

U.S. Lessons for Russia

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The 2008 financial crisis in the United States was very short. Before it could deepen and spread, it was doused by some \$2 trillion printed by the Federal Reserve and by a string of \$1 trillion-plus federal budget deficits. It was a temporary fix. The U.S. economy remains in the doldrums, interest rates are still at zero, and the Federal Reserve announced late last year that it will print another \$600 billion to stimulate the economy.

The United States needs major structural reforms to come out of the recession, but the crisis didn't cause sufficient pain to generate true impetus for change.

A national calamity can cause a fundamental rethinking in national priorities. Alexander Solzhenitsyn noted in "Gulag Archipelago" that a military defeat is usually salutary for a nation. He cited Sweden's defeat at the hands of Russian forces during the reign of Peter the Great, which ushered in three centuries of peace and prosperity. Germany and Japan also benefited from their defeat in World War II, achieving unprecedented economic success far in excess of what military conquests would have provided.

In the United States, the Great Depression, while throwing millions out of work and causing great suffering, nonetheless allowed President Franklin D. Roosevelt to create a very humane social system that to this day protects the elderly, the disabled and the unemployed.

Ironically, when disasters are prevented they tend to exacerbate the problems that brought them about in the first place. Consider the decision by Germany at the end of World War I to capitulate rather than face the collapse of its military and foreign occupation. It gave rise to the notorious stab-in-the-back myth that dominated the 1920s and facilitated Hitler's rise to power.

The Soviet defeat in the Cold War was similarly "incomplete." The Communist state simply imploded instead of being definitively and obviously crushed by some outside force. The collapse of the Soviet Union has been viewed by many in Russia as a betrayal and a sellout. Moves by the Kremlin to revive many elements of the Soviet past seem to enjoy broad support among ordinary Russians.

When the financial crisis hit the United States in 2008, Americans briefly turned away from unfettered free markets and a do-nothing government that had been the hallmark of President George W. Bush's two terms in office. They wanted their government to implement economic reforms that would help revive economic growth. But a more responsible attitude lasted only a few months, until the money supplied by the Federal Reserve and the government stabilized the economy. Since then, the failed policies of the past not only reasserted themselves, but the radical right-wing ideology that underpinned them has become even more extremist.

The Tea Party movement has no plans to revitalize the U.S. economy. It merely wants the federal government to slash its spending at a time when the money spent by the public sector is the only thing that keeps the economy from slumping and suffering a double-dip recession.

If the U.S. economy slips into another downturn, it will spread to the rest of the world, just as the meltdown in the U.S. residential mortgage market three years ago nearly brought down the global financial system. Back in 2008, Russia proved to be especially vulnerable, posting one of the steepest declines among emerging economies in 2009. In Russia, too, no lessons were learned during the past three years, and Russia will likely be hit hard if the U.S. economic crisis strikes anew.

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