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## Russia: Reconciling Public Governance and Economic Development for Overcoming Crisis



Olga Lvova and Alla Bobyleva  
Department of Financial Management, School of  
Public Administration, Lomonosov Moscow  
State University, Moscow, Russia

### Synonyms

Crisis management; Economic crisis; Public crisis governance; Public crisis management; Sustainable development

### Definition

*Public crisis management* is an approach to economic crisis overcoming based on the domination of operative, reactive measures with selective support of beneficiaries.

*Public crisis governance*, on the contrary, includes strategic, long-term mechanisms, systemic approach to government support of economics (based on unified legal system and regulating institutions of development instead of selective funding), and long-term policy aimed at sustainable development, i.e., support of adequate

standard of living for the present generation and no decline in living conditions for the next generations.

### Introduction

In the later decade, Russia faced two severe economic crises. The first crisis of 2008–2009 was triggered by global economic fluctuations, but as a result Russia was one of the most affected economies: in 2009 gross domestic product (GDP) in Russia decreased by 7.9% (while in Japan by 6.1%, in Europe by 4%, in the USA by 3%). Such key economic indicators as industrial production, investments, real wages, and real household incomes also demonstrated negative dynamics (Aganbegian 2018). These dramatic consequences were the result of cumulative deformations of the Russian economy's structure, high dependence on exports of natural resources, low competitiveness of non-resource industries, immaturity of the financial system, and market institutions as a whole (Bobyleva et al. 2011, 11).

After the short period of economic rehabilitation and slow growth till the end of 2012, the next crisis of 2014–2015 occurred. It was provoked by both external factors and internal reasons. Geopolitical conflict followed by international economic sanctions, significant drop in world oil prices coupled with remaining cumulative deformations,

and only partial implementation of government stabilization measures (monetary policy aimed at inflation targeting and contraction of money supply, currency devaluation, increase of key interest rate, etc.) have led to the deep recession.

The government had to react to each crisis taking into account its nature and specific consequences. Policies of crisis overcoming had to include both urgent actions to “put out the fire” and long-term measures aimed at restarting economic growth.

According to the authors’ idea of crisis management as a built-in stabilizer of sustainable economic development, plans of crisis management at the public level should provide long-term sustainability, but acute crisis also demands an appropriate reactive response to arising challenges. This paper examines the process of reconciling public governance and economic development for overcoming crises and justifies that current Russian public crisis policy includes majorly short-term stabilizing measures without a general systemic strategy of long-term sustainable economic development, i.e., “public crisis management” prevails over “public crisis governance.”

## Tasks and Instruments of Public Governance for Crisis Overcoming

Public crisis governance is usually aimed at providing maintenance of the market environment, the functioning of the monetary mechanism, production of public goods, managing inflation and unemployment, and the stimulation of economic growth. The main public tasks here include creating a highly competitive economy, economic restructuring, ensuring social protection and increasing the standards of living, increasing the sustainability of the financial and banking systems, strengthening the position of the country in the international community, and personnel retraining at all levels (to adapt to market conditions to workers who have lost jobs due to economic restructuring).

Concrete tasks of public management in the acute phase of crisis include:

- Facilitation of access to financial resources
- Reducing the tax burden for business
- The development of special crisis management programs and plans on federal and regional levels
- Boosting the internal demand
- Strengthening social protection and support of unemployed and poor people

In general, the key elements of public crisis governance can be considered as follows:

- Forecast of changes in the phases of the macroeconomic cycle and their impact on the organizations’ activity
- Development of management models and technologies for action during organizational crises
- The use of macroeconomic technics for enterprises in all phases of the cycle to moderate the transformational period and crisis
- Identification and assistance for distressed companies that can be recovered along with effective bankruptcy proceeding conduction of indebted companies beyond the economic rescue
- Control over the organizations’ activities both directly in the period of crisis and at all stages of macroeconomic cycle by determining the zone of the main indicators’ volatility

As a whole, methods of public economic regulation applied to prevent and overcome crisis can be divided into two groups:

- *Administrative methods* imply direct impact on the economics through the development of legislative framework, control over the activities of economic entities, and the usage of sanctions
- *Economic methods* include market instruments of influence on business entities through fiscal and monetary policy, currency regulation, impact on property relations, State participation in companies’ capital, etc.

Application of each group depends on the phase of economic cycle. During the growth

period, the State policy should prevent a possible “overheating” of the economy and improve social protection using fiscal policy. In the recession phase where a decrease in production volumes occur, public governance is aimed at boosting business activity and the development of new production and technologies by usage of both soft, indirect economic methods and direct administrative influence. In the crisis phase, public crisis management is realized through activation of both administrative and economic methods.

The main instruments of public crisis management include:

- Monetary policy
- Tax (fiscal) policy
- Currency regulation
- Relationship with foreign capital
- Property relations
- Insolvency regulation

## Monetary Policy During Crisis

Monetary policy is aimed at the achievement of economic growth, stable prices, full employment, increase of real production level, and sustainable account balance. The main tools include management of interest rates, rates of mandatory reserves, and open-market operations.

During crisis the central bank usually provides “easy monetary policy” by decreasing interest rates, rate of mandatory reserves, and buying securities of commercial banks. These measures increase liquidity of bank system, provide expansion of crediting, and improve investment conditions which leads to the production and employment increase. However central banks usually quite rapidly exhaust possibilities of traditional market tool application, while the crisis becomes deeper or the stagflation appears.

The crisis, which took place in 2014–2015, was provoked by both external factors (geopolitical conflict followed by international economic sanctions, significant drop in world oil prices, etc.) and internal reasons, including the abovementioned remaining cumulative deformations and only partial implementation of

government stabilization measures (monetary policy aimed at inflation targeting and contraction of money supply, currency devaluation, increase of key interest rate, etc.). The Russian government had to react to each crisis taking into account its nature and specific consequences. Anti-crisis policies had to include both urgent actions to “put out the fire” and long-term measures aimed at restarting economic growth.

In particular, actions of the Bank of Russia within crisis of 2014–2015 were opposite: due to the national currency devaluation and increase of currency speculations, the Bank of Russia increased the key rate up to the critical level of 17.5% which led to the short positive effect. Bank system liquidity was supported by huge direct financial injections to increase their capitalization and foreign currency obligations repayment (Table 1).

## Budgetary and Fiscal Crisis Management Instruments

The main instruments of the public fiscal policy are government spending, taxes, and transfer payments which help to regulate cumulative demand. Depending on the phase of the cycle, the State implements a certain type of fiscal policy. During crisis with slack economy and production recession as a consequence of insufficient effective demand, the State usually realizes policy of cumulative demand expansion.

Taking into account that investment and consumption are the main components of cumulative demand, an increase in government spending (financing and lending to private entrepreneurs from the state budget, facilitating of government procurement of goods and services, transferring inter-budgetary payments for reduction inequalities of wealth and support of poor people) leads to the facilitation of investment and the propensity to consume.

Reducing business taxes stimulates economic growth, allows companies to leave more funds for development, and leads to an increase in the supply of factors of production and an increase in

**Russia: Reconciling Public Governance and Economic Development for Overcoming Crisis, Table 1** Distribution of measures and funding between industries in public crisis management Programs 2009–2010 and Plans 2015–2016

Criteria	Program 2009	Program 2010	Plan 2015	Plan 2016
Blocks of measures	Number of measures (sum of financing, bln rub)			
Social support of population	43 (695.8)	2 (19.2)	9 (296.2)	11 (38.3)
Financial system (banks)	13 (495)	1 (1)	15 (1960)	9 (21.85)
Innovations/import substitution	Innovations: 10 (–)	–	Import substitution: 5 (4)	Import substitution: 4 (–)
Business support (including SME development)	44 (633)	7 (–)	2 (–)	2 (2.2)

economic potential, while reducing taxes for the population increases consumer demand.

The crisis of 2008–2009 triggered new changes of the tax system in Russia: a reduction in the profit tax rate from 24% to 20% and changes in VAT payment on technological equipment imports, but the impact of these measures was not fully realized. One of the most discussed tax measures of Plan 2015 was providing an opportunity for regions to decrease tax rate within a simplified taxation regime, but in many regions financial problems were so great that they could not afford to reduce budget incomes in such a way.

During 2000–2014 the federal budget was steadily growing and increased more than 12 times due to the high oil prices and the so-called “tax maneuver” (Bobyleva 2015, 7; Lvova 2015, 69). The prevailing concept of financial and economic sustainability growth was to provide a budget surplus. Rosstat (Russian Federal State Statistics Service “Rosstat”) data shows that this directive was realized from the middle of the 1990s and was interrupted only by short periods of 1995, 2009–2010, and 2013–2015 when a fiscal deficit took place (Russia in figures 2011, 2014, 2015). It should be noted that the trend of economic development with a budget deficit does not necessarily indicate negative economic dynamics: economies of many countries successfully function having fiscal deficit. However, taking into account relative isolation of Russia from the external world nowadays and uncertainty of additional fund attraction, control of fiscal deficit and appropriate

management become an important task for increasing of sustainability.

### **Real Sector of Economy: Large and Small-/Medium-Sized Enterprises (SMEs) Support**

A special feature of the Russian economy is an overwhelming domination of large enterprises: nowadays their share is about 82% (Statistical Yearbook of Russia 2018). It is primarily explained by the resource structure of economy: the presence of large mineral deposits lead to the existence of appropriate large-scale extracting and refining enterprises.

The dependence of the economy on large-scale business led to the formation of special conditions for their sustainability support. In particular, in the end of the 1990s, the so-called “strategic” and “city-forming enterprises” were selected, and then “system-forming enterprises” were introduced in 2008. They receive priority support from the government and strive to obtain such status. It should be emphasized that such categories of enterprises are indicative only for the Russian economy and certain post-soviet countries. In developed economies similar enterprises are full participants of the market economy and global competition; they generate level of profit appropriate for development or go bankrupt.

The Russian concept of large business sustainability is based on significant participation of the State in their equity, selection of strategic and

system-forming enterprises, foundation of State corporations, and providing them with financial support in different forms.

A necessary component of the country's economic sustainability increase is the development of small and medium entrepreneurship (SME) which plays an important role in employment performance and social tension diminishing. Thus, from the beginning of the transition, programs of SME support were declared as priority projects and were included in the public system of economic sustainability growth. The government provided the following main measures: simplified rules for accounting and reporting; implemented special conditions for SMEs' participation as suppliers and contractors within government procurement; rendered financial support for SMEs and its infrastructure development (business incubators, techno parks); and simplified tax mechanisms through patent system expansion.

In general, indicators of the real sector of economic development during the first 20 years of reforms illustrate growth (except for the crises periods of 2008–2009 and 2015–2016). Nevertheless, the influence of the crises led to a reduction in turnover dynamics and financial result in the real sector (Statistical Yearbook of Russia 2011, 2014, 2015). The low indicators of the real sector resulted from many factors: underdevelopment of Russian institutions “responsible for sustainability,” the global economic situation, volatility of demand and prices level, etc.

Special attention should be given to such factors of low growth as a high degree of fixed asset depreciation (achieved 49% in 2014 from 37% level in the beginning of the 2000s (In main revenue-generating (extraction and refining) industries, depreciation is even higher (up to 54%) along with 20% of fully depreciated assets. Ratios of renovation and retirement of fixed assets confirm this trend: renovation ratio does not exceed 5%, while retirement ratio during the last 6 years achieved less 1% level.)) and high investment needs (Russia in figures 2011, 2014, 2015). Increased depreciation resulted from low growth rates of capital inflow and reduction of long-term investments into the economy. To support economic sustainability, the government considers

an increase of the share of budgetary financing, but there are not enough funds for this.

In conclusion, the study of indicators of the real sector of economic development along with the abovementioned indicators of living standards and GDP dynamics confirms that during the research period, budgetary funds were transferred primarily not for economic development and long-term sustainability but for immediate consumption and social stability provision. Real wages were growing without simultaneous growth of effectiveness and workforce productivity. So, the conditions for long-term sustainability were not established in full during this period.

### **Comparative Analysis of Public Crisis Management Programs 2009–2010 and Plans 2015–2016**

Crisis management strategy of the government can be illustrated through the analysis of certain Programs and Plans and their contribution to sustainable development. It should be evaluated which of the measures can be considered as effective ones in long-term perspective in terms of sustainability improvement; which of the measures can be applied in the most volatile periods to get immediate results; and which of the measures are still relevant and which of the measures should be rejected.

The comparison of formal attributes and technical differences shows that the Program 2009 was developed in more detail than later documents: the number of its pages twice exceeds the Plan 2016 and is three times more than the Plan 2015. However, the number of measures in Program 2009 and Plan 2016 is almost the same (120 and 123 consequently). It can signify that measures of Plan 2016 are named but defined less thoroughly than in Program 2009.

Program 2010 generally goes along the lines of the previous one of 2009 and includes similar measures, but it is not informative and hard for perception: it contains only 12 pages; the structure of data is the worst among all of the reviewed documents. The program seems declarative: concrete mechanisms, responsible authorities, time

periods for implementation, and required financing are not specified.

A positive distinguishing feature of the Plans 2015 and Plan 2016 is the setting of strategic goals: their titles include “sustainable development” (2015) and “stable social economic development” (2016), while the Program 2009 was aimed at reactive “crisis” response.

The volume of funding and chosen priorities constitutes the principal difference of all reviewed documents. The largest investments were provided for Program 2009 and Plan 2015 (more than 2.2 bln rubles each) as they were adopted in the critical periods of crises. Nevertheless, in real terms the sum of financing in 2009 was the largest (approximately 50% more than in 2015) taking into account the average inflation rate and drop of purchasing capacity of Russian currency during 2009–2016.

Comparison of blocks of measures illustrates that the main priorities in public crisis regulation in Russia were changing during this period, while “social stability maintenance” was common for all the documents but to a varying degree. In the Program 2009 social support of the population, performance of social commitments, and human capital development (social security, education, healthcare) are announced as the main priorities with maximum financing. In 2015 primarily bank system support was preferred due to devaluation of the national currency. In 2010 the main financing was addressed to the development of military-industrial complex, in 2016 to inter-budgetary lending. Such a change in the priorities of financing can illustrate either erratic escalation of the crisis in certain directions or inconsistency of public policy, absence of strategy, and choice of “patching the holes” tactics. So, in Russia stable repetitive crisis measures prevail, but they do not improve sustainability, while tactics changes, the strategy remains the same.

Each Program and Plan suggested certain industries for priority support and highlighted concrete beneficiaries of financial support which confirms the presence of both systematic and selective measures (Table 2).

So, in accordance with the Program 2009, a major part of finance was spent on selective support of the Russian automobile producer PJSC “AvtoVAZ.” The automotive industry as a whole is declared as a concrete beneficiary in three of four considered documents. Almost a similar set of protectionist measures for system-forming automotive producers is considered by the Plan 2015 and by the Plan 2016. Another main beneficiary of public financing during the crises is PJSC “Russian Railways.” It is financed both directly (compensation of lost earnings) and indirectly (prolongation of 0% VAT rate for passenger carriage services by suburban traffic).

As a whole Programs of 2009–2010 declared activation of modernization vector, but, in reality, financing of industries and businesses was provided mainly by writing-off bad debts, allocation of subsidies, and lending at preferential rates. A set of measures shows that public support to business was considered as a means of preventing the collapse and activity termination. In general, neither formation of conditions for innovations nor science and technologies development was specified by concrete measures in spite of declared priorities.

In 2015 the main tool of large business support became the provision of public guarantees of loans or federal loan bonds (10% of the whole funding of the Plan). On the one hand, this opportunity was available only for certain companies or borrowers selected by the government. The guarantees were intended for project realization, but financing current debts restructuring was also allowed. Plan 2015 identified only three concrete beneficiaries of direct financing which is less than in all other years (Table 2) but suggested broad public guarantees at loans for system-forming enterprises, support of airlines and civil aircraft producers, etc. In practice a certain part of funding for bank system recapitalization announced by Plan 2015 was transferred to strategic enterprises – for example, in 2015 PJSC “United Aircraft Corporation” received a capital increase by the State of 100 bln rub.

Plan 2016 contained less measures addressed to large business support. They were also short-term and imply subsidizing of industrial

**Russia: Reconciling Public Governance and Economic Development for Overcoming Crisis, Table 2** Support of large-scale business in public crisis management Programs 2009–2010 and Plans 2015–2016

Criteria	Program 2009	Program 2010	Plan 2015	Plan 2016
Blocks of measures	Number of measures (sum of financing, bln rub)			
Industries	Agriculture: 9 (63) Manufacturing industries: 20 (160.3) Transport: 11 (150)	Agriculture: 1 (5) Manufacturing industries: 10 (117.9)	Agriculture: 3 (50) Manufacturing industries: 8 (17) Construction: 1 (–) Transport: 3 (–)	Manufacturing industries: 8 (184.7) Construction: 3 (25) Transport: 8 (0.4)
Block “support of certain industries” includes	Agriculture, fishing, automotive, agricultural machinery, military-industrial complex, transport, tourism, trade, forest	Military-industrial complex, automotive, transport, nanotechnologies	Agriculture, house building, aviation, transport	Automotive, clothing, transport and agricultural machinery, tourism, space development, national software development, railways, house building
Top 2 supported industries: number of measures (sum of financing, bln rub)	1. Automotive industry: 14 (90)	1. Military-industrial complex: 2 (42.5)	1. Agriculture: 1 (up to 50)	1. Automotive industry: 1 (137.7)
	2. Military-industrial complex: 4 (70)	2. Automotive industry: 3 (33.5)	2. Other manufacturing industries: 1 (20)	2. Railway machinery production: 1 (39.8)
Concrete recipients of financial support (direct funding, different types of subsidies)	Ten organizations	Five organizations	Three organizations	Eight organizations
	Russian Railways AvtoVAZ (automotive producer) Rosagroleasing Russian Agricultural Bank State corporation “Rostec” Sollers (automotive producer) Gorbunov aircraft plant Khrunichev GKNPC (space industry) Chernyshev Moscow machine-building enterprise (aero engine production) Russian Aircraft Corporation “MIG”	Oboronprom corporation (helicopter and engine industry) State corporation “Housing and Utility Reform Foundation” AvtoVAZ (automotive producer) Scientific production association “Uralvagonzavod” (railway machinery production) Chernyshev Moscow machine-building enterprise	Eximbank of Russia Rosagroleasing  Vnesheconombank (institution of development)	Eximbank of Russia and Russian Export Center  Vnesheconombank Khrunichev GKNPC Russian Railways State Transport Leasing Company Corporation of SME United Shipbuilding Corporation

enterprises as compensation of interest payments and enlarging working capital and (or) financing of current activity.

In all crises, public measures of SME support mainly concerned organizational and legal aspects: elimination of administrative barriers,

reducing the frequency of inspections, adjustments to the mandatory quota for SMEs in public procurement, and strengthening of anti-corruption activities. In 2009, the important vector of SME development became the program of its financial support through commercial banks. Program



2010 supposed active involvement of SMEs in modernization and innovative activities, but most of measures were not fully realized.

In crisis of 2015 SME support included mainly grants to small innovative enterprises in total volume of 2 bln rubles. However, this part of Plan 2015 contained the most concrete measures and resulting indicators: extended basic requirements to receive SME status to make it more popular and legalize citizens' commercial activity and extended access to public procurement. In Plan 2016 SME support suggested new measures of business pressure reduction: decrease of government control of entrepreneurs by setting limits on the frequency of examinations and extension of legal opportunities to apply suspended sentence for first-time economic offences.

As a whole an analysis of public crisis management programs and plans shows that they are similar in many aspects and illustrate stable policy: the main financing is provided to large companies or banks, and business support is primarily aimed at helping "strategic" and "system-forming" enterprises; SMEs are mainly stimulated by tax preferences which depend on the decision of regional authorities and are not realized in full.

Plan 2016 considered as much measures as the sophisticated Program 2009 but had three times less financing due to the current deficit of public funds. Hard financial limits also explain declared strengthening of control and cost reduction policy: introduction of cost audit measures for natural monopolies and infrastructural companies, implementation of the "benefit-to-cost" principle to appraisal of capital intensive projects, performance audit of special economic zones, adjustment of public programs from the point of financial efficiency, and budgetary expenses reduction.

However, the majority of experts notice the absence of systematic reaction to the crisis: both Programs of 2009–2010 and Plans of 2015–2016 were aimed at quick prevention of the most acute crisis consequences by taking a selective, countervailing measure in the absence of a common strategy for improving sustainability. This is in contrast with Western countries.

## Conclusion

The strategy and tactics of public crisis governance may vary depending on the following conditions:

- The level of development of the economy
- National traditions
- Phases of the macroeconomic cycle
- The level of globalization and the international division of labor
- The degree of concentration and centralization of capital
- Budgetary, credit, and investment possibilities of the State and the financial and banking systems

During all the reviewed periods, the crises in Russia were overcome thanks to high oil and gas revenues, significant imports (currently compromised by geopolitics and sanctions), and inter-budgetary transfers. However, the Russian economy remains unsustainable, dependent on the global situation, suffers from relative technological gap, and has exhausted its development model based on overdependence on extractive industries (Mau 2017). The mainstream crisis management policy in Russia was relatively stable, but it does not always contribute significantly to the long-term sustainability.

In general, sustainability criteria are incompatible with sustainability and describe the frequency of crises, the degree of dependence of the economy on external factors, the degree of the budget deficit, the level of economic independence of the regions, the effectiveness of the tax system, the level of performance of the State functions in the financial sector, and the diversification of the economy.

However, the last crisis management programs and plans in Russia contain addressed financial assistance to traditionally ineffective industries and ignore the tasks of economic diversification and long-term innovative development. The real steps to public crisis governance in the strategic perspective are still needed: shift from direct financial aid to ineffective companies to financing based on expected performance of each measure to overcome crisis.



## Cross-References

- [Evolution of Crisis Management](#)
- [Global Financial Crisis Management](#)
- [Sustainability and Crisis Management](#)

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