Trends in Economic Science: Discussions of the Paths of Russian Modernization in the 19th–20th Centuries

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Abstract—The article analyzes the evolution of economic thought in Russia throughout the 19th–20th centuries. The global context that shaped Russian economic science and the goals that it has faced are considered. The processes of the formation of different views on the country’s development, economic policy, and the role of the state in the economy are described. It is shown that at the beginning of the 19th century the dominant ideas were those of classical economic liberalism. The issue of the emergence of the problem of catch-up development and its impact on the economic thought in Russia is discussed. The main directions of the development of views on regulation of the economy in the conditions of its increasing complexity in the process of industrial development—in particular, the strengthening role of the state and the selection of priorities of economic policy—are discussed. It is emphasized that by the end of the 20th century methods of government control of the economy had experienced a severe crisis, associated, among other reasons, with the collapse of the Eastern bloc. However, at the beginning of the 21st century, due to a number of objective and subjective reasons, the role of the state in economic management began to increase again.

Keywords: economic thought, economic development, catch-up development, economic policy, government regulation of the economy
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Introduction. Economic science in its current form emerged with the beginning of modern economic growth. Its original purpose was to solve the problem of determining and multiplying the wealth of society (“the wealth of nations”), which is essentially a two-pronged objective ensuring both the welfare of the population and the military and political success of states. In other words, with all due importance to economic theory, economics is primarily an applied discipline.

There are two main factors that have a decisive influence on the problems faced by economic thought. These factors largely determine the course of development of economic science and the practical (economic and political) recommendations it provides.

The first factor is the nature of the society’s technological base at the current stage of development, or the achieved level of scientific and technological progress [1]. This factor determines the specific political, social, and economic institutions, as well as the available decision-making tools (i.e., economic decisions and recommendations). Economists, just as the society as a whole, cannot escape the bounds of the type and level of technological development of society, which ultimately determine the nature of public institutions and recommendations for their improvement.

Secondly, the historical experience of development and historical solutions to societal problems are crucial for economic research and recommendations. The country’s own national experience and lessons that can be learned from other countries are both of key importance. Given the uneven nature of economic development during the period of modern economic growth that began in the 18th century, for the countries of catch-up modernization, the experience of other states from when they were at a comparable level of socioeconomic development (or average per capita GDP) is especially valuable [2]. In essence, this refers to the empirical, historical content of a particular society. This concept unites the entire historical memory of a nation from the understanding of its place in the world (including the “normal” state level, tolerance of the regime, the degree of integration of specific national institutions into the governance of the country, tolerance of the foreign, etc.) up to the accumulated experience of resolving economic, social and political crises.

In other words, economic science (as well as economic policy), being an applied discipline, is not universal, especially in terms of practical recommendations; it is always dependent on history, on the specific stage of development of society, and on the condition of the scientific and technological base.
Economic growth is not an eternal concept; it is historically limited. Firstly, economic growth in the modern sense did not exist 300 years ago. The above leads to the equivalence of the opposing hypotheses that either economic growth that began in the 18th century will now continue forever or that since it had a beginning, it will someday end. Secondly, the uneven nature of economic growth means that there are always advanced countries and countries that lag behind.

This causes differentiation of economic development, which creates one of the key challenges of the modern economy—catch-up development, or, in other words, the problem of achieving either convergence of the levels of economic, political, and social development or comparable or faster growth rates. Thus, economics is a science concerned with the most effective use of limited resources to achieve the highest possible indicators of economic growth, the ultimate goal of which is improving the welfare of society and individual citizens.

The history of modern economic growth can be divided into several specific stages that differ in the nature of economic challenges posed within them and, accordingly, in the recommendations the economic science provides for responding to these challenges. These stages are the economy of an agrarian society, the initial stages of nascent industrial capitalism, industrialization and the emergence of the challenges of catch-up development, and the modern postindustrial, or information society.

Each of these stages is associated with its own understanding of the tools for solving the problem of catch-up development, its own empirical and historical experience and, naturally, a different scientific and technological type of the economy.

**Dominance of classical economic liberalism.** The first stage, approximately up to the beginning of the 19th century, is a period that did not yet have the modern concept of economic growth. The leading countries at that time were agrarian monarchies: France, Spain, the Ottoman Empire, Great Britain, and the Russian Empire. The overwhelming majority of the population of these powers were peasants, and the economy was based on collecting taxes from the resource base (the population) in order to be able to hire or maintain an army. During this period, the development level was determined not by the scale of industrial production (the number of factories), but by the size of the controlled territory with its land and human resources.

The recipe for economic well-being during that period was most clearly formulated by the founder of classical economics Adam Smith:

“Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavor to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.” [3]

Smith’s ideas are based on the principle *laissez faire, laissez passer* (“let be and let pass”), i.e., free economic development. Recall that economists of the classical school considered noninterference of the state in economic affairs to be the most reliable way to stimulate the development of industry (handicraft production) and trade. From the standpoint of the industrial society of the 19th—20th centuries this principle appears strange. It seems to suggest that industrial countries should remain industrial (developed), and agricultural countries, agrarian (backward). However, when discussing classical economics, it is important to understand the technological and political context of the era: at the time of the emergence of the school, there was no division of industries into progressive and backward. In the middle of the 18th century, industry was no more important than agriculture; during this period the contribution of agricultural production to the economy of states and to ensuring their military and political power was more significant.

In terms of military and political success, the dominant political, military and, consequently, economic powers were agrarian colonial monarchies, not industrial or trade republics. The geopolitical potential of trade republics and unions (Venice, Hansa, Genoa) took second place. The reasons for that state of affairs included changes in consumption, changes in trade routes and ways of delivering goods to Europe, and the emergence of colonies and, consequently, extensive domestic markets.

All of the above formed the ideas about the desired structure of society typical for many rulers of the 18th—early 19th centuries. For example, when Nicholas I of Russia hindered the development of industry, his reasoning was based on understanding industry not as a source of military or political success, but on the contrary, as a catalyst for social instability. The emerging new class, the bourgeoisie, being a driving force of economic growth, needed new institutions to protect private property and to ensure the stability of economic norms, a workforce with new qualifications, urban agglomerations, and so on. This required rebuilding state institutions and weakening the foundation of economic development at that stage—the peasantry. Naturally, that generated political instability. Therefore, the relevant decisions on industrial deterrence were the result of political and economic short-sightedness—a mistake, but never stupidity, since these decisions were based on centuries-old historical experience.
The corresponding understanding of the issue was formulated by the Minister of Finance of the Russian Empire (1823–1844) E. Kankrin: “It is sometimes said that the owner knows best how to use his property. Of course he does, in his own interests, but not in the interests of the whole, to which, however, all property should be subordinated, since only under this basic condition can property take place at all.” [4]

Uneven development and the emergence of the problem of catch-up development. By the middle of the 19th century, the uneven nature of economic development had fully formed. This period can be considered the starting point of the modern understanding of the problem of catch-up development.

The last classical economist J.S. Mill formulated a way to solve the problems of accelerating modernization as follows.

“The means are, first, a better government: more complete security of property; moderate taxes, and freedom from arbitrary exaction under the name of taxes ... Secondly, improvement of the public intelligence: the decay of usages or superstitions which interfere with the effective employment of industry; and the growth of mental activity, making the People alive to new objects of desire. Thirdly, the introduction of foreign arts ... and the importation of foreign capital ... These considerations apply more or less to all the Asiatic populations, and to the less civilized and industrial parts of Europe, as Russia, Turkey, Spain, and Ireland.” [5]

The principles have not changed to this day: an effective state, an education system, and attraction of foreign capital (in its broadest sense: technology, experience, personnel, money, and other resources). The problem has not changed on a systematic level since Mill’s time, but has only been concretized.

This was the logic underpinning the Great reforms of Alexander II of Russia: the abolition of serfdom and the financial, judicial, zemstvo, and military reforms. Their goal was to create institutions that met the challenges of economic development of the time. The Russian Empire needed to move away from the outdated system of poll taxation, geared towards serfdom, and lay an institutional foundation for the preservation, protection, and stimulation of industrial development, which required both zemstvo (local self-government) and urban reforms. Thus, the rule of Alexander II was marked with modernization reforms aimed at solving the problems of catch-up development.

This stage is characterized by consolidation of economic entities; the driving forces of economic development are now large industrial enterprises rather than single households. This created the need and possibility of centralization in all spheres of society — enterprises, markets, finance, people, and their cultural progress.

A division into progressive and backward sectors of the economy also emerges at that time. The society and state are faced with the task of defining sectoral priorities: investing resources in industrial development at the expense of the agricultural sector. The new technological stage led to accelerated changes in the features of the economy and society in general, with the life of each new generation being different from the previous one. Prior to that period, life in its technological and economic aspects had not changed for centuries, i.e., for many generations.

The emergence of large industrial forms made it possible to approach solving the problem of scarcity (for example, food scarcity) and led to availability of free economic resources, which caused an increase in the needs of the population. However, these needs were still primitive. The relative simplicity of needs and the obvious choice of priorities facilitated medium-term planning and clear directions for the redistribution of funds, which made centralized organization of the modernization breakthrough (industrialization) possible.

The increasing role of the state in Russia. The new key driving forces of economic development in the 19th century were large factories and plants that required a new structure of the economy and a new level of infrastructure (for example, railways). Investment in improving the quality of human resources also became necessary. The economy was becoming more complicated; it was now not enough to grow agricultural products, bring them to the market, sell them, and pay the relevant tax. Technologies were developing, an understanding of conservative and progressive industries (i.e., the importance of industry transition and transformation) was emerging, consumption opportunities were increasing, free resources were becoming available, and social inequality was growing. The state began to play an increasingly significant role in the economic affairs of society.

Certainly, given the empirical development experience of different countries, their economies had different levels of dirigisme.

“In Russia, the conditions of life in our country required state intervention in a variety of aspects of public life, which is radically different from, for example, England, where everything is left to private initiative and personal enterprise, and where the state only regulates private activities. In England, the [ruling] class needs only to guide private activity; in Russia, in addition to guiding private activity, it needs to directly participate in many aspects of social and economic activities.” [6]

By then the world had already firmly entered a period when political, military, and economic domination could not be secured without an industrial base.

A. Gerschenkron formulates the following list of necessary government control tools [7–9]: budget and tax policy and state banks that provide financing or support for priority industries [10]. During this period,
the main objective of the government is adequate allo-
cation of the available resources.

“The scarcity of capital in Russia was such that no
banking system could conceivably succeed in attract-


frugality is needed in other management directions as
well, except only for those on which no expense should
be spared, essentially because the costs of that spend-
ing lead to an increase in the people’s welfare.”

A. Abaza attributed to such expenses the spending on
colleges and schools, on managing the judicial system,
and infrastructure (with the addition of healthcare, this
would be the modern formula).

“A sound financial policy is unattainable unless the
most drastic measures of reducing public spending are
taken. A reduction of spending on the military estab-
ishment is necessary first and foremost. After that,
frugality is needed in other management directions as
well, except only for those on which no expense should
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In the conditions of limited and scarce resources,
the state had to choose budget and sector priorities.
The key directions of government spending were insti-
tutions that contribute to increasing demand. That
primarily refers to education, the judicial system, and
infrastructure (with the addition of healthcare, this
would be the modern formula).

Alongside that, it was also necessary to remove bar-
riers to economic growth.

“The entrepreneurial activity of Russian capitalists
is also surrounded by very significant difficulties. For
each enterprise, its owners were met with a necessity to
deal with various departments at all authority levels,
starting with the lower administrative authorities and
ending with the highest state bodies, and the attitudes
towards industry were not coordinated across these
various departments; obtaining a permit often
depended on the personal opinion of a given represen-
tative of the state and always took a lot of time; the
lengthy runaround associated with correspondence,
petitions, travel to the capital, being faced with various
prohibitions, restrictions, and local regulations entan-
gled each new case, and only the bolder ones, in cases
when especially high profit tempted them, ventured to
establish new enterprises. A widely developing enter-
prise cannot rely on individual cases with exceptional
profits that can reward the entrepreneur for all the
inconveniences associated with establishing his enter-
prise; the profitability of new cases gradually
decreases, while the risk increases. Under such condi-
tions, instead of constraint, industry needs encourag-
ing assistance from government bodies, guidance, and
sometimes direct help.”

It should be noted that this document does not
propose special treatment of specific branches of
material production, instead, it demonstrates a rather
far-sighted universal approach to the problem.

In the 19th century, the process of developing the
infrastructure necessary for economic development
became the responsibility of the state, as it was forced
to constantly reduce the costs of private capital and
take on its risks.

“The Russian bourgeoisie’s first victory lay in the
railway concessions, which guaranteed the share-
holders all future profits while loading all future losses
on the state” [14].

The growing role of the state inevitably started a
discussion about the costs and problems of excessive
state regulation.

At the end of the 19th to the first half of the 20th
centuries, economic development gave rise to a num-
ber of novel phenomena.

The first one is an increase in the share of taxes in
the GDP of the most developed countries, which
manifested both in changes in the principles of tax col-
lection (for example, the Great Reforms of Alexander
II in the Russian Empire changed the principle of tax
collection) and in tariff and customs policies. At the
turn of the century many states also began to imple-
mation protectionism: barring the entry of external play-
ers into the domestic market in order to protect their
producers. This was done both through the tariff sys-
tem and through administrative and bureaucratic pro-
cedures.

The second one is inflation. Inflation as a problem
emerged after World War II during the stagflation trap
period, when the growth rate of unemployment and
the slowdown in economic growth (a depressed state
of the economy) occurred for the first time, accompa-
nied by increasing inflation rates.

For this reason, one of the key applied problems of
economic thought during this period was finding ways
out of the stagflation trap. It was eventually found in
regulatory instruments and the Keynesian theory
emerged.

1 Abaza A.A. (State Controller of the Russian Empire (1871–
1874), Minister of Finance (1880–1881)). Meeting of the State
Council, December 31, 1880.

2 Witte S.Yu. Report to Nicholas II “O polozhenii nashe promys-
shlennosti” (On the Position of our Industry), February 1990 [13].

3 In 1970 the unemployment and inflation rates in the United
States reached 6 and 5.5% respectively (until the mid-1960s, the
inflation rate did not exceed 1–1.5%, the unemployment rate, 2–
2.5%). The second surge of stagflation occurred in 1974–1976,
10% inflation and 7.6% unemployment. A similar situation was
observed during the economic downturn of 1981–1982 [15].
By the end of the 20th century, dirigiste models of economic regulation were undergoing a crisis caused by the collapse of the centrally planned economies of the Soviet type, the dominance of liberal economic models, and the specifics of catch-up development, which relies on reducing the burden on GDP.  

Socioeconomic challenges of the 21st century and responses of economic science. The beginning of the 21st century is characterized by an increasing role of the state in socioeconomic development. The increasing role of the state in the organization and regulation of the economic and social life is undoubtedly the most important institutional shift of our time. "The return of the state" is a phrase seemingly on almost everyone’s lips nowadays. Given the global challenges posed by the COVID-19 pandemic and climate change, the argument goes, it is governments, not markets, that should be responsible for allocating resources. The neoliberal revolution started by Ronald Reagan and Margaret Thatcher has apparently run its course. New Deal-style state intervention is back" [16].

The 2008–2009 recession marked the beginning of a trend towards increasing (or reviving) the role of the state in regulating the economy. It was a turn away from the "cheap state" model that had formed as a result of the crisis of industrial society and Keynesian regulation towards strengthening the regulatory role of the state, which was objectively required by the new stage of technological development. The 2020–2021 pandemic further strengthened these trends, thus becoming an important milestone in the formation of a new institutional model rather than an accidental episode.

However, this situation is giving rise to two groups of questions. First, it is necessary to specify exactly what should governmental regulation of the economy involve. The second question is concerned with the effectiveness of the state, the quality of public administration, and with which political systems would be most useful in general and specifically for countering economic and noneconomic (such as the pandemic) crises.

The ongoing strengthening of the role of the state in the economy is associated with a sharp increase in the uncertainty of technological, and, consequently, socioeconomic development in the short term. Unlike the economic growth of the 19th–20th centuries, qualitative changes in technologies and the way of life are no longer occurring at the scale of generations, but within a single generation, which leads to general instability in the development of society. Therefore, it is the state’s responsibility to mitigate this instability [17].

Thus, the underlying reasons for the current increase in the role of the state are directly opposite to those that led to the formation of the statistical model in the first half of the 20th century. At that time, the strengthening of government regulation of the economy was caused by the rapid development of large economic forms (industrial giants), which simplified the structure of the economy and made it possible to manage the entire process from a single center. The centralization of production led to centralization of regulation; thus, the statistical model became prevalent. Centralization and nationalization were a necessary response to the problems of catch-up industrialization, which required redistribution of resources in favor of more advanced industries. The situation in the modern world is drastically different—the extreme uncertainty of technological development and technological priorities leads to increased risks associated with the allocation of investments (especially long-term ones) and implementation of innovations. In addition, it appears that the division into advanced and backward sectors of the economy is being replaced by a division into advanced and backward technologies, and both types of technologies can be present in any given sector. As noted above, technological uncertainty also leads to sociopolitical uncertainty, increasing destabilization risks. The government’s goal is to reduce these risks.

The modern government must give priority to two groups of objectives.

The first is maintaining investment activity. The last decade has been characterized by declining interest in private investment, which manifests as a lower share of investment in GDP compared to savings, which is currently typical for many countries. This is not a phenomenon exclusive to Russia and not a consequence of a poor investment climate. The problem is deeper—it is caused by the high level of technological uncertainty, which increases investment risks (Table 1).

The second objective is reevaluating the socioeconomic objectives of the state in connection with the increasing, as recorded by many researchers, inequality, in particular inequality resulting from the widening gap between property income and labor income. That, in turn, leads to an increase in populism and political instability.

In the conditions of a low propensity to invest, the state should assume the functions of an “investor of last resort” [18, 19], similar to how the Central Bank is regarded as a “lender of last resort.” Unlike the statistical models of the past, such a function of the state does not involve pulling funds from private investors in favor of bureaucratic projects. Currently, private investment propensity (interest) is low, and therefore the state can and should compensate for this deficiency. Essentially, this new model can be considered a return to something similar to classical Keynesianism, except now instead of influencing demand as such, the state’s role is to influence investment, while the private sector is supposed to continue to follow the state.
Table 1. Investment and savings in a number of countries (2017–2021, % of GDP)

| Country  | 2017   | 2018   | 2019   | 2020   | 2021   |
|----------|--------|--------|--------|--------|--------|
| Global   | 25.979 | 26.516 | 26.638 | 26.572 | 26.789 |
| Japan    | 26.616 | 26.995 | 27.017 | 27.177 | 27.764 |
| Australia| 24.272 | 24.139 | 22.535 | 22.262 | 23.288 |
| Brazil   | 21.976 | 21.909 | 23.270 | 24.649 | 26.676 |
| Germany  | 14.626 | 15.095 | 15.493 | 15.405 | 17.254 |
| Italy    | 13.558 | 12.411 | 11.940 | 13.611 | 16.736 |
| UK       | 18.166 | 17.765 | 18.340 | 17.221 | 17.099 |
| France   | 14.397 | 14.084 | 15.246 | 13.508 | 13.733 |
| Canada   | 20.962 | 21.905 | 22.141 | 21.149 | 22.315 |
| China    | 28.765 | 29.748 | 29.587 | 28.095 | 29.114 |
| Thailand | 21.123 | 21.907 | 21.313 | 22.117 | 22.031 |
| investor | 24.735 | 24.743 | 24.664 | 27.556 | 26.489 |
| Mexico   | 18.054 | 18.529 | 18.011 | 17.500 | 19.488 |
| Russia   | 20.632 | 21.040 | 21.216 | 21.048 | 23.206 |
| India    | 23.550 | 23.200 | 22.988 | 22.078 | 24.092 |
| China    | 20.748 | 20.860 | 20.938 | 20.260 | 24.616 |
| USA      | 43.172 | 43.961 | 43.063 | 43.122 | 42.941 |
| Malaysia | 44.710 | 44.136 | 43.786 | 44.965 | 44.585 |
| Vietnam  | 25.547 | 23.897 | 21.044 | 19.733 | 19.693 |
| Indonesia| 28.338 | 26.128 | 24.541 | 23.969 | 23.504 |
| Mexico   | 22.905 | 22.711 | 21.166 | 19.307 | 20.694 |
| Russia   | 21.143 | 20.658 | 20.856 | 21.739 | 20.723 |
| Brazil   | 23.607 | 21.918 | 22.759 | 23.988 | 23.488 |
| China    | 25.650 | 28.916 | 26.629 | 26.430 | 29.231 |
| USA      | 20.790 | 21.145 | 21.365 | 21.152 | 21.086 |
| France   | 19.486 | 19.611 | 19.446 | 19.158 | 19.104 |
| Chile    | 23.436 | 23.857 | 24.365 | 23.676 | 25.661 |
| China    | 22.670 | 23.026 | 24.074 | 21.777 | 23.995 |
| Japan    | 21.223 | 22.184 | 22.975 | 19.824 | 22.260 |
| China    | 18.883 | 18.185 | 19.239 | 21.181 | 20.057 |
| Mexico   | 25.215 | 25.556 | 25.820 | 25.570 | 25.532 |
| China    | 29.343 | 29.087 | 29.257 | 28.829 | 28.998 |

Source: International Monetary Fund, World Economic Outlook Database, October 2021 [20].

As for the priority areas of state investment, the key sectors are those that increase total factor productivity. This primarily refers to investment in human capital and infrastructure (transport and digital). The quality of public administration itself also remains crucial.

The question of the extent to which these processes should be accompanied by increased taxation and increased budget burden on GDP remains open [21]. The accumulated empirical material is insufficient to find an answer to it at this time. It can be suggested that it would be more effective to solve the government’s investment problems through targeted loans, rather than by increasing the tax burden [22], especially since targeted loans are quite compatible with the principle of balancing the state budget.

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