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The Gift of Sanctions: An Analysis of Assessments of the Russian Economy, 2022 – 2023

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ABSTRACT

This essay analyzes a few prominent Western assessments, both official and private, of the effect of sanctions on the Russian economy and war effort. It seeks to understand the main goals of sanctions, alongside bases of fact and causal inference that underpin the consensus view that sanctions have been highly effective so far. Such understanding may then help to clarify the relationship between claims made by economist-observers outside Russia and those emerging from sources inside Russia – notably from economists associated with the Russian Academy of Sciences (RAS) – which draw sharply different inferences from the same facts. We conclude that when applied to a large, resource-rich, technically proficient economy, after a period of shock and adjustments, sanctions are isomorphic to a strict policy of trade protection, industrial policy, and capital controls. These are policies that the Russian government could not plausibly have implemented, even in 2022, on its own initiative.

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Introduction

There are few things more dangerous than a consensus of economists – as anyone who remembers the run-up to the Great Financial Crisis, with its talk of a "Great Moderation" and the "New Consensus on Monetary Policy" will attest. In that case, the economy under inspection was our own.

Today, an important economy under inspection by outsiders is that of the Russian Federation. The attitude of most observers is not supportive. Their question, hopefully phrased, is not how well the Russian economy is doing, but how badly. The policies evaluated are not those of the Russian government, but those of its former trading and financial partners, now intent on doing as much damage as possible. Their tool is sanctions, which have been imposed with increasing intensity on Russia since the accession of Crimea in 2014 and sharply escalated in 2022.

Most assessments of the effectiveness of sanctions on Russia, with some exceptions, hold them to have been highly effective. This is perforce the public view of those holding official positions, such as Antony Blinken or Janet Yellen. They and their top subordinates, however high their professional standing as economists, are constrained to support the national policy. It also appears to be true of those holding high academic positions, at least in the US. This resembles the experience just before the Great Financial Crisis in 2008. Dissenters were scarce then and are even more scarce now.

This essay analyzes a few prominent Western assessments, both official and private, of the effect of sanctions on the Russian economy and war effort. It seeks to understand the goals of sanctions and bases of fact and causal inference that underpin the consensus view. Such understanding may then help to clarify the relationship between claims made by Western economist-observers and those emerging from Russian sources – notably from economists associated with the Russian Academy of Sciences (RAS), some of whom have been known to this author for many years. As we shall see, Russian views parallel those in the West on many matters of fact, yet reach sharply different conclusions.

Whose Assessment?

A preliminary question is, which assessments to choose? The public space is awash in commentary. A historian, Nadin Brzezinski, writing on *Medium* in January 2023, states:

> "The war's first and most obvious consequence is a direct effect on the economy. People are removed from factories... even without sanctions, this will affect the ability to produce goods and services." (And so forth.)

In comments of this kind, no data are offered, the possibility of hiring new workers to replace called-up reservists is not considered, nor the quantitative scale of the call-up in relation to the size of the potential workforce. The comment, and many others like it, does not rise to the level of economic analysis.

In a more sophisticated vein, Professor Michael Marder, a philosopher teaching in the Basque country, writing in *Project Syndicate*, states that "with Russia's economy straining under sanctions, some of the country's leading economists and mathematicians are advocating a return to the days of five-year plans and quantitative production targets."

This is true. The first economist cited, Ruslan Grinberg of the RAS – a friend of many years – has held his view for decades. "Indicative planning" – a phrase that normally refers to French experience with planning in the postwar years – has influential Russian advocates. Others, as Marder writes, favor more rigorous planning, along Soviet lines, citing the industrial development that (among other things) gave Stalin a decisive military advantage over Hitler.

Marder sees these proposals as signs of desperation, and to a degree this is also true. They were advanced against the backdrop of the failed reforms of the 1980s, of the Soviet collapse in 1992, and of the social and economic disasters of the free-market 1990s. However, they long predate and are not the result of "crippling international boycotts and economic sanctions." Grinberg opposed the neoliberal foundations of Russian economic policy from their beginning. And while he is certainly a senior academician whose views command respect, Grinberg holds no position in the Russian state.

A Key Private Analysis of the Effect of Sanctions on Russia

Casting around for detailed analysis by actual economists, we find Professor Jeffrey Sonnenfeld of the Yale School of Management, assisted by Steven Tian, also at Yale, and a small group of research assistants who are named co-authors on the major work. Sonnenfeld has written extensively and vigorously on sanctions. In July, 2022, he stated that they have exerted a "devastating effect over Russia's economy," a judgment repeated with great emphasis in January, 2023. Here we underline the claim of effect on the Russian economy *as a whole*. This is distinct from stated US policy objectives.

Sources and methods

Sonnenfeld *et al* preface their claims with a series of statements about sources. They argue that official Russian economic data have become unreliable, with some data now being withheld from public release. They offer a substitute based on "private Russian-language and direct data sources, including high-frequency consumer data, cross-channel checks [sic], releases from Russia's international trade partners, and data mining of complex shipping data." Having decried the politicization of Russian economic data[1], Sonnenfeld *et al* give this description of their own sources: "global investment banks, consulting groups, multinational business leaders, and Russian macroeconomic experts... with unique access to Russian-language sources and documents." However, the paragraph describing these sources does not cite or reproduce or link to any of them. Most data they do cite are from public sources.

The case that sanctions are effective

Sonnenfeld *et al* present a stark, even lurid, case for the effect of sanctions and of business "retreats" (meaning the departure of non-Russian firms) and of emigration and capital flight on the Russian economy in the first few months since the Ukraine war escalated in late February 2022. Their case boils down to the following major propositions:

- the fall in oil and gas export volumes hurts Russia more than its former trading partners (mainly in Europe), since Russia sold to the EU a larger share of these commodities in Russia's exports, than the share of Russian imports in the total imports of the EU. Having lost the EU market, Russia's prospects for new customers are limited, as the infrastructure linking Russia to Asia will not match the capacity flowing toward Europe for years, if ever.

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1 As a former staff director of the US congressional Joint Economic Committee in the early Reagan era I can attest that this problem is not unique to Russia.

- Curtailment of equipment imports, especially in high technologies, and of foreign industrial activity has had dramatic effects – for instance forcing a nearly-complete shutdown of the automobile industry in Russia.
- Emigration of skilled personnel and departure of foreign managers, engineers, and others whom Russia "cannot afford to lose."
- Capital flight, emigration of "high net worth persons," serious falls in the stock values and other financial indicators for major Russian resource producers, alongside an argument that the value of the ruble, which rebounded quickly after a sharp drop in February 2022, is maintained only by manipulation in a low-liquidity market.

Given the reach, range and details in this report, we may take it as the best available analysis by outsiders of the effect of sanctions and "retreats" on the Russian economy in the five months following the outbreak of heavy fighting. As mentioned, the authors restate their conclusions six months later, and predict that Russia has been rendered "permanently irrelevant" to the world economy by the sanctions and structural transformations of the past year. We may therefore examine this paper for possible weaknesses, on the principle of *a fortiori* reasoning. If there is something wrong with this case, it is probably not necessary to search for flaws in other, less thorough and detailed work.

The effect of oil and gas sanctions on Russia and Europe

Sonnenfeld's first and major argument relates to oil and gas, Russia's major exports along with other resources including metals, coal, and grains. Their case rests on a truism of trade: a specialized producer earns a higher share of its foreign exchange from particular commodities than the share of that producer's sales in the markets of a diversified consumer. Russian sales of oil and gas to Europe took a beating; Europe's purchases of oil and gas fell by less, proportionally – even overlooking the fact that alternative sources could partly plug the gap. So much is simple arithmetic.

Yet numerous issues cloud this picture. First, although Europe "only" lost (most of) its Russian supplies, it still had to buy its full complement of oil and gas on world markets at world prices (allowing for long-term contracts in some cases). So the effect of the war on European energy costs went well beyond the net loss of Russian physical oil and gas. On the Russian side, higher prices compensated for smaller quantities – we shall see by how much farther down, and domestic prices did not rise. These points are also obvious, but they are not the most important ones.

Effects on state financial resources

A central claim, by Sonnenfeld and many others, is that Russia needs oil, gas, and other export revenues "to fund Putin's war." But where previous resource export earnings were retained by Russian entities, including the state, through royalties and taxes, many of those earnings were never spent, but piled up in external accounts, notably in bonds held at the Federal Reserve or by the central banks of other countries. These totaled some $600 billion by early 2022, of which half was "frozen" by Western institutions holding the funds.[2] Those balances, frozen or otherwise, are just balances. They are reserves. Their loss would be reflected on balance sheets but not in current activity. So long as Russia

[2] How much of the $300 billion in frozen accounts were actually located by those holding them is a disputed question.

runs a trade surplus, the reserves stay idle; their status has no effect on general economic activity in Russia, nor on the financial capacity of the Russian state.[3]

Effects on Industry and Society

It is true, as Sonnenfeld *et al* write, that major industries in Russia – such as automobiles and appliances – could not function under sanctions in 2022 and had to shut their operations. There were also effects on biotechnology and other sectors, notably aviation. Export controls on semiconductors were a major element in these shutdowns. The long-term effectiveness of the sanctions is open to debate, with evasions and counter-evasions in constant flux. Sanctions-busting and enforcement have turned, by one account, into a "game of whack-a-mole" – with an interesting detail being the increased transshipment of mysterious goods through the ports of the Russophobic Baltic states. Clearly if sanctions can be evaded their effect is minimal, but – whatever the ebb and flow of advantage in the sanctions-busting contest – let's focus here on the case of *effective* sanctions.

To consider the effect of industrial sanctions on general living standards, we may usefully distinguish between equipment and durable consumption goods, on one hand, and non-durables on the other.

Interruption in the flow of non-durable goods and services has the most immediate effects, since these goods must be continuously replenished. But at the same time, they are often technically easier to replace. Already, since sanctions were imposed in 2014, Russia has developed its own production of (among other things) cheeses and poultry, while increasing land under cultivation for fruits, vegetables and grains. Recent news reports speak of shortages of fresh produce in the groceries of the United Kingdom, but no similar reports appear to have come out of Russia.

Durables are different. Disruption in the flow of new durable goods can be a complex problem, but it is usually taken in stride, over a substantial period, by the broader population. The reason is that in any society, the flow of new equipment, or automobiles, or household appliances, is a small fraction, each year, of the existing stock. The change in the stock is determined by new supply minus scrapping. If production (or imports) stop, scrapping will slow; the stock ages but it continues to function. In the United States during World War II, automobile production for private use was stopped for four years. The country did not run out of private automobiles. The Russian situation is not as dire as that which faced the US in 1942, since the scale of the mobilization is much smaller, there is no shortage of basic resources (such as there was of rubber in the US) and there has been no "stop work" order such as was issued after Pearl Harbor to the major car companies.

Of course, many producers in Russia were not Russian, and of these, many decided to leave the country[4]. But while companies may exit, their factories typically do not. They will either shutter temporarily, or be sold to a national firm and (under Russian regulations) at a fire-sale price. One presumes that assets will find buyers only if they can be used – as a going concern, as spare parts, or (in the last resort) as scrap. Although key components were imported and substitutes must be found,

[3] Steps are presently being advocated to seize Russian foreign assets and deliver the proceeds to Ukraine. This would precipitate offsetting seizures of Western assets remaining inside Russia. The net effect would be a forced transfer *from Western companies* to Ukraine – with Russia acting, merely, as an involuntary intermediary.

[4] Separately, Sonnenfeld *et al* document the departure of many Western firms from Russia. The accuracy of their measures became the topic of a sharp dispute, reported in *The Wall Street Journal* on March 3, 2023. That dispute is not relevant to the point being made here, which is that the sale of Western assets – at no more than 50% of appraised prices, according to Russian regulations – represents a transfer of physical capital to Russian capitalists on favorable terms.

almost everything else that is necessary to return physical capital to working condition, including management, financing, and labor, remains in Russia. Resuming production is then mainly a matter of filling the gaps in the supply chain. Though it takes time, and may be difficult, for a mature technology such as automobiles or even commercial aircraft this is *usually* not an insuperable problem.

Effects on Personnel

Sonnenfeld's claims about the emigration of skilled personnel are hard to evaluate on their merits; so far as known there is no detailed inventory of the skill sets among those leaving. Nor do we know much about the (much larger) number of those arriving, including about three million refugees from Ukraine – some estimates, incidentally, put this number much higher. But it's a fair surmise that the most "technically skilled" and physically mobile emigrants from Russia are relatively young, and therefore relatively recently educated. Educational systems being intact, they will soon be replaced. Again, it takes time. But Russia has seen worse, and replaced more, many times.

Effects on Oligarchs

The sanctions also target individuals, especially wealthy persons known in Russia as "oligarchs," with real or supposed connections to the Russian government. There has been a concerted effort to track and seize the assets of these persons in the West. One may presume that these efforts have been successful, depriving oligarchs who remain in Russia of income flows they previously enjoyed.

However, the interests of the oligarchs are not the same as those of the Russian state or general population. The oligarchs, as private individuals, can and notoriously did export their earnings and invest them in Western enterprises, sports teams, real estate, palaces and yachts. Loss of this funding, and of the ability to make overseas investments, would have had no net effect on general welfare inside Russia. Nor would the loss of funding to support luxury imports into Russia have much effect, apart from a very minor one on taxes paid and on the livelihoods of distributors and service personnel.

The more important effect on the oligarchs has been on their political weight inside Russia. It is obvious that their power has been greatly reduced. In key cases, the affected persons have left Russia and moved their fortunes to where they are (to the extent possible) protected. They are now reported to be driving up the price of real estate in Dubai and perhaps other places. Possibly there is a converse effect on some neighborhoods in Moscow and St. Petersburg. Beyond that, unless one takes an Ayn Rand view of the role of the hero-entrepreneur, the economic weight of a few specific tycoons, more or less, is zero.

Looking Ahead: Effects on profitability inside Russia versus Europe

How feasible is it for Russian businesses to take the place of Western firms in Russia? An answer to this question must take account of the fact that Russia has actually become a market economy. Its businesses are, therefore, strongly subject to market conditions, to which the key is the profit motive.

In a sense, Russia's industries and other business enterprises faced the same problem as Europe's: to find a substitute for key components: in Europe's case, energy; in Russia's, machinery and technology items, as well as many consumer goods. In both cases, initially, the substitutes are more costly if they are available at all. But there is a key difference. Europe is at the mercy of the world market for gas and oil. Russia's gaps are in manufactured products that can, in principle, be made at ever-declining production costs and improving qualities. This is in the nature of "increasing returns." Whether the possibility can be realized is an open question – but so long as local businesses consider that the sanctions regime will be permanent, the market incentives to work on the problem remain strong.

To be sure, cutting off the import of consumer goods, components and industrial equipment (assuming it is done effectively) disrupts activity in the short run. To be sure, there are technical difficulties in making substitutes, which may be insuperable in some cases. But the cuts raise the profitability of substitutes, which were previously uncompetitive. At the same time, reduced exports cut the price of resources on the internal market – and we know that the ruble price of fuel inside Russia did not change in 2022. So long as internal demand is maintained – a crucial caveat – in a large market economy like that of Russia, effective sanctions operate like quotas or tariff walls. They are similar to a policy of trade protection, combined with a robust industrial policy, under favorable market conditions. At the same time, sanctions on individuals and the break of financial links between Russia and the West act like capital controls; they encourage wealthy Russians in Russia to invest at home.

In Europe, the market effects run in reverse, even though the technical substitution of one form of oil or gas for another – LNG for piped gas, for instance – may be fairly straightforward. The key difficulty is price. An increased price of resources cuts into the profitability of downstream business. These effects can be seen clearly in the price indices for imported goods (mainly energy) within the European Union, which were already rising before the war escalated and have continued to rise in the year since. Meanwhile, a reduction of the exports of finished goods, because of sanctions, reduces the market size, and this depresses profits further. Business falls, bankruptcies rise, and money leaves.

Summary of the Sonnenfeld analysis

The above covers the major points in the analysis of the Sonnenfeld team. Their evidence of sharp drops in consumer purchases at Moscow stores, of job losses as foreign firms exit, and the poor financial performance of major resource firms in the first half of 2022 are all logically derivative from these points. I dispute none of the stated facts. The problem lies elsewhere. It lies in the fact that the stated facts, taken together, may point to the opposite conclusion. Though with clear difficulties, they may indicate the potential for rapid recovery in Russia and the reverse in Europe, along with the consolidation of economic power inside Russia in hands aligned with the interests of the state.[5]

What matters most, in short, is not the immediate blow to trade and activity – heavy though that was. It is the consequence for incentives, for profits and for activity moving forward. This is not symmetric because the previous trade, while equivalent in money terms, was not equivalent in other respects. For one side, markets grew while resource costs fell; for the other, markets shrank and costs rose. The break in trade raised potential profitability in Russia while reducing it in Europe – and this is the key to effects in the medium term. Thus, while every fact Sonnenfeld *et al* present may be correct, the effect on future economic prospects in the two former trading partners may be the opposite of their claim.

[5] The *Wall Street Journal* published, on March 28, 2023, an analysis by Evan Gershkovich, his last before being detained in Ekaterinburg on espionage charges. The article gives weight to Western and exile views of the sanctions, while also conceding that the Russian economy has indeed shown adaptive capacity so far. The headline, however, is most telling: "Russia's Economy is *Starting* to Come Undone." This mild claim (with emphasis added) stands in contrast to words like "devastating" and "crippling," which Sonnenfeld *et al* used, so freely and forcefully, in July 2022 and February 2023.

The Official View

We turn now to the official view, as expressed by high officers within the US government. This view is visible generally at two levels – in a rhythmic rhetoric of cabinet and subcabinet officers, and in the more-detailed and fully-reasoned background briefings of a few senior professionals, who bring to bear their training as economists, as well as the information capacities of the full government.

Official statements at a high level generally have political and public relations purposes. Nevertheless, there is usually at least a residuum of policy content. Thus Secretary Blinken on 02/01/2023 declared the goal of sanctions to be to "decrease Russia's ability to wage war and weaken its military-industrial complex." Similarly in Kiev on 27/02/2023 Secretary Yellen stated the goal of sanctions to be "to degrade Russia's military-industrial complex and deny Russia the revenues to fund its war."

These official statements made no reference to the Russian economy[6], to Russian public opinion, or to support for the government from influential forces inside Russia. Yet as part of the same statement, Blinken vowed to press the effort to "identify and seize the assets of Russian proxies around the world." It is hard to see what effect that effort – aimed at yachts and real estate – could have on the war effort or the military-industrial complex. We may reasonably infer that some other motive – such as persuading the oligarchs to weigh in on Kremlin policy – underpinned this aspect of US policy[7].

Still, recent US high-level official statements, likely coordinated, are considerably narrower in scope than those voiced in the analysis from Yale. The two clearly stated objectives are to "degrade" Russian military production and (once again) to "deny" the Russian government "revenue to fund its war."

Degrading military capacity

Evaluation of the effect of sanctions on Russia's military-industrial complex is beyond the scope of an outside observer, since it depends on the existence of "critical military inputs" [Yellen's words] produced by the US or its allies, and capable of being cut off from Russia – that is, unavailable from an alternative supplier, such as China. If such inputs exist, it is likely that neither side will identify them precisely in public, although avionics and other advanced electronics come to mind. However, given the long run-up to this war and the heavy preparations for it in Russia over a decade or longer, to have left critical components unstockpiled and in the exclusive control of NATO would have been an act of great negligence. Yellen in Kiev made reference to the replacement of trucks and other vehicles destroyed in combat; such items have been wholly produced in Russia for a century.

Defunding the war.

The claim that sanctions deny Russia revenue necessary to "fund the war" has an empirical and a theoretical aspect. Empirically, the issue is whether Russian revenues – let's define them as foreign exchange earnings – have in fact declined. Foreign exchange earnings are driven by *net* exports. Russia's exports, primarily oil, gas, grain and minerals, have been cut in quantity. But they increased in price, so that the *value of gross exports rose* in the first six months of 2022, according to fairly precise reports from the RAS. Meanwhile the value of imports fell, though only moderately – reinforcing the gain on the export side. So far as "funding" is concerned, the sanctions had the precise opposite effect to that stated as an official objective.

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[6] Perhaps more candidly, in May 2022 Defense Secretary Lloyd Austin did speak of "seeing Russia weakened."

[7] There is also some potential use for these assets as collateral for loans benefiting the Russian state.

Theoretically, had sanctions cut off "funding," would there have been an effect on the war effort? An answer may be offered in two parts. First, allowing the assumption that external funding is necessary to the war effort, there is the question of how such funding, acquired from net exports, is allocated inside the Russian economy. A large economy funding a war can, generally, reallocate resources internally, so the burden falls on non-military uses of funds. In a similar vein, in World War II allied bombers repeatedly targeted German rail yards but failed to interdict military traffic, which was never the dominant element of the flow through the yards. Funding, like railroad lines, is fungible, even if many of the physical activities that generate funding are not.

The second theoretical issue concerns whether outside "funding" is required for the Russian war effort. This will be true, once again, only if the Russian military buys critical equipment, resources, fuel, or manpower on world markets. Within the Russian Federation, where practically all transactions related to the military occur, the funding is provided from the state budget in rubles, and outside funding is, by definition, not critical. The remaining question, discussed below, concerns the current dependence of the state budget on oil and gas revenues, which is a matter of the structure of the tax system.

Professional Analysis from the US Government

What economic reasoning underlies the US official view? An in-depth analysis by an official specialist, Dr. Emily Blanchard[8] of the Treasury Department, was given on December 2, 2022 under the title, "Russia's Long-Run Economic Growth Prospects..." and other topics. This transcript provides valuable insight into the formal structure of economic reasoning in the US government.

Blanchard begins with a bold claim, that according to "official and private sector forecasts" Russia's "long-term growth potential" has fallen "by roughly two-thirds" since February 2022, with even the "most optimistic forecasts" predicting Russian GDP to be 20 percent less by 2030 "than it otherwise would have been." The long-run view, she states, is "unbelievably consistent, stable and grim."

We note that Blanchard's focus here is on the Russian economy in general, and in the long term. It is not on either of the stated goals of Secretaries Blinken and Yellen, namely to degrade military production and to deny funding for the war. Moreover, Blanchard explicitly eschews analysis of "recent events" with a reference to "Moscow's fiscal and monetary gymnastics to mitigate [their] consequences." Here, in keeping with the principles of general equilibrium and mainstream growth theory, the presumption is that the long run may be understood with greater precision than the immediate or near future. Whether this focus bespeaks an unstated goal of US policy – to degrade the Russian economy *irrespective* of the war – is a question Blanchard does not address.

The fundamental mathematics of the production function

Dr. Blanchard's confidence in her analysis rests on an appeal to a "fundamental mathematics" familiar to all students of mainstream economics – the mathematics of the production function, whose elements are capital, labor, technology ("innovation") and allocational efficiency – usually assumed to be optimal in a market economy but distorted by various forms of government intervention. Blanchard then proceeds to analyze each such factor in turn.

[8] Chief Economist and Undersecretary for Economic Growth, Energy and the Environment.

The first factor is labor. Blanchard, like Sonnenfeld, points especially to an “exodus” of “hundreds of thousands,” notably in “IT, communications, engineering, scientific research, finance.” Precise data are not given, nor is there reference to the several million arrivals from Ukraine. As a general caution, the same reservation expressed with respect to Sonnenfeld's use of this factor may be repeated. The mobile, “up-to-date” element of this exodus, if it seriously occurred, is likely to be relatively young and for that reason, relatively easy to replace, over time, by those coming through the educational system.

Blanchard's second point addresses capital. She states that fixed capital investment fell sharply in early 2022 – a claim well-supported by Russian sources. She also states that as foreign firms left Russia, they took “with them the financing and capital that they would need to grow.” This part of her claim would appear to confuse physical capital – on-the-ground plant, machinery, distribution networks – with financing (or more precisely, with access to non-Russian financing). It is however plain that physical capital was not physically removed, and it would also be normal practice for the financial capital deployed in Russia to have been raised in Russia. “Innovative and managerial capacity” according to Blanchard was also lost. But this supposes that the managers of foreign enterprises (and their close subordinates) in Russia were mostly foreign, or else Russians prone to emigrate with their companies, even if no jobs await them abroad. This would be a most unusual pattern for modern multinationals.

Blanchard's third and fourth factors are an “[in]efficient allocation of resources across the economy” due to “Putin's mobilization” and “import substitution,” and what she calls “that magic secret sauce to long-run economic growth, which is innovation.” These factors are difficult to assess since they lack quantitative definition, even in principle. However, we do know that Russia's industrial preparation for the escalation of February, 2022 long preceded the event. So it is not logical to attribute a deterioration since February, 2022, as Blanchard does, to this cause. The change after the escalation is only incremental; the die was cast long before.

As for the magic secret sauce, Blanchard concludes that “Russia's remaining firms and managers simply will not be a match for the 21st century, where you need lean, agile, and innovative companies.” She further concludes that as the Russian state imposes “a heavier and tighter grip,” “allocation” of both labor and capital will become “less and less efficient,” and “corruption will have the perfect conditions to grow.” These statements play a large role in the adverse view of Russia's long-term prospects. The basis for them is *a priori* reasoning; if there is evidence it is not presented.

The assessments cited above represent the efforts of the highest levels of American academic expertise on Russia and – one presumes – the full analytical capacity of the American state, including the input of the intelligence services, so far as economic issues are concerned. We may take them as definitive, especially considering that Secretary Yellen is the most highly-credentialed and deeply-experienced economist ever to hold the position of Treasury Secretary – her only close rival being Lawrence Summers for a brief period in the late 1990s.

We have already seen that the arguments offered are open to criticism on logical and empirical grounds, and perhaps subject to some confusion over the final objectives of US policy toward Russia. There is also an understandable bias, in official statements, toward claiming the success of a policy rather than admitting to failures. (This would be less understandable in the analyses made by independent academics and think tanks.) A more serious charge would be the possibility that the desire for a given outcome may cloud the judgment of the official and of the analyst. That condition is not unheard-of in the past and is often credited with ensuing disasters.

The View from Moscow

It is useful to conclude this exercise by comparing the American assessments described above with those of leading Russian experts, specifically the Institute of National Economic Forecasting of the Russian Academy of Sciences, which on 20/09/2022 issued an "Analytical Summary for January-July 2022." The summary is detailed, stated in neutral language, and by no means entirely out of line with the American assessments on basic facts. For instance, the RAS reports:

> "...the shock caused by the sanctions led to large-scale crisis processes that affected almost all areas of the Russian economy... Among the most acute problems [were] difficulties in obtaining imported raw materials and components as well as the need to replace them … rising prices within the country... an increase in overall uncertainty in the Russian economy... an increase in the cost of imports... falling effective demand within Russia, credit appreciation."

The summary further notes, inter alia, the sharp drop in business investment in the first half of 2022, a two-thirds drop in automobile production and a forty percent drop in production of washing machines and refrigerators. The summary thus recapitulates key elements in both American analyses reviewed above. However, from that point the RAS assessment diverges from its US counterparts. It states:

> "Despite the extreme severity of the problems, the authorities managed to stop the inflationary surge in the economy fairly quickly, prevent a bank panic, ensure the smooth operating of the payments system, and return the ruble to the previous exchange rate with a margin."

Further, the overall decline in GDP "in the first half of 2022 amounted to 0.4% in annual terms," which "result can be considered relatively favorable." In July-August 2022, there was also some recovery in the Russian industry and investment sector. This is in notable contrast with the US Treasury projections and private US forecasts, as stated as late as December 2022, that Russian business investment would not begin to recover until 2028.

The RAS summary contains numerous warnings of potential dangers for "long-term stagnation" in the Russian economy, including "serious medium and long-term threats caused by the sanctions." To deal with these, the summary calls for a "new architecture of international trade and economic ties... mobilization (planning) mechanisms, and "accelerated development of high-tech industries," which it notes "always" accompany "large-scale military operations." The summary is also blunt about public finances, which are "very unstable and worsening" due to high reliance on oil and gas revenues in the public budget. In this respect, in a narrow sense, the RAS summary supports the US Treasury argument about funding. However, the obvious countermeasure is a reform and broadening of the Russian tax system; such measures have long been recommended and are now underway. As noted above, revenues in rubles are mostly sufficient.

The RAS summary is thus aligned with the adversarial assessments on numerous facts. There is no tendency to dismiss or minimize the sanctions. The differences lie in facts not acknowledged in the US assessments, which point to a quick and largely effective adaptation to adverse conditions in 2022, though with significant dangers and challenges still ahead. The further difference lies in a moderately confident view, on the Russian side, that with appropriate policies the challenges can be met and overcome. This is consistent with the idea that in the Russian private economy, the sanctions have created a powerful profit incentive, along with a large market space in which to exercise that incentive.

The incentive consists of the elimination of foreign competitors to nascent Russian firms, and the highly competitive environment for domestic resource costs, especially when compared to Europe.

Conclusion

Sanctions have been a tool of US economic warfare for decades. Their effectiveness has always been subject to debate, but there is little doubt that they have been capable of inflicting substantial damage on small economies, such as Cuba, and on countries whose adaptive capacity was small, such as Iraq or Venezuela. Larger and industrial economies, including Iran, South Africa under apartheid and Serbia under Milosevic, are another matter. Russia is of a different scale entirely.

In the Russian case, sanctions were imposed on an economy deeply penetrated by foreign firms in almost every civilian sphere, and with domestically-controlled activity heavily weighted toward giant resource-producers, such as Gazprom – and these too often had Western partners. Any visitor to Russia in recent years would have noted the preponderance of non-Russian automobiles, consumer durables and luxury products of all types in the Russian market, not to mention big-box stores and fast-food restaurants. These producers and distributors were deeply integrated into Russian life, and they operated with full legal rights within the framework of the Russian economy. If they helped to develop indigenous competencies – as they surely did – those competencies remained subordinate to the foreign branding, foreign components, and foreign control of key technologies.

The economic theory behind the sanctions appears to have held that this structure stemmed from the inherent superiority of the Western economic model and the incapacity of Russian businesses and the Russian state to perform basic economic functions with Western levels of efficiency. That view, in turn, was apparently informed by the Soviet era and by the disorder of the 1990s transition.

Prominent voices within Russia, including from leading independent institutions, namely the Russian Academy of Sciences and the Free Economic Society, have for decades advocated a mixed economic model, with a strong focus on reindustrialization led by national firms and guided by the state. Their success in persuading the government to follow this path was, at best, episodic. The oligarchs, who were strongly Western-oriented, maintaining residences and investments abroad on a large scale, stood for openness and integration. So did important academic institutions and international forums.

To break the grip of non-Russian actors on Russian economic life would, therefore, have required extra-legal measures reminiscent of a mafia state, incompatible with a commitment to orderly and lawful markets and business practices inside Russia – matters on which gains since the 1990s have been substantial and hard-won, if not complete. It would have required imposing tariffs, quotas, limitations on foreign ownership, even expulsions of successful and honest enterprises working on Russian soil. Internal opposition would have been strong. The short-run effect on living standards would have undermined the legitimacy of the regime. The condemnation from the West would have been extremely, and justifiably, harsh.

Thus, had the sanctions not been imposed, it is difficult to see how the opportunities now open to Russian companies and entrepreneurs could have come about. Politically, administratively, legally, ideologically, even in early 2022 it would have been extremely difficult for the Russian government to initiate comparable measures, such as tariffs, quotas, and expulsions, given the unbroken grip of free-market economics on Russian policymakers, the influence of the oligarchs, and the purportedly limited nature of the "special military operation." In this respect, despite the shock and the costs, the sanctions imposed on the Russian economy were, evidently, in the nature of a gift.

Meanwhile, the forced-draft nature of high-volume military production necessarily leads to rapid turnover of underlying machinery and advancing technologies, as well as the training of a new echelon of technical personnel. Though some techniques remain to be mastered, Russia is not short of any underlying ingredients – food, fuel, materials, scientific and engineering talent. Whether its economic leadership is of a caliber to use these resources effectively is an open question, but so far, the contrary evidence is not compelling. And, one has to ask, compared with whom?

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