominant in 2009.

It should be emphasized that it is extremely dangerous for Russia to remain resource-dependent and that this danger has only increased over the past forty years. The Russian economy has always been dependent on the export of resources. However, from the 1970's onwards a fundamentally new reality has come into being in Russia: her dependence on natural

[1] Taylor J. *Exploding Debt Threatens America* // The Financial Times. 2009. May 27. P. 9.
[2] Russia. *Emerging Markets Research* / JP Morgan Securities Inc. June 12, 2009.

resources which yield revenues totally unrelated to the country's economic development and the growth of labor productivity. Such a situation has never existed before. And it is this new reality that poses the main, strategic danger to Russia's future. This dependence on resources quantitatively differs from the previous heavy reliance of the Russian economy on raw materials, when Russia's exports were mainly agricultural. *The political risks of Russia's current dependence on resources are really huge, because such a dependence will inevitably result in the degradation of her main social institutions.* Resource dependence has already caused the collapse of the USSR – at the very moment of its becoming a seemingly impregnable[1].

1.1.6. Systemic challenges and new tasks

The current global crisis has clearly gone beyond the framework of the standard cyclic crisis; its emergence and development reflect the deepest underlying problems of the socio-economic development of the world's leading economic powers. In this respect, it indeed resembles the events of the 1930s and 1970s, when crises were followed by quantitative shifts in the political, economic and ideological complexion of the world. Crises of this type should give answers to a number of fundamental questions that capable of determining the character of the world's development for several decades.

The emergence of a trajectory of new stable growth becomes possible only when the government of a given country is capable of providing solutions to the root causes of the crisis. These root-cause problems are technological, economic, regulatory, social and, possibly, geopolitical in nature. Such changes for the better are always relatively slow, and it is practically impossible to speed them up. Their progress, however, can be made even slower by sticking to obsolescent economic and technological modes. So what are the root causes of the crisis?

Technological challenge. There have emerged new technologies which deepen man's penetration into the world of nature and the social organization of humankind. Bio- and nanotechnologies, as well as the newest IC systems, are forming a new technological base of social development. This process will soon require some serious institutional changes to be introduced that will push developed countries further and farther away from the heritage of industrial society. This new base will play the same role as large-scale machine industry was playing in the 1930s, and as micro-electronics and computer systems were playing in the 1970s.

The current crisis envisages a technological renovation that would reflect the transformation of demand for goods for many industrial purpose products and consumer goods, especially for investment goods, fuel and energy carriers. Naturally, this will have an effect on prices for the majority of goods traded on the market, and so will eventually bring prices to new balanced levels, which would result in a change of political configuration.

Motivation. One of the most deeply rooted problems of the crisis is the predominance of the interests of capitalization interests over the interests of increasing the effectiveness of production factors (or labor productivity growth factors). It is exactly this indicator that primarily concerns the owner-shareholders who thus assess the effectiveness of their managers. The indicator forming the target function became predominant with respect to the other pa-

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[1] This phenomenon was noticed and described very long ago by Adam Smith: 'The rate of profit does not … rise with the prosperity, and fall with the declension of the society. On the contrary, it is naturally low in rich, and high in poor countries, and it is always highest in the countries which are going fastest to ruin' (Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book I, Chapter XI, On the Rent of Land, Conclusion of the Chapter).

rameters of activity – labor productivity and renovation of production – which indeed played an important role, provided it did not interfere with capitalization growth. In practical terms, this situation reflects a tendency towards maximum concentration of production in the hands of a few global players (firms), the impossibility of closing ineffective enterprises, and, on the contrary, the owners' readiness to include them into big holding companies as a factor of market expansion and capitalization growth. Such a motivation of today's top management leads to a rise in monopolism (as a result of mergers and takeovers), to a deceleration of labor productivity growth and eventually to a destimulation of innovation activities.

The main issue of regulation put on the agenda by the current global crisis consists in the necessity to change the motivation of company owners and top managers in order to focus their attention on the quantitative aspects of their firms' development. It is exactly the task of finding an adequate solution to this issue that the current discussion on the bonuses paid to CEOs is concentrated on. After all, the problem of bonuses is not only (and even not so much) moral and ethical, but also (and primarily) an economic one: it can be reduced to the question of how a bonus should be formed in order to orient the managers to solving the long-term issues of their company's functioning. This problem is more profound than that of financial markets regulation, because the latter, however important it might be, is a derivative of the conflict between capitalization and effectiveness.

Structural modernization. The governments of the world's leading countries must find a solution to a very complex problem – how to help the development of new sectors of their economies and new businesses, while at the same time keeping down the level of social discontent and thus preventing social upheaval; incidentally, the source of that discontent are the 'system-forming enterprises' – big old companies whose post-crisis prospects are rather dubious, to say the least. In essence, the crux of the problem is how to reconcile the current and strategic interests. This is what the US Administration is faced with when it attempts to achieve two effectively opposite goals: to create incentives for boosting household consumption and thus to avoid the deflation trap, while simultaneously to promote savings growth – that is, to bring the level of household expenditures into line with the results of their production activity. Meanwhile, it is this latter goal that appears to be strategic: if it is not achieved – that is, if the 'consumption bubble' is not deflated, the former trajectory of stable economic growth will likewise remain unattainable.

Similar contradictions can be observed in the anti-crisis policy of Russia, whose government wants simultaneously to prevent unemployment growth and to implement structural modernization. However, the crisis of the first half of the 1990s clearly demonstrated that maintaining a high level of employment can help make social conflicts less acute but puts a barrier in the way of structural renovation and performance improvement[1].

A new model of regulation. The global crisis will inevitably lead to the emergence of new models of regulation. So far, debate on the crisis has been confined to the framework of the

[1] It is all the more important to remove the barriers standing in the way of employment restructuring because enterprises are reluctant to make an unproductive workforce redundant: in 2009 (like in the early 1990s), instead of labor-market restructuring, we witnessed labor-market adaptation which expressed itself in retaining the existing level of employment and in cutting wages, the working day and the working week, etc. (For more details, see *Zarabotnaia plata v Rossii: evoliutsiia i differentsiatsiia* [Russia's wage system: its evolution and differentiation] / V. E. Gimpelson and R. I. Kapeliushnikov, Eds. M.: Gu-VShE, 2007. Pp. 21 – 25; Kapeliushnikov R. I. *Konets rossiiskoi modeli truda?* [Is it an end of the Russia labor-market model?]. M.: Fond "Liberal'naia Missiia", 2009.)

logic and models of the past century – monetarism versus Keynesianism and deregulation versus dirigism. This paradigm range has become outdated, and the expert community needs to find new forms and instruments of regulation. It should concentrate on the issues of regulating global financial markets, not the production activities of enterprises. In this field, there emerged several critically important challenges and innovations that should be urgently comprehended and regulated in order to completely overcome the current crisis.

Firstly, there arose the issue of global regulation in the absence of a global government, i.e., the issue of finding the ways of coordinating the activities of the authorities and businesses that belong to different national legal and political systems. This task is by no means trivial: it does not have any precedents in economic history.

Secondly, the role and the possibility of regulating the new financial instruments which have essentially provoked the current global crisis remain to be comprehended.

Thirdly, as far as market regulation is concerned, a fundamentally new phenomenon of financialization, which eliminates the previously insurmountable barriers between the commodity and financial markets and between trade in commodities and securities, is visibly pushing its way onto the agenda[1]. Apparently, these markets are merging ever more closely, because in conditions of a contemporary information society both trading products can be used for solving purely financial issues, primarily for hedging risks. Especially interesting in this respect is the phenomenon of the oil market, where the price of oil is getting ever more disconnected from its production basis – the ratio between the demand for oil and its supply as a fuel – and becomes an instrument of placement of spare financial resources[2].

An analysis of financialization processes makes it possible to draw the following conclusion: the emergence of bubbles in such a situation is inevitable, because market participants (profiteers) can considerably influence prices and create speculator bubbles, thus inflicting enormous harm on normal commercial activities and market effectiveness[3]. Therefore, the role of state regulation of financial markets will inevitably expand. However, the question of its principles and instruments still remains open. Apparently, this question will become one of the top priorities on the agenda of future discussions between economists and politicians.

Reserve currency. The adoption of a new model of economic regulation will entail a transformation of the system of financial settlements, which will also imply the emergence of a new configuration of the world (or reserve) currencies. The current discussions of this theme is centered mainly around the following four basic variants.

First, the USD can keep its leading position, alongside the strengthening roles of both the euro and several other traditional regional reserve currencies. Second, the role of the artificial currency for international settlements (SDR) as a world reserve currency can become more important. Third, a new reserve currency can appear – either as an alternative to the USD and the euro or as their equal counterpart, and in this role many envisage the Chinese yuan. And fourth, regional reserve currencies can become more prominent, and among these some new ones may appear (for example, the Russian ruble). It is assumed that multiple reserve currencies will contribute to the world's overall tendency to multi-polarity, and thus conduce to

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[1] This term is used in the aforementioned report of the UNCTAD, which contains a special chapter entitled 'The Financialization of Commodity Markets'.

[2] This specific feature of the contemporary oil market and its influence on the prospects of economic growth in Russia was analyzed by Ye. Gaidar in his article *Dizzy with Success* (Ekonomicheskaia Politika [Economic Policy]. 2008. No 3).

[3] Trade and Commodity Report, 2009. Ch. 2.

higher responsibility of the monetary authorities of the relevant countries (as the reserve currencies will be competing).

This issue has given rise mainly to political discussions. However, it is well understood that a reserve currency cannot be 'appointed'. This role is assumed naturally, as a result of a responsible monetary policy being pursued by the authorities of a given country, which is aimed at increasing the attractiveness of their currency on an international plane.

Global disbalances. The issue of global disbalances and of the ways for overcoming them is also far from being solved. In fact, the case in point is the model of the post-crisis world order, the distribution of economic forces and the roles to be played by different countries and regions. Will it be a G-20, a G-8, a G-7 or a G-2? And what would be the reserve currencies of the post-crisis world order?

In this respect, there remains one very important question: what will be the new make-up and prospects of the new make-up of international economic relations? Some politicians (Z. Brzezinski, H. Kissinger) name the G-2[1], while N. Ferguson, rather provocatively, described it as 'Chimerica' (Chimerica = China + America)[2]. What is meant here is the emergence of a global disbalance between the growth of savings in developing countries and the growth of consumption in developed countries, first of all in the USA. In spite of the distinct trend towards adopting this new structure of international economic and political relations, it cannot be perceived as an established fact. There have been too many other trends that in actual practice proved to lead nowhere. However, the reality of the prospects for the materialization of the G-2 will determine many things – both in the mechanisms to be applied in order to engineering an exit from the crisis and in the actual configuration of the post-crisis world.

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The systemic problems and challenges described above indicate that the crisis that the world entered in 2008 will last at least ten years. Growth rates, currency regimes and political systems will all be prone to be instable. Apparently, we have entered a 'turbulent decade'. Turbulence, however. does not mean a constant decline and the high tension that was characteristic of the autumn 2008. Instead, there will be fluctuations in the rate of growth, a period of unstable growth with some local ups and downs, with upsurges of inflation and attempts to suppress it.

[1] *Brzezinski Z.* The Group of Two that Could Change the World // The Financial Times. 2009. Jan. 14. P. 9.
[2] *Ferguson N.* The Ascent of Money: A Financial History of the World. The Penguin Press, 2008.