Economic Stability Through Wartime in Russia

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Research Question: How has Russia's sustained military mobilization since 2022 affected the long-term development and stability of civilian human capital, and what role do fiscal policy, sanctions, and institutional factors play in shaping those outcomes?

Literature review

Russia's military growth and reorganization have shown how complicated it is to operate under fiscal restrictions, be sanctioned by other countries, have institutional restrictions, and have a compartmentalized workforce. The literature on fiscal stabilization, wartime macroeconomics, and how sanctions affect either or both will show us that while spending and tax policy can be used to stabilize short-term economic shocks, these two tools generally will not contribute to the long-term productivity of an economy, particularly where the country is under sustained risk of conflict as well as being subjected to outside pressures (e.g., sanctions).

Numerous research studies have been published by institutions such as the Congressional Research Service (CRS), Brookings Institute, Center for Strategic and International Studies (CSIS), Royal United Services Institute (RUSI), Institute for International and Strategic Relations (IFRI), and the Carnegie Endowment of Peace (CEP), as well as empirical studies (ETH Zurich, Autor & Dorn, Akbulut-Yuksel). Many commonalities among these studies suggest that fiscal stimulus can serve to maintain output (i.e., GDP) over the short-run, however, inflation, rising costs of borrowing, and growing deficits make it more difficult to maintain consistent performance over the long-run. In addition, within the context of human capital development, it appears that defense-related expenditures have weaker multiplier effects than do expenditures on education, health care, and general infrastructure.

The recent sanctions imposed on Russia have severely restricted its fiscal capacity, limiting its access to foreign capital, technology and global markets. Studies from the Brookings Institution and Tufts University show that coordinated sanctions directed at energy and technology exacerbate existing inflationary pressures, disrupt supply chains, decrease levels of investment,

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change the incentives for labor, and increase the emigration of talented workers from Russia. In addition, the lack of investment and changes to labor incentives result in diminished productivity, particularly in high-skill sectors and long-term productivity decline.

The quality of institutions is also an important factor. Research from the Brookings Institution, Thunderbird School of Global Management, and German Marshall Fund indicate that democracies tend to better sustain human capital through stable, predictable policy and rights protection, whereas semi-authoritarian regimes like Russia can rapidly shift resources at the expense of transparency, labor mobility and long-term economic growth. Russia's wartime policies have led to a rapid diversion of resources to meet military needs, resulting in lower levels of investment in skill acquisition and development in the civilian economy.

Historical data from the Centre for Economic Policy Research and the Government Accountability Office supports the notion that disruptions caused by war (e.g., misallocation of labor, interruptions in education, and financial instability) can last for decades. For example, Justino and Akbulut-Yuksel (et al.) found that conflict may adversely affect lifetime education, health, and income outcomes, while research conducted by the Carnegie Endowment suggests that Russia is currently experiencing an ongoing "silent" decline in human capital as a result of mobilization and emigration.

There is consensus among scholars regarding short-term stabilization effects of fiscal policy in wartime economies however extended military activities under economic and governance constraints constrict the development of human capital and civilian productivity. In Russia, the combination of higher spending on national defence and reduced fiscal space combined with limited institutional capacities creates obstacles to long-term trends for economic growth and development of its workforce.

Method

This study uses both a primary data collection method (qualitative comparative case studies) and secondary data analysis to analyze the long-term effects of military mobilizations on civilian human capital in Russia. The aim of the study is to use the data collected to identify the structural relationship(s) between fiscal policy, labor market dynamics, sanctions, institutional conditions, and outcomes regarding human capital.

Russia is viewed as one case of an economy that is militarized, has been under long-term external strain through continued military commitments, and has central authority. By doing this, we can analyze how these variables interact with one another within a particular context while also using the historical record and with other current similar economies to draw comparisons.

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The study uses a wide variety of secondary data sources in the form of economic reports, policy analysis, and academic literature to obtain data that reflects government expenditures, labor market statistics, investment activity, and institutional conditions. In determining what secondary sources to include in the study, the researcher looked for relevant, credible, and accurate sources that focus on economics since 2000.

Thematic analysis will identify recurring themes throughout the data set. Key factors being analyzed include: defense expenditure, civilian investment, labor migration and mobility, emigration, restrictions arising from sanctions, and institutional attributes. Each of these factors will be analyzed individually and in relation to each other to provide an understanding of how they come together to affect human capital.

Comparative analysis will place these findings into context with historical examples of wartime mobilization and economic dislocation to illustrate parallels and divergences with the current Russian experience. This analytical method allows for the identification of short-term impact versus long-term structural change.

Qualitative methodologies will be employed as a result of the difficulty and lack of sufficient micro-level data. Due to various restrictions on the accessibility of information and the complexity of the research problem, reliance upon quantitative only techniques would be problematic. Through the analysis of trends and relationships, this methodology will provide a more complete picture of how changes in wartime economic policies affect human capital over time.

Results

Financial, workforce, and economic statistics show there are large changes in priorities for government spending, how to distribute workers among different companies, and how to invest in the public good as a result of the ongoing mobilization of Russian troops shown in reports from corporations such as Reuters, IMF, and World Bank.

Fiscal Focus on Military Stabilization

Data on budgetary spending show that since the beginning of the Ukraine conflict, national defence expenses have continued to increase significantly over time. As reported by Reuters (2024), the proposed Federal budget for the Russian Federation in 2025 includes 13.5 trillion rubles (as of February 2024 this equates to about $145 billion) on national defence, which represents an increase of approximately 25% over the 2024 figures and almost factor two increase to the allocation of 5.5 trillion rubles made in 2022 (the beginning of the war). In terms of the projected spending on defence will exceed 6.3% of GDP in 2025 and nearly 32% of total

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Federal expenditures in 2025 are related to military expenditures. This represents the highest level of spending since the fall of the Soviet Union (Reuters, 2024).

Civilian human capital expenditures remain much less than that of military sectors. The 2025 budget provides an allocation of approximately 0.07% of the gross domestic product (GDP) to civilian education and approximately 0.087% to civilian health care, meaning that between 2022 and 2025, more than $10 billion was spent on civilian health care and education each and about five times as much was spent on defense during the same period (Reuters, 2024). These amounts demonstrate a large shift in moving money from long-term investment areas to military priorities (Reuters, 2024).

Figure 1

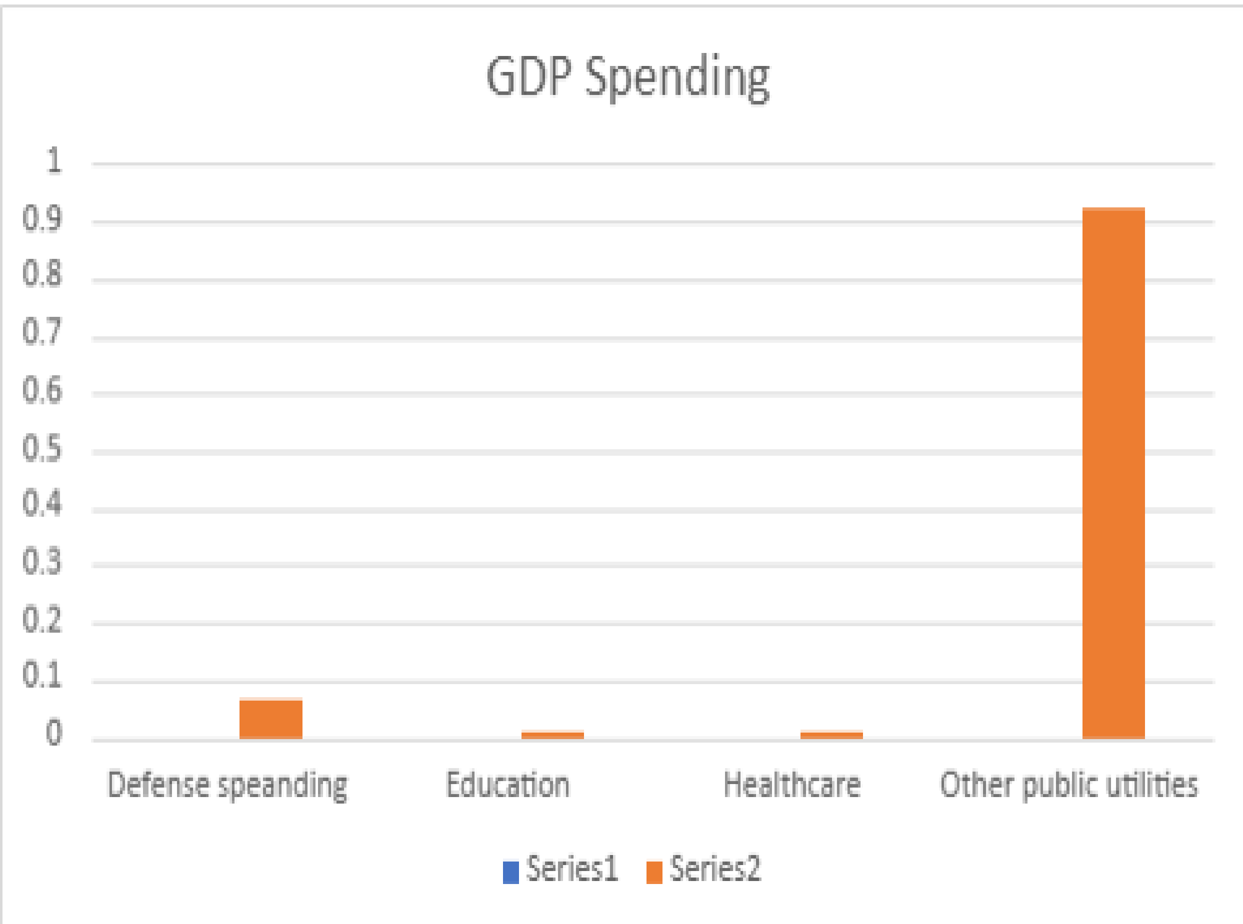

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Figure 2

Russia GDP Speading by Year	Defense (% of GDP)	Education (% of GDP)	Health (% of GDP)
2022	4.20%	0.75%	3.85%
2023	3.06%	3.09%	4.20%
2024	6.00%	0.70%	0.87%
2025	6.30%	0.70%	0.87%

The trend data above show‘s that defense spending as a % of the GDP increased from approximately 4.2% in 2022 to above 6% by 2024 or 2025, while education and healthcare received no such increase (Reuters, 2024; IMF, 2023); these numbers indicate that during the extended time period of military mobilization, there has been a structural change in the make-up of the federal budget (IMF, 2023).

Fiscal Pressure

According to fiscal balance data presented in figure 1, there have been increasing structural deficits throughout wartime budgets as shown by fiscal balance data (IMF, 2023). The difference between the overall fiscal balance and structural balances shows that creating concerns with deficits lines up with continued commitment to spending (IMF, 2023). The continued structural deficits will also decrease the fiscal flexibility available to the government and their ability to continue increasing / stabilizing civilians' investments in education, workforce development, and public health long term (IMF, 2023).

Movement of labor market

According to analyses of workforce and labor markets, mobilization has resulted in a

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redistribution of workers away from civilian jobs towards defense-related ones (World Bank, 2023). There are reports of shortages of labor in civilian areas like IT and engineering, with wage premiums for defense production jobs increasing (World Bank, 2023). The shift aligns with partial mobilization and the addition of state defense contracts (Reuters, 2024). In addition, there are numerous independent economic studies indicating that there has been an increase of skilled workers who move outwards due to mobilization's announcement (World Bank, 2023). The movement of highly skilled workers away from the civilian sector, particularly in technology and engineering, results in a decrease of human capital in civilian populations (World Bank, 2023).

Investment limitations

The Russian economy has been impacted by the effect of macroeconomic implications of foreign direct investment on Russia due to International sanctions against Russia. Restrictions have been placed on foreign capital flows to Russia are insufficient to support foreign investment at levels that were available to foreign investors prior to the imposition of international sanctions on Russia. Restrictions have been placed on the availability of advanced technology to support foreign direct investment levels previously available to Russia. Internationally imposed restrictions have significantly increased the costs of financing for Russian companies. The trend towards increased state-controlled defence production in Russia, also has led to decreased levels of investment in Russia across all sectors other than those that support the Russian military. The World Bank has further reported that this trend has resulted in a direct and negative impact on domestic private sector investment in Russia, which continues to be significantly below previous level forecasts.

Effect on Education and Human Capital

According to budgetary data for 2025, education spending is approximately 0.7% of GDP; suggesting that despite higher levels of funding for defense, there will be a relatively small level of fiscal growth in education (Reuters 2024). The literature on historical conflicts supports this idea, specifically that prolonged periods of military mobilization often resulting in educational disruption, less continuity of educational enrollment within the pools of young adults who are eligible for the draft and the subsequent impact on the development of skilled labour in the future (World Bank 2023). Collectively, these data indicate a substantial structural and fiscal strain on the relationship between sustained military mobilization and the stability of civilian human capital (Reuters 2024, IMF 2023, World Bank 2023).

Discussion

In this research, we look at the effects of long-term military mobilization and wartime economic policy on the stability of human capital in civilian, or non-military sectors. The discussion builds

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on the evidence collected, considering the fiscal, labor, financial and institutional trends shown across the data, to assess how a sustained military presence has affected the creation of a civilian workforce. Our conclusion indicates that long-term military mobilization does not only change short-term allocation of resources but that it will create a change in how money is spent investing, allocating workers and creating incentives for institutions to develop their civilian workforce in such a way that decreases the long-term viability of the civilian workforce's human capital.

Labor Changes and workforce shrink

Military mobilization leads to measurable redistribution of labor from civilian production to defense production, which is evidenced by increased reliance on defense output. Although overall employment in the aggregate may remain stable, this shift leads to a redistribution of employment among the public sector driven by state-directed employment and in the defense resource supply chain. It is critical to distinguish that, while total employment may be stable, there is not permanency of stable productive capacity in the civilian labor force. Job-posting research as well as digital trace statistics indicate significant discrepancies between the available skills of workers and the required skills for civilian employment, primarily in technology, engineering, and professional service sectors.

Not only does this gap create substantial barriers to entering into the civilian workforce, it has resulted in thousands of workers leaving the civilian labor force for higher wages and benefits in defense-related positions. Over an extended period, this shifting of workers will ultimately decrease the effective supply of skilled labor available to private sector companies. When we look at the historical comparison data for past large-scale mobilizations, such as World War II, we see that even if the number of jobs in the aggregate measured through non-farm payroll records may appear good, there have likely been significant structural imbalances in occupational distribution that are not captured through the non-farm payroll data. In the context of Russia, the long-term redirection of skilled workers towards defense production will most likely ultimately have negative impacts on the long-term productivity of the civilian population, in spite of the currently high level of output.

Monetary components and crowding-out

In the Results section, we showed the data about government finances supporting an increased emphasis on military outlays, in comparison to civil investments. The amount spent on defense in Russia during 2022 was about 13.5 trillion Russian rubles (or 6.3 percentage of GDP, and approximately 32 percent of all federal spending), compared to educational and healthcare outlays of 0.7 percentage of GDP and 0.87 percentage of GDP, respectively. This indicates that

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the government is prioritizing investment in defense compared to investment in human capital for the future. Therefore, the points of discussion between defense and social spending will include not just how much is spent but how it is spent. The general consensus in the literature on economics will show that different categories of government spending have different long-term multiplier effects. For example, spending on education and job training increases productivity in the long term by increasing the total number of skilled people available, and therefore will also create higher rates of innovation. On the other hand, although defense-related spending may promote growth of the industrial sector in the short run through government contracts, it does not produce comparable civilian-based human capital development to the level of spending that is required for government to develop its people.

As inflation decreases the actual amount allocated for civilian uses will decrease, and thus over time, the continued lack of investment of sufficient levels into education and healthcare will create the underdevelopment of skills within the human population. The same evidence also shows that during the COVID-19 Pandemic and the federal government's response by providing fiscal stimulus to preserve business stability or post-stimulus, the labor markets were able to recover much faster for both employees and employers compared to the current war in the Ukraine and Russia using fiscal stimulus for military purposes limit the potential for individual.

Restrictions and constraints

When countries receive sanctions, those countries are under a continuous external shock and thus face increased pressure, as expressed in their economic fiscal data. The imposed sanctions limit the ability of the country to borrow money from foreign lenders, to raise advanced foreign technologies, and to access international financial markets, all of which can cause greater uncertainty and increase the cost of borrowing for companies operating in the civilian economy. Research related to financial crises indicates that when credit becomes tight, there will be corresponding reductions in the long-term investment made by companies into things like training employees, researching and developing new technologies, and enhancing the skill sets of their employees.

The interaction between the sanctions imposed and the company mobilization adds to the pressure being placed on interstate defense production as companies producing goods for the civilian economy have large financial barriers to conduct business and are experiencing significant workforce shortages as defense spending takes precedence over their need for civilian products. Thus, companies producing civilian goods develop short-term solutions (survival strategies) as opposed to long-term retention solutions (investing in their workforce). When companies go without making long-term investments for long periods of time, the total growth of the companies' human capital will slow and the skills of the employees of the companies may

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continue to deteriorate rapidly because the industries in which their companies are engaged continually experience rapid advances in technology.

Emigration factor

The evidence around skilled emigration reinforces that of ongoing structural human capital effects associated with extended mobilization. Digital trace data and an analysis of institutions (using Institutional Behavior Analysis) have shown that there are large outflows of highly educated professionals who are primarily located in technical and innovation based occupations. In contrast to low skilled labor migration, high skill worker emigration has an even greater effect on productivity because they tend to be at the center of their respective industry's professional and innovation networks. In addition, emigration has reduced both the quantity and quality of available human capital, as well as the network effects that stem from these networks. The operation of innovation business ecosystems are based on collaboration, knowledge spillovers and institutional continuity. When skilled laborers leave these business ecosystems, they tend to fragment their networks, with the resultant impact being a reduction of innovativeness for the remaining companies.

In addition, there is evidence that emigration losses are very difficult to recover from. Even when emigrants return to the country, their ability to reintegrate will be greatly affected by the disturbances to their prior career trajectories and reduced institutional trust. Thus, it will take some time for an emigration affected economy to recover fully.

Additional constraints

Human capital's response to wartime policy implementations results from institutional contexts that moderate the impact of these policies. Research has shown that fiscal relocations can be made quickly in lower transparency, less credible policy systems, however, this creates additional uncertainty for households/firms involved in business. In the case of Russia, there is little institutional oversight for priorities set by the military, so military budgets can be rapidly increased, however, the flexibility to expand military budgets could create less certainty for civilians who depend on the fiscal performance of businesses in the economy.

Political/economic risks can lead to reduced incentives to invest in developing human capital (education/skills) because individuals perceive a higher risk associated with their property rights/ability to earn long-term because of their job prospects. Individuals perceive an increase in political/economic risk, which shifts their focus away from investing in long-term human capital to seeking short-term financial incentives or relocating outside of Russia. Institutional contexts may also increase the fiscal and labour market mechanisms previously identified as having a greater impact.

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Evidence of monetary and fiscal deficits

The fiscal deficit data in Image 1 provide additional context for the trends. It's evident from the widening gap between the overall and structural balances that defense spending reflects a long-term fiscal commitment rather than a short-term adjustment. The continued presence of structural deficits will limit the State's ability to respond to educational disruptions or add to workforce development programs going forward because of fiscal inflexibility. As defense spending continues to grow into the future, civilian-type spending will be threatened by inflation and the reallocative pressures they create, resulting in increased instability within the non-military human capital formation area.

Limitations and implications

A main constraint to this study arose from insufficient capacity to access quality, wide-ranging and unbiased data regarding the wartime economy of Russia from 2022 to 2025. The majority of the information that does exist regarding the wartime economy is derived from secondary sources—these include international organisations, media articles, and policy analysis—thereby often making use of incomplete datasets or only approximate estimates, given that access to official Russian statistics has been nearly impossible. The lack of transparency of government agencies have also declined since the beginning of the conflict, especially related to military spending, labour mobilization and migration data; therefore, establishing the credibility of information that has been reported is much more difficult. Finally, there is a fundamental problem with collecting real-time information regarding human capital, such as skill sets, workforce productivity, and education attainment because of the basic challenges of accurately measuring data during a time of disruption. This shortcoming has been exacerbated by restrictive sanctions and continuing geopolitical tensions that have inhibited data-sharing and other types of research access, coupled with ongoing change to the nature of this conflict (Russia's war against Ukraine), many of the data patterns that have been identified are still emerging. As such, this study relied primarily on qualitative analysis, and comparative assessments to identify patterns, but such an approach does not fully account for the extent of change or causative factors associated with what has been observed to have taken place.

The conclusions of this analysis are significant from both a perspective of economic policy and from a long-term development standpoint, particularly for countries who have had protracted periods of military mobilization. The results of this analysis indicate that while it is possible to stabilize an economy through an emphasis on defense spending over the short term, it will produce lasting structural damage to the economy through degrading human capital formation and innovative production capabilities; thus, suppressing future production growth. The impacts of such decisions as made in Russia have implications not only for Russia, but for other countries

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experiencing similar geopolitical challenges; thus, illustrating the trade-offs between the need for security and the need for a sustainable economy. This dissertation also emphasizes the importance of continuing to invest in education; health care; and workforce development regardless of periods of war, since a reduction of funds committed to these areas creates long-term stagnation in the economy. Additionally, the effects of sanctions suggest that the effects of such economic tools to influence domestic economic outcomes can be significant. In conclusion, it is very difficult and takes considerable time for a country to rebuild human capital following periods of long-term interruptions; thus, highlighting how decisions made during wartime impact human capital investment can have repercussions that last for many years after wars have been fought.

The same study may be replicated using a similar, mixed-methods approach (Combining Qualitative Comparative Case Study Analysis and Secondary Data). This would involve the selection of a case (one example of a country experiencing sustained military mobilization and external economic pressure an example might be the country of Russia). The researcher will define key variables such as: fiscal policy allocation, labor market dynamics (changes brought about by military mobilization), investment patterns, and issues of human capital. These variables will be examined through the collection of data from reliable and consistent sources (for example, documents from international financial institutions, the International Monetary Fund, World Bank, and/or reports prepared by credible news reporting agencies, Reuters). The researcher will then analyze the data using a qualitative thematic analysis to identify patterns and/or similarities among the variables identified above. After analyzing these variables using this process, the researcher will compare the original research findings against historical and/or modern, comparable cases for further context and validation of the research findings. This method of replicating the study allows for the evaluation of a country’s short-term economic adjustments and long-term structural ramifications on human capital, and will provide the same level of methodological rigor and consistency to that used in this original study.

Conclusion

The findings of this research show that Russia's long-term military mobilization and wartime economic policies have undermined civilian human capital significantly. The combination of increased military expenditure, reduced spending on education and healthcare, disruption to the labour market, and sanctions and emigration create a set of interconnected barriers that negatively affect long-term economic productivity. Short-term economic indicators might be stable, however, the long-term structural changes; illustrate a decline in the efficiency and capacity of the workforce and will probably persist beyond the end of the war, creating long-term barriers to economic growth. Sustained militarization directs resources from developing civilians to meet immediate military needs, which prevents the economy from being able to maintain or

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develop human capital efficiently, limiting its ability to grow economically over time.

Appendix

The following will explain details about the key findings from the Results section as well as quantitative trends with emphasis on their impact upon human capital, being a civilian, giving rise to additional evidence that through an analysis of data from sources including International Monetary Fund (IMF), World Bank (WB), and Reuters indicate a shift in economic focus by the Russian government occurring between 2022 -2025. The available budgetary data points to substantial and continuing increases in military defence spending amounting to approximately 4.2% (2022) and over 6%, by 2024-25 as compared to education/health-care expenditures which have been relatively stable and below 1% of GDP in recent years. Evidence of this diverging trend is clear - fiscal resources that historically would have been allocated for long-term development purposes have now been reallocated away from those purposes and towards delivering against immediate military related objectives. Both the magnitude and duration of this structural change in overall government expenditure will point towards a fundamental transformation in government priorities with respect to expenditure pattern going forward.

Additional labor market data supports the above conclusions, specifically, the available evidence and data indicate a substantial amount of previously employed civilian workers are now employed in defense-related sectors, as a direct response to increased demand from governments for military production, increased wage incentives from government employers for those in military production, and because there are many reports of shortages of labor in key civilian industries particularly technology- and engineering-related indicating an increasing mismatch between the skills of workers and the needs of the economy for civilian workers, and while there is significant numbers of highly skilled workers leaving the country after the announcement of mobilization, as part of continuing outward migration trends, these trends all work to reduce the overall stock of human capital available for the civilian sector and ultimately affect the overall workforce capacity as a whole.

Based on the compiled investment data, we observe that private sector investment (both foreign and domestic) has contracted. With international sanctions having restricted access to capital, technology and global markets (and thus increased production costs and decreased efficiency), businesses have found it necessary to pursue short-term survival strategies (either reducing spending on training, research and development) instead of long-term investment. This results in ongoing declines in the availability of long-term investments, which will ultimately erode human capital, as fewer workers will have opportunities for skill development and innovation. The data presented in this appendix ultimately corroborates the major conclusion from our research. Specifically, when military mobilization continues for a prolonged period of time and is coupled

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with a reallocation of fiscal resources and external economic constraints, there will be cumulative and compounding negative impact on civilian human capital. This negative impact is a result of a broader structural change occurring in the economy, where immediate military capabilities are prioritized over future productive capacity.

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