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GENEALOGY OF THE GLOBAL FINANCIAL-ECONOMIC CRISIS: THEORETICAL POSTULATES, PRACTICAL REMEDIES AND WAYS OF RECOVERY

Resume

Examining dominant imbalances in the development of the world economy as a factor underlying the global financial crisis; exploring recommendations and macroeconomic remedies and ways of recovery.

Methods. *The work builds on comparative-analytical methods of scientific research.*

Key words. Global financial-economic crisis, global economy imbalances, Keynesianism, monetarism.

Results. *The global financial-economic crisis, rooted in the mortgage market collapse in the United States back in 2007, soon spread to other countries and eventually reached Ukraine. The general reasons of the crisis lie in the cyclical movement of the national and global economies. In view of the fact that the development cycle in recent decades has constituted 8-10 years, the present rampant financial crisis serves as a certain precursor of the active phase of the global economy and actually embodies the crisis in the real production sector. That is to say, crisis grew out of the financial and banking sphere and penetrated the entire economy.*

The fact that the crisis took its start from the finance sector of the world economy sustains a totally logical explanation, which has to do with multiple causes, the major ones being the pricing sphere, precisely the pricing of hydrocarbons that, in the last few decades, have played an exceptional role in the deformation of the economic development cycle as well as in the general circulation of global financial flows and the development of national economies, which calls for special attention on out part.

Due to dynamic economic growth in the main centers of the developed segment of the global economy (South America – Western Europe – Japan) as well as in China, India and some other regions, the demand for oil has been on the constant rise. This has become a perpetual factor for the speculative growth of liquid fuel prices. Different motives were employed to justify the increase of oil prices (constant instability in the Middle East, through which international oil supply channels run to different regions; cyclones in the U.S. South and in the Gulf of Mexico etc.)

Therefore, the prime cost of a barrel of oil “lost touch” with oil pricing. And the profits of oil companies added up to 250-450% [1], as estimated by experts. At the same time, complete detachment of free pricing and the competitive basis occurred in this economic domain. “Easy money” flowed from the sector into other profitable spheres of economy, including individual housing development, thus forming increased demand at the cost of low credit interest rates

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within the growth phase of the cycle dynamics, and, vice versa, bringing a negative impact in the stagnation stage.

Outstanding foreign and domestic scholars presently agree that the fundamental cause of the global financial crisis embraces the following dominant imbalances in the world economic development that had accumulated over the past decades:

excessive consumption levels of developed countries which occurred, in the first place, at the expense of the increase of production not only in the developed states, but also due to a speedy growth in the developing countries;

the global-scale inconsistency of asset value with the volumes of financial operations which were conducted in capital markets and created the so-called "financial bubbles";

prevailing growth of capitalization of companies and profitableness of investments into the financial sector (that is, in the so-called "virtual economy") in isolation from the profitableness of investments into real economy sectors.

As regards the domestic economy, it should be noted here frankly and objectively that it appeared to be unprepared for functioning in open-economy conditions, incapable of taking preventive measures and of providing an adequate response to global crisis challenges.

Economy remained unprepared and, thus, such a downfall occurred due to the fact that the following failed to be achieved in the years of economic transformations in Ukraine:

no transition to an innovative model of national economic development has been secured;

no effective mechanisms of private property protection have been enabled;

no strategy of the social-economic and scientific-technical development of the state in the conditions of world economy globalization has been developed;

the social sector of economy and the housing sphere have not been reformed and, in fact, continue to operate on non-market principles.

Judging from the materials of the World Economic Forum (held in January 2009, in Davos), as well as from the conclusions of the G20 Summit (which took place in London in early May), no single template recipe has been established with regard to the recovery from the global economic crisis.

On the basis of decisions and recommendations offered in the course of the G20 Summit, each state is making efforts to develop its own way out of the claws of crisis. Great Britain, in particular, embarked on a course of actions being totally opposite to the policy of thatcherism which based itself upon the principles of free entrepreneurship embedded in monetarism and the "supply-side economics". The United States of America went along the line of direct pouring of money into the economy, having invested over 1 billion US dollars in it already.

Measures are taken, within the scope of possibilities on hand, to hamper the crisis' influence, ranging from protectionist to subsidiary ones, by each state depending on its abilities and the level of authority with influential world finance and banking institutions.

The domestic banking regulatory bodies have yielded the hand of help not so much to the sectors of real economy as to banking institutions by way of refinancing and recapitalization of the latter and resorting to various loans from different sources.

The crediting scheme presently in use by the banks to receive refinancing with the National Bank of Ukraine against the so-called Internal State Loan Obligations redeemed from the Ministry of Finances, is budget financing in disguise. And this is the fact which the IMF has always opposed perseveringly and abruptly. And all of a sudden, the IMF has taken some unprecedented moves in its cooperation with Ukraine. In fact, it has opened the second loan installment of $2.8 billion for Ukraine not backing it up with guarantees necessary for such cases, that is without proper actions on the Government's part. We do not accept the thought that IMF is unaware of the concealed budget financing scheme (the mechanism of NBU redeeming internal state loan obligations) employed in Ukraine; however, the money has been loaned.

How are we to evaluate the fact? Is it good? And for whom is it good? Or is it not quite positive? Or perhaps it is even totally unfavorable in view not only of the current situation, but also of the future medium-term perspective? It is rather difficult to provide a definite and flat answer to these questions. Everything depends on how the borrowed funds are used. Will they be made the tool of reanimating, restructuring and renovation of leading sectors and branches of domestic economy; or will they just be applied as haste budget hole-patching, i.e. for current consumer expenses, replenishment of the salary and the pension funds, and for the restoration of about 15 commercial banks that went bankrupt and are now under the management of temporary state administrations?

Along with that, one ought to remember that any debts (and they are rather significant – over $120 billion) will have to be paid back together with loan interest amounts. And the imminent credit repayment is destined not for those who are presently in power and borrow them, but for their successors. How, then, should we react to the issue?

Therefore, everything is contingent upon where the authorities direct and how they will use the funds allocated by the IMF for Ukraine. As regards the unprecedented action on the part of the IMF, we believe that the dominant idea in this respect is not a move of charity in favor of Ukraine's requests concerning the allocation of a loan; rather, it is the situation in which the IMF itself is being placed. For withholding a credit from Ukraine obscures consequences still bitterer than providing one for the country. Since in such case, the IMF will face the incrimination and liability in respect of unpredicted results that can occur not only within Ukraine itself. And that is where the authority and international reputation of the International Monetary Fund itself may be at stake.

It is a known fact that the significant part of the allocated tranche amount is directed at the restructuring of banks. Obviously, financial crisis brought about a complicated situation in the banking system at large, and, all in all, such measure is a forced one, since due to panic and total distrust, over UAH 70 billion [2] was withdrawn from banks back in the first quarter of 2009. At present, the state of things is aggravated by debtor defaults and a serious increase in currency loan costs, the servicing of which, due to an abrupt increase of the U.S. dollar exchange rate, is all too difficult for many banks.

Also in this context, one should clearly understand that recapitalization can have a positive impact upon the financial market only on condition that such procedure is furnished with proper transparency and strict control of the funds use. If the case is such, the state pouring of funds could somewhat calm bank clients down, at least in the short-term perspective.

Along with that, a reasonable question arises at the moment concerning what the National Bank of Ukraine and the Cabinet of Ministers of Ukraine intend to undertake with respect to the recapitalized banks; how are they actually going to "cure" the banks if the "remedy" provided in the form of money allocated to them proves ineffective? There is no answer to the posed question so far, and no one dares to come up with one. Meanwhile, there exists a necessity to clearly realize that even the effect on economy which recapitalization may cause seems rather doubtful on the whole. For, despite the fact that the state will gain into its property at least 7-8, or perhaps 11 or more banks from among the biggest ones, this will not likely let the state direct money flows towards the crediting of the top-priority branches of economy. Since the funds directed into the banks' capital will apparently be used for the return of depositors' money. Thus, as a result of recapitalization, the state will receive more liabilities than opportunities, which will increase its debt burden, and the debt burden, as has been stated above, totals to over $120 billion [3].

This year already, 25%, i.e. $30 billion – the amount that practically constitutes the servicing of the external debt – will be due to repayment. One should also keep it in mind that if these $30 billion equaled to UAH 150-180 billion only six months ago, now they are worth UAH 250-260 billion.

The store of ways of recovery from past crisis situations that occurred in Ukraine, developed by economic practice and theory, unfortunately, cannot be stencil-applied to the present worldwide financial-economic crisis.

Even though, in particular, Keynes macroeconomic ideas have had a great influence on the formation of regulatory levers of economic development, as it turned out to be in practice, Keynesian recipes of cumulative demand stimulation not always yield the desired result. And endeavors to overcome economic downfall by way of cumulative demand increase not always result in the production volumes increase, but only aggravate inflation and can cause the so-called stagflation – the combination of production shrinkage and inflation, which fact has again been undoubtedly confirmed when the present crisis emerged in global economy and particularly in the Ukrainian one.

The above has definitely shaken the position of Keynesian theory and prodded the development of other domains of the neoclassic theory – monetarism, the rational expectations theory, the supply-side economics, all of which substantiate the advantages of the market mechanism over the state regulation of economy.

In view of the peculiarities of the present-day financial-economic crisis, being global by nature, the fundamental principles and approaches of the Keynesianism theory (based on the necessity of state regulation of economic processes and professing fiscalism) and the M. Friedman theory in the classical form of monetarism (based on the quantitative money theory) with the supply-side economics theory replenishing it, as well as the rational expectations theory (new classical macroeconomics), which inherited separate tenets of monetarism, all present to be incapable (according to the generally acknowledged EVALUATION of international and national authoritative experts) to play the role of a preventive and restoring prescription for the depressive and damaging effects of the crisis, also to be used to secure the return of economy onto the track of effective development dynamics.

The so-called "tax wedge" theory, proposed by one of the "supply-side economics" proponents, A. Laffer, which introduces a tax wedge which the state "thrusts" in between economy subjects and the production process, has enjoyed some real and tangible confirmations in practice. Its essence lies in that the reduction of tax rates does not cause the decrease of the total budget income and only brings about the increase in production and revenues, thus considerably expanding the general taxation base and, due to this, budget income shall not incur a decrease [4].

However, in the context of this approach, complete balancing of the state budget still calls for the reduction of the number and costs of "non-effective" social programs that account for a significant share in the body of state expenses. Yet the fulfillment of such steps is rather problematic in the present-day times of predicament, in any state, and all the more in a state like Ukraine (where the social-economic and political situation is critically intense, especially in the time of the presidential election campaign). However, the fuss around this idea is picking pace enormously with the bodies of power.

Meanwhile, as is known, it is undeniably stipulated, by virtue of well-grounded regularities determined by the so-called Laffer curve, that budget deductions cannot exceed 30-35% of income, this being a certain fiscal optimum, since cases of excess of the optimal taxation level give birth to negative economic processes that manifest themselves in the form of:

laxing of business activities;

lowering of interest in savings and investments, bankruptcy of subjects of economic activity; tax evasion;

functioning of a significant number of subjects of business activities in the "shadow" sector of economy.

In Ukraine, which, throughout the entire period of its sovereignty, has failed to adopt a Tax Code, cumulative taxes exceed the face value determined by the Laffer curve by two times or more, the result of which is the respective bevy of above-stated destructive symptoms in domestic economic activities.

In the current recession-crisis condition, whereas the prudent managers of the West avoid any pressure and resort to the loosening of fiscal levers, the Ukrainian chiefs of executive, and legislative, bodies, from the Cabinet of Ministers of Ukraine to local authorities, strive to intensify fiscal pressing either by way of inventing and introducing new taxes and tariffs or by increasing the existing ones.

Without disclaiming the attractiveness of idea-based and theoretical as well as methodological principles of institutionalism, which lie at the core of the driving force of economic development, along with material factors, one ought to take into account spiritual, moral, legal and other factors in the historical aspect (i.e. they considerably expand the subject of analysis, incorporating in it both economic and non-economic issues of the social-economic development); however, in crisis conditions they also become impossible for use due to the complicated financial and political-legal instability in the world in general and in the country in particular.

In general, one ought to state that macroeconomic theory has not become whole yet; many questions are still the subject of acute disputes.

There exist various financial-economic theories which form the methodological basis of this science. The major ones include [4] the deficit financing concept; the built-in budget stabilizer theory; the compensation theory of finances; the "mutual product", "public good" and "public choice" theory; R. Goldsmith [5] financial development and economic growth interconnection theory; E. Fama's effective market theory [6].

However, the modern leading, and thus, determinant, tendency of the development of the world financial and economic thought is that of mutual permeation and improvement – a peculiar convergence of Keynesianism and monetarism theories. Today, scholars and financial experts consider dominant the position that the financial-economic regulation policy should contain, in one way or another, the use of elements and the set of instruments of Keynesianism, especially in the context of the emergence and spread of the global financial crisis. Since Keynes's theory appeared as a countermeasure for the Great Depression phenomena in the previous century, the use of a set of measures it offers, both in the past and in the present, when Keynesian instruments are properly handled, facilitates the recovery from crisis and the renewal of effective functioning of economy.

Our standpoint in this domain is that both scientists and practitioners should grow aware of the fact that the current global financial and economic crisis is the offspring and natural result of the historic evolution of our civilization (including its development cycles throughout the last century); therefore, no quick and free of dramatic shifts (both in the outlook concerning the relationships between the countries and the structure of economy on the whole) way of recovery from the conscious-recessive state is envisaged at present (despite the opposite prophecies by heralds of all kinds).

The after-crisis world economy is to undergo structural changes. And, actually this is the quintessence of the place and role that Ukraine can and should take up in the international division of labor. Yet, what role and place is one entitled to talk about in this respect, taking into account the present third – fourth at most – level of technological state of domestic production base, characteristic of that existing in the century before the previous one, as well as in view of the lagging-behind level of requirements towards professionalism within the system of education at the backdrop of the present nanoeconomics epoch; this is added by the disregard and defiance of education, chaos and destructive state of practically all infrastructures of human activity.

Thus, up to this day, the major role in the country's economy has been played by the export sphere, inherited from the past, that was prevailingly determined by the produce of energy-consuming metallurgic, chemical industries, the agro-industrial complex, and, however bitter it may sound, the labor migration. Isn't it high time that the oligarch masters controlling the industrial fields of economy and respective bodies of state power regain their senses and finally realize that such completely selfish pragmatism, which is detrimental for the country and for 80-90% of the nation, is destined to lead nowhere else but to complete economic decline and a marginal, out-of-context Ukraine? That is, if Ukraine still manages to preserve the status of one and indivisible nation.

Conclusions. The present global financial-economic crisis is in fact a vivid result of the synergetic manifestation of deficit of the stated effective humanism phenomena, and the crisis of trust, above all.

It is necessary to particularly emphasize here that recovery from financial-economic crisis, especially in Ukraine, must be undertaken in the conditions of political stability and, most importantly, consolidation of the Ukrainian society, renewal and securing of its faith and trust both towards individuals and towards social and state institutions.

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