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THE MAIN REASONS OF THE GLOBAL FINANCIAL CRISIS

Financial globalization started to dominate in the system of the international economic relations from the last quarter of the XX – beginning of the XXI century. Starting from 1970s, global financial markets developed at an unprecedented pace. It was caused by general liberalization of economic processes, especially capital flow and currency exchange regulation. As a result, the world economy received additional incentives for development and, as in the previous post-war years, continued to grow. However, against a background of general growth of a real sector of economy, its financial constituent started to acquire hypertrophied forms. The so-called financial bubble was formed that burst from excessive inflation in 2007 – 2008. The world financial crisis broke out, that affected, though to different extent, practically all the world countries.

Overall evaluation of such complicated global economic phenomena and processes as the current world financial crisis will be possible, apparently, only some time later. The information about the full cycle will allow to analyse all its constituent parts, reveal deep-rooted reasons, social and economic consequences and improve preventive anti-cyclic mechanisms and instruments of “quick reaction”¹.

At the same time economic and financial statistics indicates that during the last 30 years the economies of 17 leading world states felt negative influences of 113 financial crises: 37 – in 1980s, 42 – in 1990s, and 34 financial crises, including the current one, at the beginning of 2000s. Stock market crises accounted for 45% of their total number, crises in the bank systems made up 38%, currency crises – 17%².

Broadly speaking, it is possible to single out three groups of factors that in total affected the character, defined the scope, path and devastating power of the first world financial crisis of the XXI century³. The first group of factors is conditional on deep and universal civilization, geo-economic changes, global transformation processes. The second group of factors is connected with macroeconomic and microeconomic disproportions and turbulences, institutional traps that

¹ However, it's worth mentioning that the main reasons and factors of the world economic crisis and the Great Depression of 1929-1933 still remain the subject of serious discussions among the experts (Friedman M., Schwartz A. A Monetary History of the United States, 1867-1960. Transl. from English, Kyiv, 2007, pp. 306-307); James H. The Creation and Destruction of Value. The Globalization Cycle. – Cambridge, Massachusetts and London, 2009.

² Vasiliev V.S., Rogovskiy E.A. World Financial Crisis. Phase 2 (Recession). USA-Canada. Economy, politics, culture, 2009, #3, p.24 (russ.). Swiss economist W. Wittmann in his book makes a short review of the trade crisis of 1847-48, the first world financial crisis of 1857-59, depression of 1873, the Great Depression of 1930s (Wittmann W. Finanzkrisen. Woher sie kommen, wohin sie fuehren, wie sie zu vermeiden sind. – Zuerich, 2009, s.18-25).

³ Many experts agree that theoretical grounds and explanation of the current financial crisis are most fully covered in the works of H.Minsky (Minsky H.P. The financial instability hypothesis: capitalist processes and the behavior of the economy. In: Financial Crises. Theory, History, and Policy. – Cambridge University Press, London, 2008).

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showed themselves first of all among the key actors of the world economy. The third component of the world financial crisis correlates directly with starting mechanism, with the main source (core) that caused its wavy procession that is difficult to predict from the economic point of view.

In its turn, the first group of geo-economic factors include the following five main constituents:

- exhaustion of the traditional industrial model of economic development in the context of supply of resources, environment degradation, growing inequality of economic and social development of the countries of the world;
- presence lag of restructuring of the world economy, its regional and national subdivisions in accordance with demands of modern scientific and technological revolution;
- deepening of structural disproportions and global imbalances between the main world economic subjects, synchronization of economic cycles under the influence of globalization;
- inability of international financial system in its present shape, its regulatory and supervisory functions to react adequately on globalization challenges;
- lack of proper theoretical, methodological and applied concepts and models of optimal functioning and anti-cyclic regulation of the global economic systems.

Surplus liquidity in the economy of the USA became the key macroeconomic factor, conditioned by, firstly, general decline of confidence in the countries with new markets after the crisis of 1997-1998; secondly, investments into American securities made by the countries which accumulated currency reserves (China) and oil funds (the Persian Gulf countries); thirdly, the policy of low interest rates pursued by the Federal Reserve System, especially in the period of 2001-2003, trying to escape cyclic decline.

The main driving forces of the financial crisis of microeconomic level are new financial instruments – credit and default swaps. Their use resulted in camouflage of risks connected with low quality of substandard mortgages, on the one hand, and their non-transparent distribution among the wide circle of investors on the other hand. Institutional measures of the world financial crisis manifested themselves in insufficient level of risk assessment both by regulators and rating agencies, as well as in asymmetry of information⁴.

Reasoning about the world financial crisis in the narrow sense as a rule comes to the analysis of its starting mechanism, and therefore, to revelation of its primary source. Moreover, there is a consensus in the assessments that initially the present crisis was caused by the problems on the US housing market.

Among the key reasons of crisis processes in the economy of Ukraine one may mention the following: high degree of integration of financial sector into the world structures as compared with the year 1998; outdated structure of the economy, its hypertrophied orientation on foreign markets (fuel-energy complex, chemical industry and so on); vulnerable, non-integrated, unbalanced fragmented domestic market; unfinished reforming of the economy (institutional sphere, agrarian sector, municipal economy, public health, pension reform etc.); inadequate economic policy of the government and the National bank of the challenges of the world and domestic situation.

Let's pay closer attention to the system of factors of the first group, one of the main components of which indicates historical limitation of the industrial model of development that needs to be transformed into postindustrial, informational, noosphere and space model of human development. Industrial type of production led to unprecedented pace of economic growth on the basis of large-scale attraction of natural and human resources. Thus, in the period from 1715 till

⁴ Kudrin A. World financial crisis and its influence on Russia. – *Voprosy ekonomiki*, 2009, #1, pp.9-10 (russ.).

1971 the volume of the world industrial production increased 1730 times, and more than a half of this increase fell on the period after 1948. Such “aggressive” development leads to destruction of the environment, exhaustion of biosphere, sharp decline of ecological parameters of vital activity. Further raising and widening of the industrial type of production based on imperfect financial mechanisms and instruments would have disastrous consequences. At the same time modernized economic instruments including their financial constituent that have passed a singularity point in the post-crisis period have to be directed at total restructuring of both the world economy in general and its regional and national subdivisions, introduction of a new model of development – the economy of knowledge, high technologies, creative economy. The latter refers to the second geo-economic constituent indicating the fact that delay in solution of structural problems, conservation in the world economy of archaic pre-industrial and early-industrial economies creates preconditions for repetition of similar crises in more acute forms. Data from Table 1 indicate the prospects of structural changes of the world economy.

Table 1. Shares of sector in 2001 and 2030 (in gross economic output (%))

	OECD		BRIC*		ROW	
	2001	2030	2001	2030	2001	2030
Agriculture	2	1	9	6	8	6
Forestry and fishing	0	0	1	1	1	2
Energy and mining	3	2	6	4	9	7
Non-durable man.	10		12	8	14	10
Durable manufacturing	23	17	32	29	24	21
Trade and transport	18	18	15	16	16	16
Services	44	54	25	37	28	38

Source: OECD Environmental Outlook to 2030. Paris, 2008, p.85.

Aggregated data given in the table show that presently there are considerable differences in structures of the economies of developed and developing countries. The key criterion is a ratio in production of goods and services. In perspective till 2030 there is a tendency to narrow the existing gap, though striking structural contrasts between separate countries will remain.

The third geo-economic constituent of the world financial crisis is connected with global disproportions and imbalances, with synchronization of economic cycles under the influence of globalization⁵. On the one hand, discrepancy between the global demand and global supply deepens and results in formation of disequilibrium of the world economy. On the other hand, the relations between the key players of the world economy in the trade and investment spheres is worsening. In this connection interrelations between the USA and China become of great importance. One pole (the USA) has enormous balance of payment deficit; the other (China) has almost adequate surplus. Besides, globalization involves the main world economic actors into the maelstrom of the world business cycle. For the postcrisis period was accepted a plan of reducing global imbalance that stipulated its reduction from 6% of the world GDP to 1-1,75%

*BRIC – Brazil, Russia, India, China

⁵ M. Zombanakis, organizer of Athens seminar, in his speech before the Russian Parliament members, graduate students and students of Moscow State University mentioned that the main problem of the world financial crisis “became enormous imbalances in the world economy that allowed rich countries, and first of all, the USA to live at the expense of savings of poor countries” (Zombanakis M.A. Reasons and consequences of the world financial crisis. Transl. from English. – Moscow, 2009, pp.18-19 (russ.)).

within the four years. In particular, economic means and instruments were defined for the five main subjects to exert decisive influence on the formation of global imbalances. In China it was planned to reduce external imbalances, increase domestic consumption, especially personal, change the ratio of accumulation to consumption, speed up financial reform, improve exchange rate regime.

Further reforms of the commodity, financial and labour markets are to be carried out in the Eurozone. There at least two main tasks for it. Firstly, Greek economic and financial situation and its consequences needs of Support of the common currency. Secondly, the cutting of budget deficit from recently 7% of GDP to measures of Maastricht criteria. Japan will effect labour market reform, create conditions to attract direct foreign investments, develop competitiveness in the key sectors of economy, ensure progress in financial consolidation. Saudi Arabia as a member of G-20 should increase investments into the social sphere and infrastructure development, as well as increase capacities of oil-producing industry. Finally, the USA as the country with the greatest external and internal imbalances according to IMF recommendations should carry out further fiscal consolidation in the medium-term perspective, reform budget process aimed at rise of expenses, reform the system of benefits payment in order to strengthen long-term fiscal stability, improve tax legislation, stimulating personal savings, increase energy efficiency, provide incentives for economic growth, open investment policy, improve competition on the capital market⁶.

The main reason of global imbalance is that global supply exceeds global demand. This problem has become acute recently as a result of over-crediting production. Thus, it is necessary to look for the ways and mechanisms of increasing aggregate demand. Experts suggest radical and rather contradictory from economical point of view variant, namely increase of salaries in developing countries where the majority of the world population live⁷. Contradiction of this concept lies in the fact that the level of salary is determined not by international agreements, as being proposed, but by its intensity, productivity and other important determinants. Nevertheless, it may be considered among other ideas in the general context of formation of a postcrisis economic architecture of the world. Solution of the problem of external imbalances lies in their leveling by reevaluation of national currencies (devaluation or revaluation). Besides, other macroeconomic regulators should be used on the basis of fiscal consolidation, increase of the rate of savings and investments. For the countries with external surplus the pressing task is to increase internal demand (absorption) on the basis of active monetary and fiscal policy, while the countries with external deficit have to curb internal demand and encourage export. For instance, according to the standard econometric model, in the USA in order to reduce ratio of checking account to GDP by 1% in the long-term period it is necessary to devalue dollar by 10-20%⁸. Within the system of measures directed at stirring up of internal demand it is proposed, on the one hand, to change correlation between state and private expenditures in favour of the latter, taking into account the fact that during aggravation of the crisis in many countries previously adhering to neo-liberal market positions the state took upon itself expenses aimed at improvement of banking and financial system, neutralization of consequences of crisis processes. On the other hand, it is a matter of stimulating aggregate demand (consumer and investment) by using instruments of credit and monetary policy, in particular, by changing discount rate of the Central bank⁹.

⁶ IMFC welcomes plans to curb global imbalances. – IMF SURVEY, April 23, 2007, p. 103.

⁷ Duncan R. The Dollar Crisis: Causes, Consequences, Cures. Transl. from English. Moscow, 2008, pp. 261-263.

⁸ World Economic Outlook. April, 2007. Spillovers and Cycles in the Global Economy. IMF, Wash., 2007, p.105.

⁹ In September 2009 discount rate of the Federal Reserve System of the USA was 0%, and forecasted annual inflation rate was 2% (Finance and Development, September, 2009, p.11).

One of the important trait of the postcrisis World Economy is a deepening synchronization of economic cycles, which according to calculations exerts various influence on the course of economic events in different countries. Four determinants are being singled out that facilitate synchronization of economic cycles: global, regional, national and specific. Global factors largely synchronize economic cycles of the developed industrial countries, encompassing more than 15% of their GDP, and in the biggest countries – up to 20%. Countries with new markets and developing countries feel the global influence to a smaller extent – less than 10% of GDP fluctuation. Regional factors reveal themselves more powerfully in North America, Europe and Asia, causing up to 20% of fluctuations in the production volume. National and specific factors dominate in the Middle East, Northern Africa, Sub-Saharan Africa and determine alterations of more than 80% of the gross output¹⁰.

The world financial crisis has revealed a weaknesses of functioning of the Bretton Woods system, its monetary management and its leading subdivision – the International Monetary Fund. This system in its present shape has three main drawbacks. Firstly, it allows to a number of countries to maintain surplus of checking or financial accounts and capital movement for a long time (Japan, China etc.), that results in hypertrophied accumulation of international reserves. Thus, international reserves of Japan (general reserve minus gold) grew by 1146% from 1968 till 1978, while money supply – by 356%. At the present time large gold and currency reserves are concentrated in China (2033,00 billion US dollars, 1557 US dollars per capita), in Russia (435,40 and 3055 respectively), in India (274,20 and 235), in Brazil (197,40 and 1029)¹¹. Secondly, this system makes economic growth of many leading countries dependent on the USA – the largest importer and debtor in the world. Thirdly, over-crediting, investment boom of the recent years at the expense of recirculation of US dollars through state securities resulted in violation of global proportion between production and consumption, that may cause irreversible deflation processes with serious social and economic consequences. Therefore in framework of the postcrisis World Economy it has to change a present international finance architecture. The global nature of the financial industry and the current crisis underlines the necessity both national regulatory structures and coordinating mechanisms at the global level. The simplest way to get this would be to have a single global financial authority. But this is not realistic option for the nearest future. So, in practice, coordination of regulation will have to be achieved through international organizations, like IMF, the Bank for International Settlements, the Financial Stability Board. Besides a different sides of financial regulation are supporting the various sectoral standard setters (the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, the International Association of Insurance Supervisors, and the International Accounting Standards Board)¹². The second element of the postcrisis financial architecture is a global liquidity.

¹⁰ World Economic Outlook. April, 2007. Spillovers and Cycles in the Global Economy. IMF, Wash., 2007, p.139-140.

¹¹ Folgen der Finanzkrise fuer die globalen Wirtschaftsbeziehungen. - Wirtschaftsdienst 2009, Nr.3. S.170.

¹² Finance and Development, September, 2009, p.19.