

Global crisis and challenges for Russian economic development

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Abstract

Global crisis forms new economic policy agenda which raises new questions for economic theory and economic thinking. This paper deals with these new intellectual challenges. Among them: growth theory and the risks of secular stagnation, unconventional macroeconomic policy and the prospects of financial stability, inequality and growth, the new welfare state, the prospects of globalization vs. de-globalization, and the re-industrialization in advanced economies. Based on the analysis of global trends, the paper discusses the roots and features of current Russian economic problems, compares the 2008–2009 and 2014–2015 crises, and factorizes the last one on three main components. The analysis includes the effects of sanctions against Russia on the current economic situation and the structural problems that slow down economic growth. Special attention is paid to examples of medium-term and long-term steps that can provide sustainable development for the Russian economy.

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1. Introduction: Global crises — in general and in particular

Economic development in the advanced countries is being determined primarily by the causes and the character of the global crisis that erupted in 2008 and that continues to the present day. This crisis is of a particular type: it cannot be explained in terms of one or two parameters (for example, in terms of decline in production or growth in unemployment), and it is multi-dimensional and affects many spheres of socio-economic life. In most cases, it has had serious socio-political consequences. This is a systemic crisis and, in this respect, resembles the crises of the 1930s and the 1970s (Mau, 2009).

Comparisons are not straightforward. The lessons learned in overcoming the systemic crises of the past cannot automatically be applied in different circumstances. Even so, systemic crises have a number of qualitative features in common. This means they can be treated as

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a single category and compared, even if the anti-crisis policies that were effective in one case do not apply in another. We consider the distinguishing features of a systemic crisis to be the following.

First: A systemic crisis is both cyclical and structural. It involves fundamental institutional and technological changes, that is, a transformation of the technological base (which some economists term the “mode of technology”). These changes raise the economy to a qualitatively higher level of efficiency and labor productivity. A renewal of the technological base, during which the latest technical and scientific innovations are applied, is the main precondition for emerging from the crisis.¹

Second: A financial crisis is a significant component of any systemic crisis. The combination of financial crisis and economic crisis (decline in production and employment) renders the crisis even more difficult to overcome and creates the need for a variety of structural and institutional reforms to steer the economy back onto a trajectory of sustainable growth.

Third: The consequence of a systemic crisis is the formation of a new economic growth model: this involves the structural modernization of both the developed and developing economies and, in turn, the creation of new technological “drivers.” At present, the emergence of new branches and sectors of the productive economy, and their geographical relocation throughout the world, is creating a new global economic reality that poses new challenges that require the adoption of new instruments of economic policy. This trend is captured well in an expression that began to be used in 2009: “the new normal” (El-Erian, 2010; Ulyukaev, 2010).

Fourth: Significant geo-political and geo-economic shifts take place, and new balances of power (involving both countries and regions) are achieved on a global scale. In the early stages of the present crisis, it was assumed that this would result in the consolidation of a bi-polar world centered around the United States and China, sometimes referred to as the “G2,” the “Big Two” (Brzezinski, 2009), or “Chimerica” (Ferguson, 2008). However, we are gradually but ever more distinctly beginning to see the formation of a multi-polar world in which two or three key economic centers predominate but that resembles a return to the well-known nineteenth century “concert of nations” model, which is held in place by the need to balance interests. With adjustments to take present-day circumstances into account, we could speak of a balance of interests among regional power groupings.

Fifth: During the course of a systemic crisis, important changes take place in the regulation of socio-economic processes. During the 1930s, the transition to a phase of industrial development was brought to completion, as were the ideology and practice of the “big government.” This meant an increase in taxation and of budget expenditure, state property, and planning, and in some cases, the determination of prices by the state. By contrast, the crisis of the 1970s resulted in large-scale liberalization and deregulation, in a reduction in taxation, and in privatization—in a word, in what was required for the transition to a post-industrial stage of technological development. At the beginning of the current crisis, it seemed that the world was again returning to a model of state domination of the economy (the term “Crass Keynesianism” has been employed). However, this tendency does not seem to have established itself. Certainly, there has been an increase in state regulation, but it seems to have been confined primarily to national and global financial markets. It is true that a significant anomaly currently exists in that while financial activity operates on a global scale, regulatory mechanisms have remained national. In the absence of a system of global governance, there is need for a mechanism to regulate global finance.

¹ Some economists have interpreted changes in the technological base as an example of “long cycles of conjuncture” (long waves of 50 to 60 years in duration) per N. D. Kondratiev (1925). This is an interesting and potentially useful hypothesis, but it has not been empirically proven, nor can it be in the absence of sufficient statistical data. Kondratiev himself considered “long cycles” to be only a hypothesis.

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