

Russia's economy

Usually, the effects of economic downturns are only temporary. In the typical case, the downturn causes inflation-adjusted Gross Domestic Product (GDP) to decrease (or grow much slower than normal). Then, the economy grows faster than normal, catching up to where it would have been in the absence of a recession. You can visualize this process by imagining an upward-sloping trend line and another line that represents a country's actual inflation-adjusted GDP. This GDP line fluctuates around the trend line but is always pulled back to the straight trend line.

I remember being shocked when I first analyzed a graph of GDP over time. It looked like the Great Depression did not have a permanent effect on the U.S. economy. Sure, that downturn was severe, but above average growth brought us back to the trendline. So today's economy is no different than it would be if the Great Depression had never occurred. Let me qualify that last statement a bit. Of course, government policies are with us today that were created only because we went through the Great Depression and these policies surely had some impact on the U.S. economy – but not enough of an impact to keep the economy from returning to its trend line.

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By all accounts, the Russian economy is in a recession. The World Bank projects that its inflation-adjusted real GDP will decline by 8.9 percent this year. That's a big drop. Russia's economy has struggled, in part, because of the sanctions by Western countries that were meant to punish Russia for attacking Ukraine. With these sanctions, Russia can no longer export many of their goods to the Western powers. Also, with these sanctions, Russia cannot import inputs, like computer chips, that it needs to produce many final products. The restrictions on Russia's exports and imports have taken their toll on the Russian economy.

But how long will it take the Russian economy to recover and grow quickly enough to reach the GDP on its trend line? Certainly, that

The important question is not whether an economic downturn has only a temporary effect on an economy – it usually does. The important question is how long it takes an economy to recover.

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won't happen until the war ends and the Western powers remove their sanctions. When Russia can easily send its exports abroad and receive imports from Western nations, it will probably experience positive economic growth.

But that economic growth won't be enough for Russia's GDP to catch up to its trend GDP. The Ukrainian war has hurt the Russian economy in a less obvious but more long-lasting way. Many of its most talented young people have left Russia to avoid being conscripted into the army. The Wall Street Journal reported that Serbia has taken in a large number of tech-savvy young Russians. Other countries have done the same. It is likely that more young people left Russia to avoid conscription than were actually forced to join the armed services. If these young, talented Russians stay abroad, it will take many years for Russia to replace them. Until that happens, Russia's economy will be operating at lower levels than it could have achieved if these talented workers had stayed in Russia.

Russia's "special military operation" had a cost that its policy makers did not foresee. This cost is the loss of talented workers and the cost will probably impact the Russian economy for many years to come.