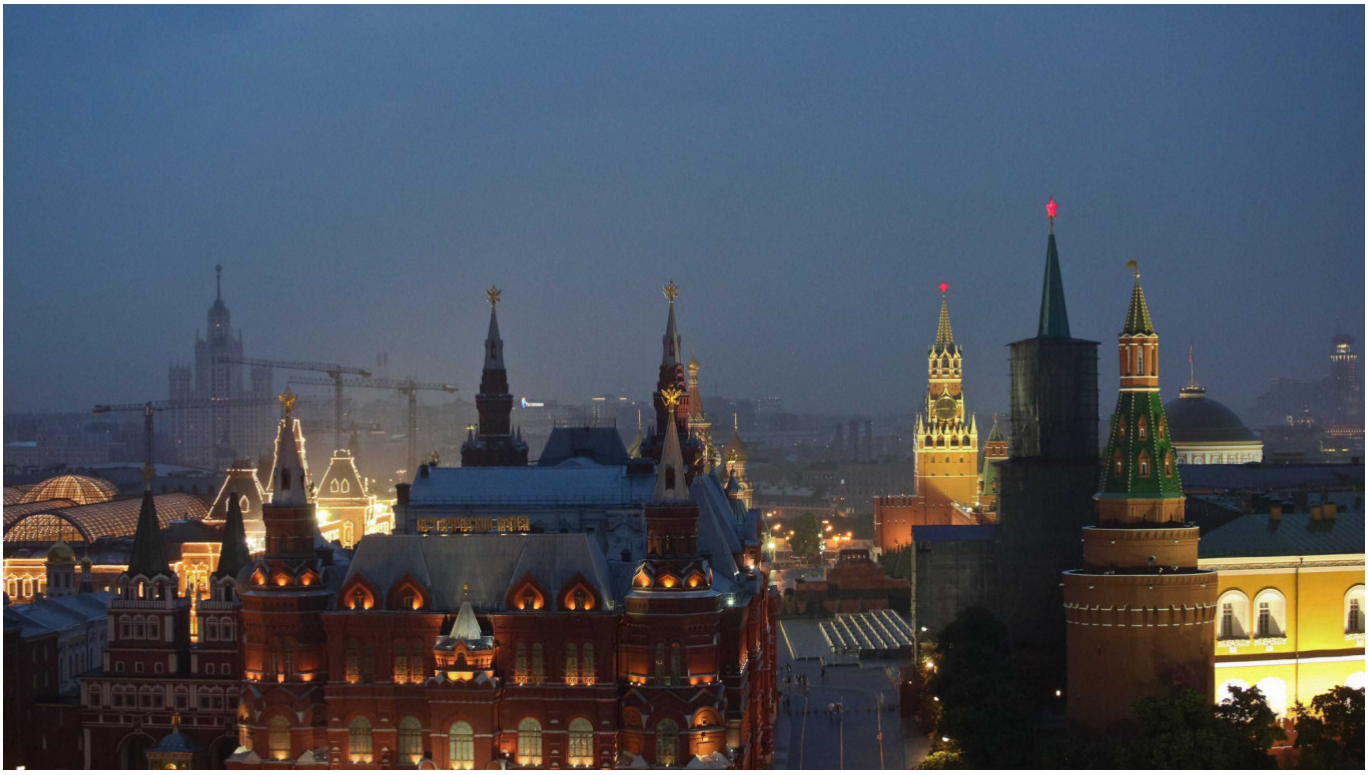
The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

How Russia's Obsession With Economic Stability Made It Weaker

By Nick Trickett

August 13, 2026



A view of the Moscow Kremlin. **Kirill Zykov / Moskva News Agency**

This article was originally published on the author's Substack "Sic Transition Gloria."

There's little reward for being right when few care what you say and you've mistimed the market of ideas. Much of the 2010s for us suffering Russianists was lost to Washington parlor games about a Russia resurgent.

Yet amid all that static, Russia's decline began precisely during its boom years, hastened then by its mistakes recovering from the Global Financial Crisis in 2008-2009. It's worth revisiting this genealogy now that the failures of the war on Ukraine since 2022 have, finally, buried talk of resurgence and replaced it with the dawning realization that Ukraine has swallowed Russia's capacity to preserve its imperial pretenses in its so-called Near Abroad.

By no means the end of the road for Russia's influence, the war seals a qualitative decline of

Moscow's power that cannot be denied, nor arrested without radical changes to its political economy. This decline follows from over twenty years of short-sighted, misguided, or counter-productive policies, the bill for which has now come due.

Tempting as it is to consider an alternative history of the 1990s, one where the Clinton administration and Western Europe forged a consensus to offer more aid to rebuild Russia and the broader region, doing so was impossible. Not only were there too few reliable institutions to call upon and the policy prescriptions adopted by Russia's liberal reformers did not map onto their public's preferences.

It was not the IMF, the Washington Consensus, or foreign finance that foisted principles of "sound money" and finances upon Russia. Russians and other national elites did that job themselves out of necessity, using foreign interlocutors to pursue their own agendas when it suited them. Their respective societies are still living with the consequences. When Russia adopted a ruble peg to the U.S. dollar in 1994-95, it was a textbook policy intended to restrain inflation and prove to foreign investors the adults were in charge. Money would be sound and the cost of imported consumer goods would fall.

But it also meant that businesses' costs rose in real terms compared to their foreign competitors. The explosion of barter in Russia, effectively half of all economic activity by 1997-98, was partially downstream of an overvalued ruble whose stability lived and died with the price of oil, levels of oil exports and, after 1996, the confidence of foreign investors buying Russian sovereign bonds. They took a gamble that the world's second-largest nuclear power was too big to fail. It was not.

The default on Aug. 17, 1998, is the foundational event that led to Putinism as we understand it. Within weeks, it hung a yoke around the neck of the country's political elite and liberal technocrats: the inviolate necessity that the country run twin budget and trade surpluses at all costs to maintain stability. Logical and correct at the time, this consensus would later accelerate Russia's decline and inflame the same tensions that erupted into economic coercion time and time again and into full-fledged violence in Georgia and then Ukraine.

These twin surpluses were ultimately antithetical to the provision of public economic goods across Eurasia. Russia's economic relationships with neighbors took an imperial tenor by structure, not just the force of Russian leaders' chauvinism or inability to accept the agency of those living in their former imperium. Coupled with Russia's reliance on energy to finance its revival, the beginnings of decline appeared during the boom years of the 2000s, hidden from view by the overwhelming scale of the surge in energy revenues and the Kremlin's growing assertiveness. They lay in how the windfall was spent and the logic of stabilization the technocracy still clings to today, now tasked with stumping up money and resources for the war no matter what.

Related article: Russian Economy Returns to Growth, but Economists Warn Rebound May Be Short-Lived

Oil and gas may be levers of power, but the Kremlin has been hostage to both because of the macroeconomic settlement that emerged from the default. The ruble peg only survived as long as it did because of oil exports until the 1997 Asian Financial Crisis knocked prices down by a third. Energy export earnings were crucial to ensure the currency's stability as anyone with brains and enough cash parked their earnings outside of Russia.

Then came the post-default compromises needed to remonetize the economy away from barter and stabilize national finances. The tax reforms for the oil and gas sector began in 1999 and were finalized in 2001 to fit into a broader policy of flat income tax rates, cuts to corporate tax rates and a general simplification of the tax code in hopes of spurring investment.

Energy would be taxed progressively to capture the overwhelming majority of any future windfall for three reasons. First, energy exports were easier to tax because there was an external reference price and, for oil in particular, a usable benchmark. The federal government, for all its weaknesses, still had relatively strong administrative control over exports.

Second, the state needed to control any large influxes of energy rents when prices skyrocketed to prevent the ruble from suddenly appreciating strongly, reversing the gains for domestic industries that followed devaluation in 1998.

Third, it allowed the regime to shift the tax burden away from the public and adopt lower tax rates in Putin's bid in his first term to turn Russia into a more dynamic, investable, and business-friendly economy.

These three drivers then intersected with the larger macroeconomic logic that the default imposed upon elites in Moscow. Foreign (and domestic) investors wouldn't bet against the ruble if the budget was balanced or in surplus. A trade surplus would guarantee a constant inflow of foreign currency, warding off speculative attacks on the ruble and ensuring Russia's access to credit through its own export earnings and own savings.

The latter was a matter of accounting. Any trade surplus is only possible if a country produces more than it consumes. Since whatever is produced that isn't consumed entails some form of saving (or foregone consumption), the excess of production generates said savings domestically and in the form of claims on foreign assets, which includes the foreign currency accumulated by exporters. What was later rebranded "Fortress Russia" by the Kremlin's PR apparatus following the annexation of Crimea was a consensus policy preference as early as September 1998.

Therein lay an irreconcilable tension for which Russia's liberals and its so-called technocrats had no interest in even imagining a viable solution. The same stabilization measures driving budget and trade surpluses heightened the inequities embedded within the broader political economy of the former Soviet space. Because the energy trade played such a large role in these trade balances, every effort adopted by economic liberals within Russia to push the economy towards market prices for natural gas and fuel became a distributional tug-of-war.

Moscow would have to force the terms of adjustment its own public and industries would bear onto neighboring states, lest foreign firms suddenly access energy at cheaper rates than Russian firms and outcompete them on cost on the Russian market or Ukrainian and Belarusian pensioners enjoy higher qualities of life at the expense of Russian taxpayers without end. Hence the fights with Kyiv over gas, the Nord Stream and TurkStream pipelines and Moscow's preference to minimize its neighbors' leverage by building around them whenever possible. Dependency and interdependency were embedded into regional economies in ways that consistently privileged Russia.

At the same time, Moscow refused to make use of its considerable fiscal space to sustain reforms and otherwise lead regional development efforts. Austerity in Russia began in 1999 out of necessity, but its underlying principles were imposed amid the windfall of the 2000s, spilling over into every other major regional economy. Eventually, this forced Ukraine westwards, seeking prosperity, and other states to make their own trade-offs without hopes of sustaining a trade surplus with the best regional market for any industrial products or IT and services.

Once the regime abandoned reform following 2003, the structural consequences of its economic preferences set the country on course for decline. It built its stability on fickle energy rents, which intensified the fervor with which officials sought ways to minimize spending.

Worse, it shifted so much of its tax base onto the oil & gas sector to spare the rest that its inability to break down barriers to competition and growth left it with few good options politically.

Oil & gas drove growth in the 2000s because the rents were taxed at absurdly progressive levels and redistributed via pensions, state wages, and some benefits. But the tax burden was so excessive, designed as it was for a world of $30 oil, that by 2008, with prices shooting past $100, some projects were taxed at levels above 100%. The state took money out of revenues, not profits.

In 2008, Russia's oil production contracted despite soaring prices. And it did so right as the mechanism by which growth had been sustained through the redistribution of these rents was failing. The regime had run out of money to redistribute to lift incomes. If it wanted more revenues, it would need to tax the public and businesses more. At the same time, non-essential spending would be repeatedly pared back, save one thing Putin and allies demanded: a military modernization program to begin by 2011.

Russia issued virtually no debt to pay for its needs during the Global Financial Crisis, relying instead on its currency reserves. Its budget surplus in the first half of 2008 was nearly equal to the spending deficit in 2009 (8% vs. 9% of GDP). It did not begin as austerity on paper, but the response evolved into austerity as officials sought to prevent spending from reaching 2009-2010 levels in real terms for another decade by force of fiscal probity.

Setting aside precise costs, the prioritization of military modernization and politics of empire had pernicious effects across the region. Russian industries nominally benefited since the program aimed to onshore the IP and production of key inputs for military components. It did so at the expense of neighbors, primarily Ukraine, who exported to Russia Soviet-era products from old plants. The austerity in service of empire similarly denied Russia's neighbors their best potential source of aggregate demand for their own production

Without diving into the details of various political economies of dysfunction in Ukraine and elsewhere, all of which are simultaneously domestic and transnational in character because of Russia's regional economic role, the larger consequence of Russia's austerity was to guarantee conflict with Ukraine and Russia's diminution across Eurasia.

By 2010, China was Central Asia's biggest trade partner. Azerbaijan had weakened Russia's grip on the South Caucasus by selling to Europe via Turkey and supplying Georgia in the process. Belarus lived off the fat of energy and other subsidies from Russia worth over 10% of its GDP. Trapped by the limits of its dictatorship, it could not turn away from Moscow, but equally was trapped with a faltering senior partner whose economic model was visibly failing by 2010.

Before Crimea ever happened, Russia had entered stagnation and, in the months prior to the annexation, fallen into recession. Wartime spending is the only economic stimulus since then that has altered Russia's growth trajectory. Parallel imports have flooded neighboring markets and Russians still travel abroad — where flights aren't banned. Ukraine has paid unspeakably for these material gains. Yet even in wartime, thanks to financial sanctions and the regime's priorities, constraints inherited from the 1998 consensus persist.

Related article: Russia's Bashkortostan to Sell Remaining Bashneft Stake to Rosneft

Equally tempting in retrospect is a narrative that Russia's relative decline as a power was inevitable. Aside from the inescapable consequences of China's rise as an industrial giant, this is not clear.

The existence of alternative development pathways can never be readily proven, but they were certainly there. Even in the 2010s, OECD estimates suggested a large national infrastructure program — something Putin has never signed off on — could have lifted GDP growth by 2% annually for the medium term, escaping the gravity well of 1-1.5% annual growth that preceded the boomlet of 2021 from the commodity upswell associated with reopening economies and massive American stimulus spending.

But Russia's redistributive model, avoiding more difficult reforms, was built on hydrocarbons. The limitations of that model reduced Eurasia's growth in the aggregate as a consequence. Structural dependencies on labor remittances from Russia among its neighbors were not significant for most national accounts following 1998, but became significant by 2008 and its aftermath because of the foreclosed pathways for development tied to Russia's economic model.

China's Belt and Road Initiative and promise of infrastructure development was well and good, but did relatively little to enable the competitive (re)industrialization of the post-Soviet space apart from select outbound manufacturing investments into sectors typically faced with domestic overcapacity in China.

One can see from the scale of gross capital formation, a handy metric that acts as a proxy for the rate of investment into production/productivity of various kinds, that Russia's interventions in Ukraine were centrally a strategy of denial to which various other needs were subordinated.

Embed:

Ukraine's pre-2008 growth shared much in common with Belarus. It relied heavily on energy subsidies from Russia, which in turn were vital because the Hryvnia was pegged directly to the U.S. dollar. Russia's move to begin the liberalization of its gas prices after 2004 was an existential threat to the tenuous macroeconomic balance adopted by successive governments in Kyiv, who simultaneously could not forsake pensioners, an industrial sector that couldn't bear the costs, nor stomach an immensely painful adjustment that was ultimately forced upon them by the Global Financial Crisis. Euromaidan was not just a response to the disastrous economic consequences of 2008-2009, but to the impossibility of a stable socioeconomic contract so long as the Ukrainian economy — its macroeconomic stability, its price levels, its competitiveness and structure — was dependent to a high degree on Russian policy and remittances from Russia itself.

By turning the screws, Moscow ensured investment collapsed and misery followed, encouraging the westward pivot it sought to prevent at all costs. Ukrainian political leaders were guilty as well, sustaining an economic settlement for their own benefit that was structurally unsustainable. Russia's attempt to deny Ukraine its sovereignty proved self-defeating.

That so much political energy and capital went into the Ukraine policy file instead of development trebled the damage done by various policy mistakes prior to 2013-2014. Compare Russia then to other countries that underwent Color Revolutions or Uzbekistan following its post-Karimov thaw. Rates of investment never tell the whole story. Quality of investment matters. But it is telling that following 2008-2009, so many national-level patterns desynchronized from Russia.

Embed:

Russia's typical 25% investment ceiling, only broken by the war, is remarkable given how, until the Covid-19 pandemic led to over ne million excess deaths (mostly among working-age people) followed by the war, the economy retained significant slack.

Rates of investment post-Crimea only remained high because of the rotation of state resources into capital-intensive military needs, augmented by meaningful gains for real estate, logistics, e-commerce and consumer platforms aimed at people scrimping to get by.

Belarus' investment levels were only possible thanks to subsidies. Uzbekistan, with the best overall demographic outlook in the region, surged after President Islam Karimov's death in 2016 and has better prospects than basically any other regional economy. For countries like Georgia, so much is tied up in tourism that the spillover effects are limited. Many a post-Soviet economy has struggled with commodity dependence in their own manner, even when those commodities do not create the same pathway dependencies as oil or gas.

More broadly, the suboptimal growth and development outcomes witnessed across the region may all have strong domestic drivers, but many of these drivers exist within the larger structure of Russia's underconsumption and underinvestment. Both of these were intimately linked to the challenges of managing oil & gas dependence.

Now that peak oil demand is in sight and natural gas has a narrowing growth runway, what becomes of Russia's growth model and what will it cost its neighbors? Military spending and fighting in Ukraine are now driving Russia into a prolonged, structural recession. Money allocated to the various winners of wartime policies can't be stopped on a dime. Even a peaceful end to the war sometime in the next year would not resolve the broader issue of Eurasia's fracturing political economy. Russia's self-imposed economic constraints will persist as it is slowly forced to increase its tax take on the public and business to offset what it will likely never again recoup from the energy sector.

There will never be another windfall quite like the 2000s. Non-oil commodities cannot power investment, consumption, and development at adequate scale, especially in a world where access to compute and frontier AI models will become markers of national power, capability, and economic competitiveness. Achieving durable and strong, organic growth without the redistribution of resource rents is equally difficult because of the lopsided structure of global manufacturing and, with AI, services provision. The energy transition is shifting the correlation of economic forces against Putin's regime as currently constituted. The annexation of Crimea was a final farewell to alms and the ensuing war in 2022 marked the end of any imagined future for the former Soviet space. Prepare for a more fragmented region where growth and wealth will be harder to come by and all the instability that entails.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url:
https://www.themoscowtimes.com/2026/08/13/how-russias-obsession-with-economic-stability-made-it-weaker-a93482