



Russian Collapse?

The widespread economic sanctions imposed on Russia, a state who have struggled to diversify from 'conservative and tight' economic philosophy preferred by their finance ministers, are likely to completely cripple the Russian economy. The multi-faceted attack effectively renders the supply-side policies employed to boost GDP profoundly obsolete- the economy is likely to embark on a downward spiral into recession, likely severely hindering Putin's ability to fund the unjustified, illegal war that is transpiring in Ukraine.

One of the fundamental reasons why Russia have managed to maintain macroeconomic control and stabilise inflation in recent years is due to their abundance of foreign exchange reserves- this has facilitated numerous debt payments to other countries without the issue of destroying the value of the ruble. It was to the extent that Russia were able to finance an early payment of €22 billion of debt accrued in the Soviet-era to the Paris Club in 2006: moreover Russia's foreign exchange reserves totalled a gargantuan €590 billion in 2008. However the conflict in Ukraine recently has entailed the United States of America barring Russia from completing debt transactions

using foreign currency held in US banks. While some may posit the argument that the consequent effects on the Russian economy will be minimal due to the Kremlin already engaging in 'de-dollarisation'- they have sold around 87% of their US treasury bonds, so some economists may insinuate Russia likely would have not had the means of currency in US banks to repay debt regardless- the implications will most likely be catastrophic for Russia's economy. Firstly, the exchange rate will likely plummet as the Russian Government supplies more Rubles to countries such as the US to finance debt- the Kremlin may decide it is necessary to run a budget deficit in order to finance the extortionate debt which cannot be repaid using foreign reserves- this is associated with numerous negative externalities. A major avenue in which has promoted growth in the Russian economy is through reducing fiscal expenditure, hence why they have been associated with a 'conservative and tight' economic philosophy serving

as the undertone to key decisions. The impact of the sanctions are that they may force Russia to completely and utterly scrap economic policy and directly contradict themselves through increasing government spending exponentially, causing a stark contraction of the economy, as how else will they repay their debt? Imposing such a restrictive and inconvenient sanction on an authoritarian state is profoundly intelligent as it provides Russia with few other options than to adopt a more demand-side, Keynesian policy, which would most likely catapult them into a spiral of debt. Logically speaking, due to such a large proportion of growth being attributed to cautious

with extremely high barriers to entry, often a product of illegal collusion. This effectively will act as a disincentive for new firms to enter the market, so therefore production of banned exports will not satisfy total demand in the economy, due to Russia's inability to prioritise improving their trend potential growth initially. Besides incumbent firms may feel the need to downsize- their productivity will worsen over time as they are physically unable to replace worn out capital due to trade bans imposed- this most likely will result in reduced derived demand for labour due to downward pressure on revenue and the need to reduce costs to somehow maintain profitability. If one approaches this

“The aim of the economic sanctions is to impose severe consequences on Russia for its actions and to effectively thwart their ability to continue this aggression .”

fiscal policy, Western sanctions are most likely to cause a sharp decline in economic growth and prosperity, likely displayed by a substantial decrease of GDP: this is purely due to an increase in spending acting as a limiting factor to growth in Russia- it was effectively an 'economic shield' for when the usually volatile prices of commodities decided to fall significantly.

Exports of cutting-edge technology such as quantum computers to Russia from the EU have been prohibited, alongside space, aviation and military goods. This poses a significant problem to Russia, as some sectors of its economy lack the self-sufficiency of others, due to a multitude of influencing factors. Russia's economy truly encompasses the term 'Dutch disease'- supply-side policies imposed by the Kremlin involving reducing taxation, aiming to incentivise firms to reinvest money into capital thus improving the productive potential of its economy in the long run have not come to fruition- firms are instead investing in sectors that generate 'quick money', such as the production of consumer goods entailing a lack of diversification in the Russian economy, which is completely unsustainable in the long run as they rely too much on imports for certain goods. Complications arise now, when Russia now have been denied access to a high percentage of the EU export market- so in order to meet the demand from consumers and firms for specific goods, they must produce more domestically- yet Russia's issues are further compounded due to the large presence of oligopolistic markets

situation from the perspective of a laissez-faire economist such as Jean-Baptiste Say, one could argue that the inability for more producers to enter the market will curb economic growth as fewer businesses are able to effectively trade with one another. As a result of the sanctions, the Kremlin are likely to witness an exponential increase in those who are cyclically unemployed simply due to a lack of goods being produced in the economy and falling aggregate demand, as well as a spike in the structurally unemployed as sectors fail due to the inability to import capital. This requires further fiscal expenditure in order to revitalise the labour force through initiatives such as providing training, again a limiting factor for economic growth in Russia, further inhibiting their ability to fund the pointless war in Ukraine.

