

# Lessons in stabilization and prospects for growth: Russia's economic policy in 2016

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## Abstract

Economic growth is a primary challenge of the political agenda of leading countries, including Russia. This study discusses existing hypotheses that are related to “secular stagnation” and the “productivity paradox”, which include the demand side of the problem (cyclical factors), special features of technological innovations (technological factors), anti-crisis policy that prevents “creative destruction” (political factors), and the irrelevance of the GDP measurement (statistical problems). Limits to growth contribute to a new global policy trend and the emerging of populism; this study discusses the prospects of the transformation from political populism to economic populism. Global challenges provide the basis for a more extensive analysis of Russian economic development and, particularly, the results of the 2015–2016 anti-crisis policy, which helped the Russian economy to adapt to new economic realities of the post-crisis world.

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## 1. Introduction

The world is searching for a new socioeconomic development paradigm, which is occasionally referred to as the “new reality.” When considering prior structural crises (in the 1930s and 1970s), this search has lasted approximately a decade and has been characterized by volatile economic trends, political crises and social instability. Prior experience should by no means be bluntly applied to the future, and the duration of the “turbulent decade” can only be determined by

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future economic historians. However, it is evident that a primary issue on political and intellectual agendas is a new economic growth model and its potential rates and sources.

## 2. Discussing the prospects for economic growth

The prospects for economic growth present a significant challenge that will define the development of other vital structural processes during the 21st century, i.e., the trend towards globalization (or de-globalization), new industrialization (structural modernization), and the development of human capital.

We have witnessed the deceleration of economic growth rates since the beginning of the global crisis (i.e., roughly since 2008). Although this trend appeared to be temporary at first and was expected to dissipate in the foreseeable future, after approximately ten years, it became clear that the situation was far more complicated than expected. Economists predict an approaching of long secular stagnation and politicians have begun adapting to the new reality, which results in a sharp and explosive rise in populist sentiment. In fact, these were the two primary aspects of 2016: *low (and decelerating) economic growth rates and rising political populism*. Clearly, these two issues are related; economic hardships encourage politicians to adopt populist slogans, if not populist actions.

The ongoing economic deceleration had multiple causes and economists are focused on analyzing them. Modern growth is certain to be a highlight of future discussions regarding economics, political science, and political economy. One reason for this decelerating global development is lower growth rates in China and India, which they are, quite naturally, experiencing as they achieve economic maturity and a more stable condition similar to developed countries. The deceleration in global development could have been counterbalanced by emerging new opportunities for an accelerated technology transfer to other countries and regions of the world (e.g., to Africa), but this is more of a political and institutional matter than an economic issue thus far.

The deceleration may be partly attributable to cyclical factors, i.e., the low investment activity that is reflected in the excess of savings over investment that is characteristic of most developed countries. This period of decreased investment is seemingly associated with a high level of uncertainty, which is natural during technology upgrades and anticipated structural reforms.<sup>1</sup>

However, the problem of economic growth does not only refer to decelerating global trends or the specifics of the modern business cycle. In the traditional economic development model that includes recessions and recoveries, the primary question following a crisis is concerned with the actual level at which the recession will stop and economic growth will commence. The events after 2008 clearly demonstrated that a downturn may be followed by stagnation or low growth rates; recovery is not automatic. This results in a need to change the substance of anti-crisis policies, which should no longer be limited to fighting recession, but propose measures to ensure acceptable growth rates (or accelerating potential

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<sup>1</sup> Robert Shiller, Nobel Prize winner in economic sciences in 2013, attributes this deceleration to a “loss of economic confidence” (an expected business activity by companies and households’ income and employment) and “economic policy uncertainty” (regulations, taxes, etc.) (Shiller, 2016).

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