

IN THE ISSUE FOR OVERCOMING THE FINANCIAL CRISIS

У статті проаналізовано основні причини невдалих спроб боротьби зі світовою кризою, розглянуто можливі варіанти розвитку критичних ситуацій у світовій економіці і шляхи їх розв'язання. Особливу увагу приділено взаємозв'язкам фінансових кіл з матеріальними сферами, можливим змінам окремих елементів сукупного попиту і напрямкам розвитку світової економіки.

В статье проанализированы основные причины неудачных попыток борьбы с мировым кризисом, рассмотрены возможные варианты развития критических ситуаций в мировой экономике и пути их разрешения. Особое внимание автор уделяет взаимосвязям финансовых кругов с вещественными сферами, возможным изменениям отдельных элементов совокупного спроса и направлениям развития мировой экономики.

The paper concentrates on relations between financial circles and the real sphere, possible changes of individual elements of the aggregate demand and directions of the development of the world economy.

financial crisis, World Economy, changes, diversified information, to intersperse, unreliable motions, research works, diversified conclusions, critical occurrences, relations

1. Introduction

It is extremely hard to outline and to forecast bright image of happening changes in the world economy. Tasks aren't facilitating, but straight out they are complicated by thousands of the detailed, extremely diversified information coming from individual countries. The positive information is interspersed with negative and are usually leading to unreliable motions. Critical phenomena constitute impulse to heighten research works. Studies cause diversified conclusions, because they are leaning by different theoretical bases and for different statistical data.

An attempt to outline the probable course of critical occurrences, but especially possibilities of overcoming them is an aim of deliberations. The paper concentrates on relations between financial circles and the real sphere, possible changes of individual elements of the aggregate demand and directions of the development of the world economy.

2. Financial sector vs the real sphere

There is useless to limit the contemporary economic system oneself to exclusively economic relations between producers of goods and their buyers. Attempts to limit economic reports only to market would be action from the category science fiction. Soon it would make all public service being taken over by the private sector, and governments would be deprived of the possibility of the influence on the course of socio-economic processes, in it also sovereignties [1, 6].

The financial sector should play the ancillary role in relation to the real sphere of the economy. The dominance of the financial system constitutes the serious symptom of the alienation, what in the longer prospect often negatively affects the real sphere. If the height of share indices is a consequence of financial transactions, it cannot bring beneficial effects for the real sphere. It can cause perturbations of prices of assets, for

example leading for redefining house prices, interest rates, credits cost. Prices in the restricted grade are performing the allocative and information function then, so they are not a sufficient basis for the economic decision making.

Spontaneous development of the financial sector causes, that it is taking over the majority of the economic surplus which is being created in the real sphere. In such conditions not only a system of an economic leg-up, but also developmental models and individual careers are undergoing the sudden deformation. It is assuming the form of the specific paradox. On one hand the capital market expects profits of going concerns in the real sphere to follow the height of share indices, and so to grow dynamically. On the other hand these expectations are usually difficult to fulfill in the real sphere, since in it is a sharpening what is not supporting a rise in profits. It is leading to more frequent mistakes in the funding scheme of exaggerated leverages relying on applying. Aspiring for coping with expectations in enterprises consisting adjustment efforts are being taken, among others, limiting the wages and fringe benefits, for applying so-called creative accounting, for applying the speculative operation. This is not an action supporting the systematic, long-term growth of productivity in the economy.

The globalization of financial markets is enhancing possibilities of the appearance of speculative attacks on national currencies as well as it is creating conditions for violent capital outflows. These are premises to the appearance of the neoprotectionism, and it can even jeopardize functioning of the current model of socioeconomic relationships. Large financial institutions are able to exploit the inefficiency of financial markets applying for their implementations of purposes unwritten rule «too great market in order to fall down». Big wage differential which is found in a financial sector is not supporting the systematic growth in the economy. The possibility of getting high emoluments is entailing the depreciation of the human capital through drainage of these people, of which the job in the real sphere would be more profitable from a public point of view. The high remuneration in the sphere of finances constitutes also a point of reference for politicians creating incentives to increase their income and the wealth.

Speculation on the market of the real estate, crisis of the banking system, slump in the market capital contributed to the general decline in prices of assets. The strong property effect caused, that profits both from savings and from investments had reduced, sometimes even by several dozen per cent. In many countries it led the consumption, savings and investment to lowering and with the passage of time also to the fall in the volume of business of the foreign trade.

Anticrisis intervention consisted of action about the fiscal and monetary nature. Keeping the financial liquidity of some institutions functioning in the sphere of finances, particularly an investment banks and deposit-credit was an aim. As a result of this intervention they took over endangered financial assets, they took over or shares were purchased at endangered financial institutions. Expenses on subsidies and government warranties grew for banks and other financial institutions as well. Recalled action was taken in spite of the decline of the trade boom and the decrease in budget revenues. A considerable increase of a country's budget deficit and the national debt was a result of this manner.

Taken action as part of the fiscal policy was supported by the expansive monetary policy. The central banks offered cheap and readily available credit relatively for commercial banks; it caused an additional money supply. Bank bases rate offered by the central bank and a level of the required statutory reserves were lowered. Expansive fiscal policy and monetary policy were not understood like keynesian, that is as the mechanism creating the demand using the multiplier, even though such an approach would enhance possibilities for overcoming the crisis. However indirect influences on the real sphere were applied. An action both of governments and the central banks was made not only in order to support the demand of the private sector but also to reduce the bankruptcy of financial intermediaries.

Intervention of governments and the central banks contributed to sustaining the financial liquidity of many commercial banks and other financial institutions. As a result of applying such instruments as the repurchase «toxic» assets, reduction in interest rates of the central banks, providing credit for commercial banks, many financial institutions survived safety guarantees of bank deposits, in spite of the initial threat of the fall. Government spending to the collective consumption, infrastructure investments, sustained the aggregate demand in spite of an initial meaning fall in demand of the private sector.

3. Elements of aggregate demand

The crisis in the diversified way affected for lowering the economic growth rate in the diameter of states. The positive rate of growth was kept in such countries as China and India, mainly as a result of the internal consumer and investment demand. In Poland the export and the internal consumer demand reduced the inheritance of the production and as a result a positive economic growth rate was reached. However in countries, in which households were characterized by a strong debt, fall in demand consumer strengthened economic recession e.g. in the USA, Great Britain and Ireland. A sudden fall in demand did not pass Baltic Republics.

It is possible to depict directions of changes in the real sphere behind the mediation of developing of components of the aggregate demand (AD). Generally the expenses on the private consumption (C) and investments (I) were reduced. In countries strongly touched with the crisis government spending (G) did not lower proportionally to fall in a private demand (C+I), but even considerably grew. In many countries of the European Union, as well as in the USA, and so, a state's budget deficit and a national debt increased.

a) consumer demand

Will it be recorded sudden increase of the consumer demand in the immediate future? It is not possible to answer this question precisely and affirmatively. On one hand inventory in industrial enterprises and recovery on capital markets are factors which can cause an essential increase in consumer demand. On the other there are premises showing that the plausibility of the appearance of the consumer boom and inflation associated with it is little. This would happen for three fundamental reasons.

Running up a debt of households will grow more slowly than before the crisis. Households must make settling accounts of previously contracted credit. Commercial banks more precisely will probably be examining the credit rating of potential debtors. It is possible to expect high charging contracted credit interest. It would be a result of taking by banks prudent steps as well as lowering the degree of the leverage of their assets.

Even an another rise in prices of material and financial assets, that is the run on fairs, won't trigger the strong property effect with reference to the consumer demand. This effect will likely be asymmetrical. The effect of the decline in prices will turn out to be stronger than the effect of the increase [4].

In years preceding the crisis a slight remuneration increase was recorded in the USA and developed countries. Even though the average wage increased, payroll spans also increased. Peculiarly quickly earnings rose in the financial sector (of members of management boards of banks, of insurance institutions, of investment funds etc.). There are however no rational reasons to expect the fast remuneration increase in the immediate future. Relatively a high unemployment rate is leading to such conclusion.

To sum up it is possible to put forward a motion, that new income of households from capital investments will not cause a sudden increase in consumer demand. The income will be allocated mainly for the reconstruction of reduced savings, and only in the second order to expenses about consumer character. And so the reconstruction of the consumer demand will be a continuous process. As a result of the resignation

from government expenditures for sustaining the consumerism (e.g. from subsidies to the purchase of cars) the consumer demand can even again lower. It would have a negative effect on the improvement in macroeconomic indicators e.g. economic growth rates, employment rates. It would constitute impulse to the economic stagnation, and perhaps of even a stagflation.

b) investment demand

An economic boom which is coming after the phase of depression is usually beginning – how demonstrated the current course of economic crises – from the rise in the investment demand (I). It was a result of the influence of many diverse factors. In the period of the crisis as a result of the chaos of the ruler on the market and the lack of money numerous bankruptcies of enterprises which weren't able to cope with the strained took place. It formed premises to the expansion of these enterprises which weathered the crisis. It supported also appearing of new companies. Manufacturing apparatus becoming outdated and the need of its change created the demand for machines and devices, new technologies and for replenishing stores. The investment demand was also stimulated by greater abilities of implementing the innovation which was developed in the period of depression. During the crisis an activity of the college and research institutes which based on increased public funds took action to the purpose of the unemployment young people absorption has often increased.

Since as a result of intervention of governments and the central banks the current crisis was stopped, the influence of recalled above factors isn't characterized by a high intensity. In other words stimuli to increase investment are much weaker. The period of depression does not last long, so unused manufacturing apparatus isn't obsolete. Moreover relatively high economic growth rate in the period before the crisis and globalization of the economy induced investors for implementing technological changes. This occurrence was visible in the USA. Aspirations to the Lisbon strategy implementation in countries of the European Union also constituted impulse to drawing up and to develop new technologies.

The discussed above prospects do not accelerate the increase of demand for a lot of consumer goods. Market tradings of consumer goods of the long-lasting use considerably went down, sometimes even about a dozen or several dozen per cent. The fall in sales of houses, flats, cars were recorded both in the USA, Europe and Asia. Poorer consumers and possibilities of purchasing goods produced in China, India, Malaysia or Vietnam, do not constitute premises to investing as well.

Comparing to earlier periods in the structure of gross domestic product in the developed countries a share of services is high. Many types of services do not require the high expenditure on fixed assets, so their development do not generate the rapid growth of the investment demand [4].

Above considerations let express the opinion, that even the prevailing run on world markets will not be premises for investing in new manufacturing powers. It is not sure that the run will continue in a long stretch. Except for the little number of countries, about low-order economies, it does not result from fundamental premises. However anxieties that it can lead to the next speculative can are appearing.

c) government expenditures and the net export

Outlined above premises suggest that both consumer, as well as investment demand, are out of order strongly enough to lead to the recovery of the economy without the participation of government expenditures (G). Stimulating the growth in the economy by increasing the government expenditures is not a simple or universally acceptable task. However it does not seem possible at least in an short stretch for other scenario to lead to the rapid economic growth.

A net export is a factor shaping the economic growth rate. If however the majority of countries of world is contending with the crisis, from a point of view of the world economy the influence of the balance of the foreign trade is neutral. In the situation of underemployment of production factors it is possible briefly to assume that the export

is an export of the unemployment and the import is an import of the unemployment. It is hard to expect, that even if a rise in the protectionism which negatively is being judged by many economists and politicians does not take place, the export will lead the world economy from the crisis out. The task is unusually difficult for the accomplishment because a lot of countries are characterised with lack of internal and outside cash balance.

4. Expected directions of changes

Whether money which were led into the sphere of finances will increase the aggregate demand and will precipitate the growth in the economy? How J. Kulawik has written, the long-term deflation and the recession and the high inflation or perhaps the hyperinflation and conceivable economic stagnation are almost equal. And so he does not have the unequivocal answer to the worded above question [3].

One by one none of elements of the aggregate demand is able to trigger of economic boom. Neither a consumer or investment demand nor an export are creating such possibilities. However the synergy of these elements can be a premise to precipitating the economic growth. The world economy can enter the phase of the protectionism again, similarly to it that took place in years 30., though it would be however a definitely different form of the protectionism. It would happen this way because economies of small states aren't able to defend of own market before economic turbulences or before possible speculative attacks. Analyzing development potentialities one should still take into consideration the access to sources of supply, that is the participation in the division of limited resources which as a rule is being described in bilateral or multilateral agreements. If a protectionism appears it will have place of coalition partners (large states and their partners) and international groupings so as the European Union or also less formalised e.g. G-8, G-20.

The world economy gradually will get out of the crisis. Because of the high unemployment individual states will be implementing the more restrictive fiscal and monetary policy very cautiously. The increased money supply which is a result of monetary intervention causes, that – according to the opinion of some authors – a threat of the inflation exists. However, for previously reasons, the threat of the inflation is not great. With the greater plausibility it is possible to suppose a new speculation will appear on the financial assets market. Low interest rates of the central banks, and so relatively the cheap money and low share prices are creating situation beneficial for banks conducting the investment activity and tycoons acting on stock exchanges. Money is readily available for the enterprises which the financial standing did not worsen violently during the crisis. How repeatedly it was in the past the run on the capital market will pull both large and small investors. It can however happen, that shaping the situation on the stock-market great investors will manage in time to retreat, whereas the rest will bring in the specific collection for increasing their fortunes. Such direction is not instilling optimism.

In anticrisis packages both about the fiscal and monetary nature it is not difficult to notice a lot of features leading to the reconstitution of the existing developmental standard which took to the current crisis. Proliferation of the crisis admittedly it was stopped, but it is not easy to point what the fiscal and monetary expansion will close with. A long-term economic stagnation is one of possible variants. After the period of the crisis many developed countries will stay with large shortages and national debts. In order to finance the essential debt high interest will be offered what constitutes the premise to the another growth in importance of financial circles.

In aspirations to basing the growth in the economy on durable foundations one should consider possibilities of limiting the dominance of financial circles over the real sphere. With a view to supporting investment in the real sphere by the financial sector, are essential: reduction in real interest rates, macroeconomic and microeconomic

stabilization, proper functioning of market of long-term credit and the elimination of problems of functioning of the public finance [2]. It would require basics to the realization of global solutions, i.e. new financial architecture, the swing of models of the life, consumptions and individual careers and balancing the world development from the energy, environmental, social and political point of view. Expectations for this type of changes are included to utopian. There is a lot of rightness in idea that an overconsumption in some countries and dislike for the change of the current model of the development are ultimate causes of the current crisis.

There are no reasons being enough to back declarations of the type up that after the crisis «nothing will already be like before» and practice from the sphere corporate governance which became the cause of the current crisis will be discontinued. Declarations will not be enough to change the posture of people and to lead to the situation, that in the future long-term goals and a social responsibility will be the most important. Many economists (e.g. J.E. Stiglitz, S. Johnson, H. Davies) convince that breaking the alliance of the authority of the state with the financial authority and the compulsory division of banks are essential. Functioning of large banks is contributing to the deformation of the competition, because they can grant cheap credits using government warranties. Development of local financial institutions is extremely hampered. In the USA and the European Union attempts to drill the new type of the supervisory institutions and to reduce the remuneration are being taken in the sphere of finances. These attempts will turn out to be not very successful without changes in the sphere of institutional economics. The readiness to take coordinated preventive action will be decreasing if it is taking place economic recovery on world. Meetings of the ministers of finance of countries G-20 are confirming the declining interest with structure of new economic-financial architecture.

The way of the liberalization of flows of goods and services and capital does not guarantee stabilizing the long-term growth in the economy. As its consequence a deep imbalance of the world economy appeared. In order to achieve the long-term balance a new approach will not be enough for issue of regulating streams of capital, goods and production factors. Changes of rules and motives for the conduct of both governments and citizens, consumers and producers, borrowers and debtors are essential as well. Aspiring for the achievement of the balance of development in China, India and many countries of the Eastern Asia one should increase the consumption, whereas in the USA, Great Britain, Ireland and Baltic Republics more produce and save. The United States dollar and the British pound should be weak whereas Chinese yuan strong. From a point of view of the management of countries being a member of Economic and Monetary Union euro should be both weak and strong. Whether one should not decide on introducing restrictions both of the surplus as well as the deficit in the current account balance?

Determining directions of changes in the contemporary economy one should take into account arrangements of behavioral economics which foundations for the new paradigm of financial economics can constitute. In economic action mentality is leading people to the ruthlessness and amoral behaviours. Implemented anticrisis, both fiscal and monetary packages, are becoming a reason of such behaviours. Politicians more and more often participate in the market gambling being guided by analogous rules of conduct. In the end, in spite of drawing up many studies concerning the proper operation of financial circles, relatively easily it is to point the speculation. Its consequence is likely increase of share indices (30–110%) on emerging markets in 2009.

Analysis of critical phenomena can constitute the basis for formulating applications for the necessary changes of the code of conduct. In socioeconomic systems there are people which in financial decisions – how claims R.J. Schiller – are driven mainly by emotions and have the limited capacity to embrace from the other people's experience [5]. So in the future, will not analogous mistakes be made? Will not the process of

reaching the appropriate framework of functioning of the economy turn out to be too costly?

References

1. Attali J., Une brève histoire de l'avenir, Fayard, Paris 2006. – 422 p.
2. Demir F., Financial liberalization, private investment and portfolio choice: Financialization of real sectors in emerging markets, Journal of Development Economics, Elsevier. – 2009. – № 2. – P. 1–4.
3. Kulawik J., Demony finansyzacji. – Gazeta Bankowa, 2010. – № 1.
4. Nowak A. Z., Ryć K., Jaki koniec kryzysu? – Gazeta Bankowa, 2010. – № 1.
5. Shiller R. J., Animal Spirits: How Human Psychology Drives the Economy And Why It Matters for Global Capitalism, Princeton University Press, 2009.
6. Żyżyński J., Budżet i polityka podatkowa. – Warszawa, Wydawnictwo Naukowe PWN, 2009.

Надійшло до редакції 3.03.2010.