There is nothing more practical than a good theory” (German physicist Gustav Kirchhoff)

The Two Main Macroeconomic Theories of Keynes and Friedman and Their Use in the Economic Policy of the World’s Major Countries and Russia

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Abstract—The article analyzes two approaches to developing economic policy, Keynesian and monetarist. The main ideas of J. Keynes and M. Friedman and their applicability as the basis for designing an anticrisis economic policy are considered in a historical context. It is shown that over the 1970s–1980s Friedman’s ideas made it possible for the American economy to overcome a period of long-term stagnation, which enabled the United States to regain leadership in the innovation sphere and ensure the sustainability of economic development in subsequent decades. It is also shown that during Margaret Thatcher’s prime ministership, monetarist ideas brought UK remarkable success. At the same time, it is stated that in the modern complex economy of a global nature it is not enough to use any one theory and it is required to adopt different ideas. Actually, no unified universal synthetic theory has been created so far. Returning to the problems of the Russian economy, the author clearly proves that a significant part of the Friedman’s ideas could successfully be used in the process of structural and technological modernization of our country.

Keywords: economic theory, economic policy, Keynesianism, monetarism, Reaganomics

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The theoretical developments of the two greatest economists of the twentieth century, John Maynard Keynes and Milton Friedman, are extremely relevant in the modern turbulent period of crises and stagnation in the world economy. Actually, the economic policy pursued in different countries is largely based on their developments.

As is known, the founders of economic science, Adam Smith and David Ricardo, conducted their research in the second half of the 18th century and at the beginning of the 19th century, during the first industrial revolution. The development of the material and technical base of capitalism was at its early stage and the capitalist economy was far from mature. Neither crises nor economic cycles were inherent in it at that time. The first crisis was local and occurred in the first industrial country—England—in 1825. And the first world economic crisis that struck the United States, European countries, and Russia erupted in 1857.

The tenet of the classical economic theory at that time was free trade and free competition. Adam Smith put forward the famous metaphor of the “invisible hand” of the market as the basis for the functioning of the economy [1]. At the same time, the state should not interfere in market relations and play a regulatory role. It should be limited to supervisory functions.

The whole world was shaken by the “Great Depression” of 1929–1933, a global crisis of unprecedented destructive power, and it seemed that the foundations of capitalism and the market economy were undermined. No one knew how to restore the ruined life. What was to be done with the tens of millions of the unemployed thrown out into the street? How to restore production, which had fallen by half? How to feed the emerging huge mass of poor families? Waiting for the market to fix it all itself was unacceptable. The government had to take decisive action.

This was a basis for developing Keynesianism—the first integral macroeconomic theory. Prior to this, macroeconomics, as an independent object of study, had not attracted much attention.

The great depression, Keynesianism, modernization of cycles and crises in the new conditions of world economic development. Keynes, an outstanding English scientist, economist, and philosopher, participated in
the development of measures for overcoming the rather deep crisis of 1920, into which the developed countries were drawn immediately after the end of the First World War. He explored the causes of the Great Depression and created his theory largely under the influence of this most devastating world crisis. Keynes was the first to reject the generally accepted view on the effectiveness of market self-regulation and argued that supply and demand were not always in balance. He believed that government assistance was required to support demand, which, in his opinion, determined the supply of goods and services. These provisions were adopted by the governments of developed countries. Keynesianism became the basis for active state intervention in the cyclical development of the economy, especially in the implementation of anticrisis measures.

Table 1 presents the characteristics of the most important economic crises.

Table 1. Major crises in recent economic history

| Year     | Crisis                                                                 |
|----------|----------------------------------------------------------------------|
| 1857     | The first global crisis that reduced production in the USA, Europe, and Russia |
| 1873–1878| The longest global crisis                                             |
| 1890–1893| Germany, the United States, England, Russia are the worst affected countries |
| 1920     | Deep global crisis. Industry declined: the UK by 33%, the United States, by 16, European countries by 11% |
| 1929–1933| The deepest global crisis, the Great Depression. The industry of developed countries decreased by 46%, unemployment rate was 25%, real incomes decreased by 58% |
| 1937     | World crisis. Industry in the United States declined by 21%, in European countries — by 11% with increased unemployment |
| 1948–1949| the United States, Canada, and Europe. The industry of developed countries decreased by an average of 6% |
| 1957–1958| In the US, industry decreased by 12.6%, in European countries, less. The greatest decline was observed in the foreign economic turnover |
| 1973–1975| A global crisis combined with an energy crisis due to a multiple increase in oil prices by the OPEC countries and with a food crisis due to lean years. The beginning of the process of stagflation, primarily in the United States |
| 2007–2009| The global economic crisis with a slight, up to 1%. decline in global GDP, a 3.5% decline in the GDP of developed countries, with a decrease in the economic growth rate of developing countries, led by China and India, from 6 to 2%. Unemployment in the US and Europe has exceeded 10%. World foreign trade decreased by 20%, while the stock markets of large countries fell by 2–2.5 times. Russia experienced the deepest crisis among the 20 major countries represented at the world summit |

Table 2. Characteristics of crises in the 20th century

| Indicator                  | 1937–1957 | 1921–1948 |
|----------------------------|-----------|-----------|
| Number of crises           | 19        | 13        |
| Average number of months for 1 cycle | 55        | 73        |
| Average economic decline, % | 15        | 6         |

In the first 80 years from 1857 to 1937, crises occurred more frequently while their gravity increased. And in the period after the Second World War, the interval between crises was stretched, and they became less grave. This is clearly seen from Table 2, which summarizes the indicators for all crises that occurred in the main country of capitalism—the United States—from 1948 to the present.

During this period, according to NBER (the National Bureau of Economic Research) there were 32 crises in the United States. The duration of the economic cycle associated with crises in the postwar years increased 1.5 times, while their gravity, on the contrary, was down more than by half. This was largely due to the significant intensification of anticrisis policy and the increasing role of the state in the development of the economy.

This new economic policy of governments, primarily of developed countries, was mainly based on the provisions of Keynesianism.

For a significant part of his life, Keynes worked in Cambridge at Kings College, from which he had previously graduated. He was not a self-absorbed academic scholar living a sheltered life. Keynes actively participated in the formation of economic policy in colonial England, dealt with relations with India, and worked to overcome the rather deep crisis of 1920.
After the end of the First World War, he developed measures for restoring the economy after the Great Depression.

Keynes was also a major philosopher and art connoisseur, a well-known ballet fan, married to Lydia Lopukhina, the famous Diaghilev ballerina. He maintained a ballet company, and financed the production of numerous performances. Keynes not only communicated with economists and philosophers but also was an insider in the community of fine art experts. This comprehensiveness of interests must have manifested itself in his outstanding economic research.

The main, fundamental work of his life, a kind of economic Bible of that time, The General Theory of Employment, Interest, and Money [2], was published in 1936. Keynes analyzed the causes of possible imbalances in supply and demand. He considered the main driving force of the economy to be demand, which depended on income. However, this relationship was not direct. After all, people save a part of their income. Their actions are by no means optimal; they are influenced by different circumstances. Moreover, the supply of goods and services is forced to adapt to this changing demand, generating production, and, therefore, employment, which, in turn, generates income. There is a kind of vicious circle instead of proportional self-regulation. Keynes made the main theoretical and practical conclusion about the need to adjust demand, as the main driving force of the economy, through state intervention.

The crisis of 1929–1933 began with an unprecedented collapse of the New York Stock Exchange and most of all struck the US economy where industry was almost halved, a quarter of workers lost permanent employment, and real incomes of the population fell catastrophically. President Herbert Hoover began to take anticrisis measures in the United States, but most of them were implemented by Franklin Roosevelt guided by the Keynesian ideas. Keynes proposed, for example, massive public works with public funding, which would reduce record unemployment. And, as is known, Roosevelt successfully took advantage of this proposal. In addition, he managed to stabilize the situation when America was overtaken by the crisis of 1937 and industry declined by 21%. However, of course, only the need for the rapid growth of the military industry in connection with the outbreak of World War II supported by the state in every possible way made it possible to overcome the socioeconomic consequences of the Great Depression.

Shortly after the end of World War II, the overproduction crisis of 1948–1949 set in again, with the United States, Canada, and Europe among the hardest hit [3]. The governments of these countries, following the proposals of Keynes, actively carried out anticrisis measures and ensured that their industry, perhaps for the first time in history, sank by only 6% on average. This was followed by almost a decade of the postwar economic upswing, and only in 1957–1958, a new major and deeper crisis broke out in the United States and European countries. In the United States, industry decreased by 12.6% while in European countries the decline was more modest. At the same time, foreign economic turnover, which had previously been growing rapidly, shrank most dramatically.

This was followed by an almost 15-year period of revival and recovery, largely due to the acceleration of technological industries, with the rapid development of electronics and computer science, the nuclear industry, and space exploration. Especially significant at that time was the development of biotechnology, pharmaceuticals, and the widespread use of high-tech equipment and instruments in diagnostics and medical treatment. Nuclear medicine also rapidly developed.

Modification of cycles and crisis phenomena was achieved by economic policy with close interaction of monetary policy on the part of the Central Bank and budgetary policy on the part of the Ministry of Finance. The duration of the cycle was significantly increased by combating the “overheating” of the economy, which brought the crisis closer, by raising the interest rate of the Central Bank, which made credit more expensive and reduced investment in order to prolong a more moderate recovery. At the onset of the crisis, the interest rate was sharply reduced, sometimes to zero, below inflation, which, on the contrary, contributed to the growth in lending, and this led to an increase in demand from the growing money supply and facilitated the exit from the crisis. In combination with increasing budget investment and benefits, the demand for housing and cars was especially stimulated since these industries had a high multiplier effect, and their rapid postcrisis recovery and ramp-up pulled the entire economy upward. Moreover, the household demand for housing and cars increased sharply by the end of the crisis, as their prices fell. In addition, the state introduced benefits and privileges with a minimum loan rate for mortgages and car loans. This ensured a “rebound from the bottom” and a transition not to a postcrisis depression, as it used to be before, but to recovery and upturn.

This innovation upsurge was interrupted by an unusual crisis of 1973–1975 simultaneously aggravated due to a multiple increase in oil prices from the OPEC countries and food problems that arose with an increase in food prices due to lean years [4]. The crisis turned into stagnation leading to stagflation. Unemployment was rising at the same time as inflation was raging, and the economy was treading water. Anticrisis measures taken by the governments, first of all, by the US and European countries, primarily the UK, failed to rectify the situation. And the more decisively the state intervened in the economy, raising taxes, increasing spending on the revival of the national economy, the sharper was the decline in the population’s stan-
The failure of the Keynesians to cope with the stagnation of the 1970s, early 1980s in the United States: the new macroeconomic theory of Friedman implemented in Reaganomics and Thatcherism, which enabled a new socioeconomic recovery. Faced with postcrisis stagnation and stagflation in the early 1970s, President Ford began to implement the usual postcrisis measures to correct the situation. He raised taxes, increased the budget, tried to boost demand by spending more and more public funds but this only led to higher inflation. Jimmy Carter, competing with him in the presidential election, proposed a comprehensive and detailed anti-crisis program prepared by the world’s best financier of that time, P. Volcker, which impressed voters, and Ford failed to be reelected for a second term. Carter implemented this anticrisis program but the situation only worsened. Inflation rose to 13.5% and unemployment soared to almost 11%. The well-being of the US population declined again. Carter failed in the next presidential campaign and was not elected for the second term. It rarely happens in American history that two presidents in a row fail to win reelection. Ronald Reagan won.

The new president completely replaced all economic advisers, rejecting the Keynesians that Ford and Carter had recruited. He relied on the disciples of Milton Friedman, who, as the Head of the School of Economics at the University of Chicago, developed the ideas of the increased power of market self-regulation and the crucial importance of private entrepreneurs in the development of the economy. Instead of demand, he put forward the supply of goods and services as the main indicator, relying on innovations that generate economic recovery. He objected to the growth in government spending and taxes and insisted on their reduction in order to stimulate production. Unlike Keynes, who did not create a school of any kind at the University of Cambridge, Milton Friedman formed the largest enclave of academic economists who developed his ideas [8].

It should be noted that Friedman’s research is based on the generalization of a huge amount of factual material, primarily on the financial aspects of the market. One of his most famous works written jointly with Anna Schwartz, an economic historian, is A Monetary History of the United States from 1867 to 1960 (1963) [9]. In this work, in particular, based on a plentiful factual evidence, the authors show that the Great Depression was to a certain extent man-made and caused by the wrong policy of the FRS, which in the second half of the 1920s significantly reduced the money supply in the United States while banks simultaneously increased lending, allowing the double overheating of the market, which is why it collapsed; which is fundamentally different from the views of Keynes on the causes of this crisis.

Like Keynes, Friedman was not an armchair scientist. He actively participated in economic policy, advised the governments of different countries and leading entrepreneurs, participated in the commissions being created, and prepared practical proposals. He became the chief adviser to President Reagan, who also recruited the help of Friedman’s students. They developed the Reaganomics program, which had nothing to do with the Keynesian programs and seemed to the Keynesians not only wrong but one that would lead the country’s economy to disaster. After all, Reagan adopted the Laffer curve [10], which shows the dependence of the amount of tax revenues with tax cuts due to additional business development, which receives funds for development from this reduction. Reagan even made a television address demonstrating the Laffer curve.

It would seem that in conditions of stagnation, when the economy is not growing, finances are not increasing, the state does not have sufficient funds to fight soaring unemployment and mounting poverty, it is simply absurd to reduce taxes. This will only deprive the state of the opportunity to carry out proper socioeconomic activity. Nevertheless, Reagan overcame Congress, and in total during his presidency brought down the tax burden by 750 billion US dollars, reducing the share of taxes in gross domestic product. The maximum income tax rate was cut by him first from 70% for the first two years to 50%, and then even to 28%. Over the entire term of Reagan’s presidency, taxes and fees payable by the population were reduced by 30%. He also cut corporate income tax rates from 48% to 34%. Many American scientists, including Nobel Prize winners in economics, opposed Reagan’s program predicting disaster. And what came of it?

In the year Reagan came to power (1980), GDP fell by 0.3%. At the same time, over the eight years of his presidency, the average annual growth rate was 3.95%, the highest in 50 years. Specifically, in 1984, when the Reaganomics measures were completed, the economy grew by an unprecedented 6.8% for the United States. Unemployment during his presidency fell from 9.8% to 5.5% in 1988. Inflation was down from 13.5% and reached a minimum of 3.2%. The number of the poor had significantly decreased, and the real incomes of the population grew by 20%. Despite a significant increase in defense spending, the total amount of budgetary funding had decreased slightly. True, Reagan had to increase the country’s debts from 930 billion dollars to 2.7 trillion US dollars, almost three times. However, debt repayments grew much less, as the interest rate fell sharply due to a 3–4-fold decrease in inflation (Table 3).
Reaganomics gave a powerful impetus to the socioeconomic development of the United States. At the same time, in the course of the reform, depreciation periods were sharply reduced, especially for machinery and equipment, and a massive renewal of fixed capital began, unprecedented in the history of the United States. This required the accelerated development of high-tech industries, primarily in the field of mechanical engineering, electronics, and instrumentation. In fact, the material and technical base of the United States has been significantly updated. In other words, hundreds of billions of dollars received by the population and businesses from tax cuts were used not so much to increase their wealth but rather to make a profitable investment in the production of new machinery and equipment since there taxation was lower than the income tax rate.

As a result, the United States regained the lead in innovation development that had largely been lost to Japan, South Korea, and Taiwan in the stagnant 1970s. Since then, for 25 years in a row, until the next global overproduction crisis of 2007–2009, the United States as a whole had developed without serious crises. However, once it was faced with an excessive exuberance in the stock prices of high-tech companies, which later significantly decreased, it suffered a slight recession [11]. It was an unprecedentedly long period of prosperity in the history of the United States. Really, it is no coincidence that in 2005, during a representative survey of the population by the Discovery television channel, Americans named Ronald Reagan the greatest president in the history of the United States, while in previous polls Jefferson, Washington, Lincoln and Roosevelt had been nominated first.

The ideas of Reaganomics and, therefore, the theory of Friedman, were adopted by the outstanding Prime Minister of England, Margaret Thatcher [12]. When she came to power in 1979, England was in a precarious state. Thatcher’s predecessors raised taxes, nationalized 10% of the entire British economy, sharply increased government spending making higher education free and dramatically expanding social benefits and welfare. They also imposed taxes and fees on financial activities thereby curtailing the operation volumes of the London financial center, which had previously been the world’s leading one, so that it lost the lead to New York, and then even lagged behind Frankfurt. Having lost its colonies, England began to develop extremely slowly and, despite its large population, lagged behind the rapidly rising postwar France, which implemented four five-year plans for the restoration and development of the economy and even set up a planning commissariat. The living standard of the UK population had declined. Health care was poorly funded. Inflation rose to almost 20%, and unemployment approached the 10% mark.

During the 11 years of rule, the “Iron Lady,” as Thatcher was called, achieved a GDP growth of 23% leaving France behind. The rise in budget expenditures, which before her used to be 10.8% per year on average, she lowered to a 5.5% annual increase. At the same time, healthcare funding increased by 31.8%. She managed to cut inflation more than twice and unemployment went down to 6%. Direct taxes on the profits of enterprises decreased under Thatcher, first to 50%, and then to 30%, a third of state property was privatized, and nationalized coalmines were closed due to unprofitability. Taxes and fees imposed on financial institutions were sharply reduced and a serious liberalization of finances was carried out (Table 4). The London financial center quickly regained its first place in Europe and in many ways became almost on a par with New York, outperforming it in exchange trading in a number of securities and commodities. What made Thatcher unpopular was the introductions of paid higher education, though with very moderate

| Indicator                      | Data                                                                 |
|--------------------------------|----------------------------------------------------------------------|
| Gross domestic product         | 1980 – 0.3%. The average annual rate is the highest (3.95%), including 1984 at 6.8% |
| Unemployment                   | Up to 9.8% at the beginning of the term. 1988 — 5.5%                 |
| Inflation                      | 1980 – 13.5%. 1988 – 4.1%. Minimum – 3.2%                            |
| Real household income          | Increased by 20%, the number of poor people decreased                |
| All taxes and fees             | Over the entire period, taxes and fees were reduced by 750 billion US dollars. In % of GDP, they amounted to: 1981 – 19.6, 1984 – 17.4% |
| Personal income tax            | The maximum income tax rate was reduced from 70% for the first 2 years to 50% and then to 28% |
| Taxes and fees imposed on the population | Reduced by 30% over the entire term                                      |
| Corporate income tax rate      | Decreased from 48 to 34%                                             |
| Budget spending                | Decreased in occasional years: 1982 by 35.2 billion US dollars compared to the previous year |
| National debt of the country   | Increased from 930 billion US dollars to 2.7 trillion US dollars in absolute terms. Debt payments increased much less due to lower interest rates |
tuition fees, many times lower than in the United States. However, because of this, she was the only prime minister who was not traditionally chosen for an honorary doctorate from Oxford University. This is despite the fact that she was previously one of Oxford University’s leading chemists with a PhD and quite a few significant publications under her maiden name Robinson.

The ideas of Friedman, with his direct consulting assistance, were also used by other states for European cooperation, including the new postsocialist countries of Europe [13, 14]. Friedman’s opponents point out that he unsuccessfully consulted the Chilean dictator Pinochet [15]. However, this criticism is largely connected not with economic failures associated with the application of Friedman’s ideas, but with the criminal activities of Pinochet himself.

As for the Chilean economy, it has risen largely thanks to implementing Friedman’s ideas. Moreover, now Chile is one of the leading countries in Latin America, in many respects ahead of Russia and occupying fairly high places in the world rankings in terms of health care, life expectancy, the level of pension provision, and a number of other important indicators.

The ideas of Keynes dominated economic policy until about the mid-1970s. His most ardent supporter in the United States was President Nixon. However, since the mid-1970s Keynes’s ideas were increasingly being replaced by the views of Friedman, which began to prevail in macroeconomics.

It would hardly be correct to declare one of the considered macroeconomic theories of Keynes and Friedman wrong. Separate measures for the prevention of overheating in the economy for recovery during the crises of overproduction could apparently be based on the Keynesian approach. At the same time, these methods do not work when trying to move from stagnation to economic growth because stagnation does not have an internal mechanism of “rebound from the bottom” inherent in overproduction crises. And the modern socioeconomic situation is immeasurably more complicated and confusing than at the time when Keynesianism or Friedman’s monetarism happened to emerge.

It should be noted that analysis of factual material, including modern economic and mathematical models and methods, confirms the truth of certain provisions of Keynes’s teachings and certain provisions of Friedman’s teachings. Therefore, apparently, over time, some kind of consolidating general doctrine of macroeconomics may appear, which would include these two theories and many other achievements of economic science in this area, belonging to the followers of both doctrines. So far, no such synthesis has been achieved.

We briefly reviewed the essence of the two main macroeconomic theories, which are fundamentally different from each other both in theoretical and, especially, in applied terms. Keynes’s theory has clearly demonstrated its advantages for the recovery and development of the economy after crises of overproduction. However, it proved powerless in the fight against stagnation and especially stagflation, as well as structural crises, mainly financial ones, which increasingly arise on the onward march of the world economy. We tried to systematize these fundamental differences (Table 5).

Table 4. Socioeconomic results of the activities of M. Thatcher

| Indicator                        | Data                                                                 |
|----------------------------------|----------------------------------------------------------------------|
| Gross domestic product           | Growth for the entire period, 23%. In the previous period, the volume of GDP gave way to France. Under Thatcher, it again regained leadership |
| Growth in budget spending:       | Up to 10.8% by 1980. 1988, 5.5%                                        |
| total                            | increase 12.9%                                                        |
| healthcare                       | increase 31.8%                                                        |
| social protection                | increase 33.3%                                                        |
| Inflation                        | Decreased from 18 to 8%                                               |
| Unemployment                     | Decreased from 9.8 to 6%                                              |
| Direct taxes on corporate profits| The tax rate was reduced to 50%, and then to 30%                       |
| Privatization                    | In 1979, 10% of GDP was produced based on state property. Over the entire period, 1/3 of state property was privatized |
| London Financial Center          | Left far behind the United States in the previous period and lost the leadership in Europe to Frankfurt. Owing to liberalization measures, the London Financial Center regained the world leadership along with New York and once again ranked first in Europe |
What conclusions can be drawn from all this in relation to Russia? After all, for seven years in 2013–2019 we were in stagnation [16] and then had to live through a specific structural crisis of 2020–2021 caused by the coronavirus pandemic [17]. And now it is important for us to move on to sustainable socio-economic growth preventing a further decline in living standards in a period of stagnation and crisis.

At the same time, it is necessary to meet the targets set in the Decrees of the President Putin of the Russian Federation such as achieving a technological breakthrough, creating a modern transport and logistics infrastructure, increasing the housing supply, developing nonenergy exports, and, most importantly, restoring the safety of the people destroyed as a result of a catastrophic increase in mortality in 2020–2021.

Particularly crucial are the social and demographic components of our society, which even at the present time are not adequate to the already achieved level of economic development but lag far behind it. This concerns, first of all, the problems of the safety of Russia’s people where we have to restore natural population growth and achieve a decent life expectancy and quality of health for Russians [19, 20].

A negative trend is Russia’s isolationism from a significant part of the world economy due to sanctions imposed on it by the developed countries of the world in terms of limited access to the global financial market and restrictions on the import of dual-use goods (if they can be used for military and civilian needs).

In our situation, in my opinion, it is preferable to rely on the developments of Milton Friedman. This is even more expedient because of the state-oligarchic image of the Russian economy with an unprecedentedly high state-ization for a market country and the absence of a full-fledged capital market and a competitive environment, which are the drivers of economic growth.

The special situation in Russia also requires radical structural reforms in the socio-economic sphere, not represented in the teaching of Friedman, and even less so in Keynes’s theory. Neither of the considered macroeconomic theories provides for the transitional nature of the socioeconomic system of Russia in its movement from socialism to developed market capitalism.

The Russian economy is essentially an economy that, due to accelerated development, should reach the level of advanced countries and take a leading position in the world, which naturally requires additional measures that do not follow directly from the macroeconomic theories under consideration, which were created based on new experience of these countries themselves. Therefore, it is extremely important for us to take into account the experience accumulated by about 20 countries, which, in the period after the Second World War, demonstrated ultrafast (by world standards) socioeconomic growth within 10–20 years with an average annual rate of 5–10%. At the same time, the postsocialist countries of Central and Eastern Europe, on the one hand, and especially China, are of particular importance to us.

| Approaches to overcoming crisis and stagnation |
|-----------------------------------------------|
| Measures for overcoming the crisis | Measures for overcoming the stagnation |
| Recovery and increase in demand | Recovery and increase in the supply of goods and services |
| Increase in government spending | Reducing government spending |
| Increasing taxes and fees (or keeping their rates high) | Reducing taxes and fees |
| Increase in inflation and interest rates after the recovery from the crisis | Keeping down inflation and interest rates |
| Maintaining the average growth rate of investment in fixed and human capital | Financial intensification for an accelerated growth in investment in fixed and human capital with an increase in their share in GDP |
| Evolutionary development of the banking sector with a possible increase in the budget deficit and government debt | Reorientation of the banking sector towards a sharp increase in investment credit in building up fixed and human capital, including through deficits and debts |
Accelerating socioeconomic growth, which is vital for Russia, is only possible on the path of innovative development. The backward and outdated material and technological base of our country will have to be transformed into an advanced one. This should be learned from Japan, China, and even India.

As a result, we come to the conclusion that we need a specific complex system of measures for overcoming stagnation and recession with a transition to accelerating sustainable socioeconomic growth on the path of innovative high-tech development with a social bias.

I have repeatedly made proposals on overcoming stagnation and transition to socioeconomic growth, trying to summarize the expert opinions of Russian and foreign scientists and specialists and based on the experience of advanced countries. For now, I will limit myself to listing the key points.

1. Increasing the share of investment in fixed assets in GDP from 17% to 25% by 2025 and 30% by 2030. Accordingly, the share of the “knowledge economy” in GDP should be raised to the same values from 14%. For this, placement of funds and investment in fixed and human capital will have to be increased annually by 10–15% in 2022–2025 and by 8–10% in 2026–2030.

2. The accelerated growth of investment in fixed assets and human capital is necessary for the transition to a massive technological reequipment of existing production, the creation of additional capacities of high-tech industries and transport and logistics infrastructure, as well as investments in housing construction, nonenergy exports, and import substitution as the main drivers of social economic development. The task is to reach the technological level of the EU in 2030–2035 and to the level of the G-7 countries in 2036–2040.

3. The main form of financing for this could be low-interest (3–5% per year) investment loans. Its share in total investment should be increased from 8–10% to 20% in three years and up to 35% in six years. Sources of credit are to be increased bank assets, a third of gold and foreign exchange reserves, growing government loans, a transition to a deficit (up to 3% of GDP) state budget, and loans from the population, primarily for housing and the purchase of a car.

4. It is necessary to interest businesses in their own modernization and technological breakthrough. To this end, part of the profits used for investments in fixed and human capital should be exempt from taxation. It is necessary to reduce the depreciation period by 1.5–2 times and, thereby, increase the depreciation fund making it the main source of private investment, as in advanced countries. A tax break and other benefits should be provided to enterprises and organizations in the process of technological reequipment and the creation of new capacities for high-tech production.

5. At the expense of the increased financial results of enterprises and organizations and the National Welfare Fund, it is necessary to raise real incomes and household consumption, which were reduced by 10–15% during the period of stagnation and crisis, by a 1.5-fold increase in the minimum wage, and pensions, a triple rise in unemployment benefits, to increase by 20–30% low per capita incomes in the countryside and in small towns by developing farming and commercial cooperation.

6. It is necessary to carry out structural reforms including, first of all, the following:
   — Property reform with mass privatization, increasing the share of private property in the creation of GDP from 29 to 55–60%, reducing the total share of the state from 35 to 25% of GDP by financing pay-back projects through investment lending and using public funds to reimburse part of pension savings and health insurance with simultaneous indexation of salaries.
   — Reform of regional administration providing the transfer of the regions to a system of self-sufficiency, self-financing, and self-government while minimizing the harmful subsidy system.
   — Social reforms in order to finance pensions and health care, reducing from 15 to 10 times by 2025 and up to six times by 2030 the decile gap in the per capita incomes of the poor and the rich, including through the introduction of a progressive taxation scale.

The main thing is the transition to modern national economic planning, modernized for the market economy of Russia, following the example of China and 37 other countries of the world, which used the system of strategic planning for their accelerated development. It is necessary to draw up the first five-year plan for 2021–2025 with the most important indicators until 2030 aimed at meeting the targets stipulated by the Decrees of the President of the Russian Federation of May 7, 2018, and July 21, 2020. According to our assessment, the implementation of these measures will make it possible to start socioeconomic growth in 2022–2023 and make it sustainable in the period up to 2030, developing at an average annual rate of 3–4%. By 2030, the proposed structural reforms can be completed, and socioeconomic annual growth will accelerate to 5–6%. Then, in the first five years of the 2030s, Russia will be able to join the 30 developed countries of the world in terms of basic technological, economic, and social indicators, and in the period up to 2040 move to the most advanced positions, not inferior to the G-7 countries. At the first stage, we can be guided by the level of such large European countries as Spain and Italy, and at the second stage, by the level of Germany and Canada.
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