

*Economics*

## The Human Factor in the Modern Financial Crisis

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**ABSTRACT.** Unlike developed economies, which are exposed to the threat of the zombieing of the economy under the conditions of a financial crisis, this threat is even greater for the countries of post-Communist capitalism owing also to their exposure to necroeconomy. *Homo transformaticus*, therefore, is the carrier of a necroeconomy's routine who transforms economy and society in the direction of capitalist values and, at the same time, transforms his own self in the same direction, too. Unlike a necroeconomy, whose routine is carried by a human being which is "still-to-be-formed," a zombie-economy's routine is carried by the "gone and departed" man, the so-called zombie economicus. Under the conditions of the present financial crisis, the threat of a zombie-economy is also aggressively knocking on the doors of those developed economies which, until recently, seemed to have escaped the zombieing of their economies. The only effective mechanism to get rid of both a necroeconomy and a zombie-economy is to adopt a sound bankruptcy law. © 2009 Bull. Georg. Natl. Acad. Sci.

**Key words:** financial crisis, *homo economicus*, *homo soveticus*, *homo transformaticus*, *zombie economicus*.

The human factor, as a rule, is a matter of decisive importance for practically all kinds of economic developments. At the same time, an economic approach, as such, may be applied to any spheres of human behaviour [1].

The routine [2, 3] which reproduces a necroeconomy is conditioned by the behaviour of such a human being who is in the middle of the transition from the state of a *homo etaticus* [4: 224] or *homo soveticus* [5: 250-253]—that is, one who is suppressed by the state and who totally depends upon the state—to *homo economicus* or a human being whose driving force is to get the maximum utility at a household and a maximum profit at a firm which is typical of a market economy.

The type of human being who manages the process of post-Communist transformation or, in other words, one who is a "central character" in post-Communist capitalism is someone we call *homo transformaticus*; that is, a human being who failed to completely release himself from both the fear of the state and the habit of living at the government's expense even though he gradually gets used to the situation owing to his private interest in obtaining a maximum utility and profit [6, 7].

By analogy with Levada's concept of *homo adapticus* [8], *homo transformaticus* is a human being who gradually becomes accustomed to the immanent rules of a market economy and, furthermore, gets involved in the process of setting and developing those rules.

In business, *homo transformaticus* assumes a special form whose roots may be traced back to a command economy.

Even in the times of a command economy's reign, a market economy (or, much rather, certain elements of it) was not eradicated in its entirety. Simply, it was oppressed by the state to the degree that it could only subsist within a "shadow" sector [9, pp. 57-83]. Under the conditions of a command economy, no director (perhaps with few exceptions) could possibly manage his enterprise without breaking a law adopted by the existing regime. In exceptional cases, therefore, elements of a market economy were actually applied. Such activities were referred to as "shadow activities" and the managers of such enterprises were called "shadowists" [10: 184]. Nevertheless, under the conditions of a command

economy and given their suppression by the former Communist regime, such directors never became—and could not have possibly become—truly market-type entrepreneurs. For this reason, those directors who applied some elements of the market economy within their managerial practices were not called “entrepreneurs” [11: 119] but, rather, “*del'tsy*” (the plural of the Russian word “*delets*” which means “businessman” in its literal translation but is typically rendered as “labourer” given its derogatory connotation).

Even after the collapse of a command economy, most of former *del'tsy* managed to preserve themselves as directors in public sector enterprises within various capacities [12: 137-140]. Moreover, after the privatisation of those particular enterprises, the same *del'tsy* exploited the rights of “labourers’ collectives” and became the owners of the same enterprises [13]. At the same time, whether or not they hired professional managers—especially in the initial phases of the post-privatisation periods—they still tried to manage their enterprises by their own way of thinking following a so-called *delets* way [14: 127].

Just as *homo transformaticus* has not yet become *homo economicus*, so is the case with the former *del'tsy* who have not yet developed into entrepreneurs. *Homo transformaticus*, therefore, takes on the title of “post-*delets*” in his entrepreneurship. The original Russian-language variant is retained even in English discourse owing to the exclusively Soviet nature of this phenomenon [15].

It is exactly these post-*del'tsy* who make up the spine of a necroeconomy in both the public and private sectors as they are the carriers of the routine of a command economy. By using their old connections, the post-*del'tsy* manage to break into governmental organs (parliaments, executive offices, etc.) and use their influence to try to politically justify and prolong the existence of the necroeconomy.

It can be stated without any reservation that a necroeconomy best serves the interests of post-*del'tsy* in that this type of economy will always enable the continuation of their existence until such time that they have been entirely replaced by true entrepreneurs through the means of appropriate institutional reforms.

The key to the understanding of a zombie economy’s routine may be found in the theories of public choice by James Buchanan in which politics is interpreted as a special variety of a market [16], and of “animal spirits” [17]. During a financial crisis, a type of economic policy develops which proposes the government’s interference in the economy with its uppermost goal of rescuing it from a

critical state, on the one hand, and encourages the addressing of the private interests of those economic agents who have found themselves on the verge of bankruptcy as a result of the said crisis, on the other hand.

As previously mentioned, a zombie-economy’s routine is the product of a market economy in the state of crisis. Consequently, it is not a simple *homo economicus* who is the carrier of this routine but, rather said, a mutation which was formed in the process of his adaptation to the deformed conditions of the market economy as a result of the financial crisis. Conventionally, a *homo economicus* mutant may be called *zombie economicus* [18] in that he is the carrier of a zombie-economy’s routine.

From *zombie economicus*, as an already accomplished phenomenon, *homo transformaticus* differs by the fact that he is still in the process of adaptation to a market economy and, as such, he has not yet been established as a type of human being. Because *homo transformaticus* is still developing, one may ask the question of whether or not it is possible for a *homo transformaticus* to grow into a *zombie economicus* under modern conditions of the global financial crisis.

There is no doubt that a necroeconomy has a very negative influence over the countries of post-Communist capitalism which requires the development and utilisation of a mechanism which would solve the problem of necro-firms. This mechanism must enable the universal dissemination of the market-based principles of economic order.

Theoretically, it must be made clear that the effective elimination of a necroeconomy is unthinkable without an effective bankruptcy law. As the experience of many post-Communist countries has shown, most of the past attempts at formally adopting bankruptcy laws have unfortunately produced only “stillborn babies” [19]. In other words, they are “necro-laws” because the occurrence of factually bankrupt enterprises being proclaimed as legally bankrupt is something which happens only very seldom, if at all. In these countries, bankruptcy procedures are blocked by all possible means which, inter alia, may be explained by the assumption that bankruptcy does not “fit” into the institutional environments of those countries.

Post-Soviet Georgia, as one of the countries which carries the heavy burden of a necroeconomy [20], is one of the most infamous examples of the ineffectiveness of a post-Communist bankruptcy law in which new institutions are very often created through the immediate and shallow imitation of their Western originals [21]. As a result, many institutions of a developed market economy

are often extremely ineffective in the countries of post-Communist capitalism. Moreover, they may also lead to some extremely negative consequences such as, for example, the frequent and deserved criticisms lodged against the IMF for its hasty and even simplified approaches towards institutional reforms in post-Communist countries which have ultimately harmed - rather than helped - the process of the establishment of a market economy [22].

The elimination of a necroeconomy may only be accomplished by establishing such institutions [23] which will boost the process of democratic reform and raise the efficiency of post-Communist transformation [24]. The dying out of the phenomenon of a necroeconomy may be considered as an economic indicator of a country's successful overcoming of the stage of post-Communist capitalism.

An effective bankruptcy law is another effective tool in the fight against zombie-firms and zombie-banks. Unfortunately, however, one has to admit that the situation in developed countries is not any better than it is in the countries of post-Communist capitalism. Specifically, there is a clearly observed tendency that the legitimate bankruptcy of many firms is not readily documented by means of appropriate legal procedures [25].

The contemporary global financial crisis [26] has created complex problems the world over and including the economic development of the countries of post-Communist capitalism. It is precisely within the context of the current crisis that the subject of the attack of zombie-firms upon the global economy has become so topical [27, 28] which resulted in the emergence of multiple research works within the so-called new economic field of "zombie-nomics" [29].

It is an established fact that many developed countries have resorted to certain special governmental bailout programmes in support of their financial institutions and real estate businesses [30: 22-23] which creates a threat for the development of a new zombie-economic routine. This threat may become quite real if the financial crisis continues long enough to enable the zombie-economic routine to take solid root.

If only a few short years ago, the existence of a zombie-economy in the United States was categorically negated [31: 120], most recently, however, many have started talking about the threat of the emergence of zombie-firms as a direct result of the financial crisis [32-35]. As a consequence, the US government's bailout plan has been referred to as a zombie-programme whereas the US Treasury Department has been disparagingly called the "mother" of a zombie-economy [36].

To do justice, however, one has to underline that the first symptoms of the movement towards the zombieing of the US banking sector appeared long before the emergence of the present financial crisis when the US government extended subsidies to American banks in order to stimulate their mortgage lending insurance plans for the benefit of low-profit segments of population which failed to meet general banking standards [37].

Remarkably, experts assert that an interesting difference exists between the mechanisms of the emergence of zombie-firms in Japan and those in the US. In Japan, for example, the government supports zombie firms through zombie-banks whereas the bailout plans envisaged in the United States are intended to be implemented without the mediation of banks even though the results in both countries are expected to be the same [38]. Obviously, such an approach does not correspond to the reality which is being shaped in the US in relation to its government's domestic zombie-banks' bailout programme [39].

Furthermore, the danger of the development of a zombie-economy in Canada [40] and some EU countries [41, 42] has become a real as well.

In the countries of post-Communist capitalism, the present financial crisis also encourages the development of such governmental programmes which are aimed at the government's providing its financial support to perishing banks and firms [43]. Various proposals have been put forth which would establish some special governmental institutions (banks) and implement long-term beneficial lending and investing [44].

Despite the fact that the economic theory has been proven a long time ago and that global experience has shown just how harmful a government's interventions into the economy can be when it introduces favourable lending plans, both developed economies and those of post-Communist capitalism resort to this remedy again and again during the times of a financial crisis [45]. Unfortunately, however, and as we have already seen, such a move eventually leads to the emergence of a zombie-economy routine.

The current modern financial crises bring the principle of "privatisation of profits and nationalisation of losses" up to date [30: 10].

Unlike developed economies, which are exposed to the threat of the zombieing of the economy under the conditions of a financial crisis, this threat is even greater for the countries of post-Communist capitalism owing also to their exposure to necroeconomy. There were no doubts, for example, that many Russian companies, amongst those in other economies, were able to get rid

of their debts under the financial crisis without the receipt of governmental support [30: 5].

If one bears the nature of the material and technical base a necroeconomy in mind alongside the fact that it resides primarily in the industrial sector, then there is no surprise that it is exactly the drastic shrinking of industrial output under the conditions of the economic crisis through which a necroeconomy states its existence [46, 47].

In the absence of a financial crisis, post-Communist countries with a large-scale market feel the pain of a necroeconomy far less than those with relatively smaller ones given that there is an opportunity to compete with each other within the market's large dimensions and governmental support [48] which creates the illusion that a necroeconomy does not exist. In smaller countries, however, this problem is rather severe due to the fact that many enterprises may have no domestic competitors at all [20].

This difference between the large and small markets has an influence upon the governmental policies supporting a necroeconomy. In particular, the illusion of the absence of a necroeconomy caused by domestic competition blocks, to a great degree, a governments' will to get rid of a necroeconomy. In countries with small-scale markets, however, the absence of analogous enterprises eliminates the conditions for domestic competition which enables the governments of those countries to retain a greater stimulus to fight necroeconomy even though such a stimulus is not always utilised within a proper way [20].

Under the conditions of a financial crisis, the governments of post-Communist capitalist countries may retain far less illusions that a necroeconomy exists. It comes as no surprise, therefore, that they witness a catastrophic decrease in their industrial output.

In view of the fact that it is precisely the financial crisis which creates the favourable conditions for the establishment of zombie-economy routines—that is, the zombiing of an economy—the zombiing of a necroeconomy is what happens in the countries of post-Communist capitalism which, in fact, is even worse than the simple economic zombiing which takes place in developed economies. If in Japan, for example, the zombie-economy never touched the processing industries, as we have seen, then one of the qualities of the necroeconomy is to concentrate *exactly* upon this sector of the economy. Consequently, the zombiing of a necroeconomy inevitably amounts to the zombiing of this already dead sector as well.

It is important to note that in Russia, for example, the first symptoms of necroeconomic zombiing emerged in the immediate aftermath of the August 1998 crisis in the country [49: 210] which gave rise to the phenom-

enon of the post-Communist zombie-economy [49: 211]. The present financial crisis which has developed in Russia and which, in addition, has been “strengthened” by that at the global level, may continue to exist and, therefore, is able to have far more serious negative effects for Russia than its predecessor had. There is a very real possibility that *homo transformaticus* will eventually grow into *zombie economicus*, rather than into *homo economicus*, which means that the economic future of the post-Communist capitalist countries could be even more dubious than it is today.

The dead enterprises which the countries of post-Communist capitalism received as their legacy of the command economy have proven to be quite “tenacious of life” [50]. As a consequence, the market economies of many post-Communist countries have been loaded by the burden of a necroeconomy. It is the society's necroeconomic foundations that make up the façade of post-Communist capitalism. *Homo transformaticus*, therefore, is the carrier of a necroeconomy's routine who transforms economy and society in the direction of capitalist values and, at the same time, transforms his own self in the same direction, too.

The phenomenon of a dead economy is also familiar to some developed economies as well. The occurrence of financial crises has encouraged the emergence of a kind of routine which guarantees the stability of a government's bailout programmes implemented thorough the banking sector in support of de-facto bankrupt firms. As a result, a network of zombie-banks and zombie-firms develops upon which the entire system of a zombie-economy rests.

Unlike a necroeconomy, whose routine is carried by a human being which is “still-to-be-formed,” a zombie-economy's routine is carried by the “gone and departed” man, the so-called *zombie economicus*.

Under the conditions of the present financial crisis, the threat of a zombie-economy is also aggressively knocking on the doors of those developed economies which, until recently, seemed to have escaped the zombiing of their economies.

This threat of an economy's zombiing is even greater in the countries of post-Communist capitalism given that this zombiing also has a great deal to do with a necroeconomy which is a factor that will make it rather difficult to improve an economy's health after the end of the financial crisis.

The only effective mechanism to get rid of both a necroeconomy and a zombie-economy is to adopt a sound bankruptcy law which, in turn, requires the strong political will of the ruling elite.

## ეკონომიკა

## ადამიანისეული ფაქტორი თანამედროვე ფინანსური კრიზისის პირობებში

## ვ. პაპავა

აკადემიის წევრი, პ. გუგუშვილის ეკონომიკის ინსტიტუტი, თბილისი

ნებისმიერ ეკონომიკურ პროცესებში ადამიანის როლი უმნიშვნელოვანესია.

თანამედროვე გლობალური ფინანსური კრიზისის პირობებში ეკონომიკის ზომბირების პრობლემა ძალზედ გააქტიურდა. კერძოდ, ფინანსური სირთულეების გამო ფირმები დგებიან გაკოტრების საფრთხის წინაშე, რაც საბოლოო ჯამში აისახება უმუშევრობის ზრდაში. ამიტომაც მთავრობა მზადაა ფინანსური მხარდაჭერა აღმოუჩინოს ასეთ ფირმებს, რომ ისინი არ დაიხუროს და ხალხი არ დაითხოვონ. იაპონური გამოცდილების მიხედვით მთავრობა ეხმარება ბანკებს იმ მიზნით, რომ მათ გააგრძელონ გაკოტრებული ფირმების დაკრედიტება. ბუნებრივია, რომ არა მთავრობის მხრიდან ბანკებისადმი გაწეული დახმარება, გაკოტრებული ფირმების დაკრედიტების გაგრძელებით ბანკები თავად გაკოტრდებოდნენ.

პარადოქსი იმაში მდგომარეობს, რომ ფინანსური კრიზისის დამთავრების შემდეგაც, ანუ მაშინაც კი როცა ამის აუცილებლობა უკვე აღარ იყო, იაპონიაში გაგრძელდა ზომბი-ბანკებისა და ზომბი-ფირმების ფუნქციონირება. ამ პარადოქსის ახსნა შეიძლება ეკონომიკურ ცვლილებათა ევოლუციური თეორიით.

ფინანსური კრიზისის მეტ-ნაკლები ხანგრძლივი პერიოდით გაგრძელების შემთხვევაში გაკოტრებულ ფირმებში ფირმის ქცევის ისეთი წესები და ხერხები ყალიბდება, რომლებიც ეფუძვნება სამთავრობო მხარდაჭერის მიღების შესაძლებლობას. მსგავსი სიტუაცია იქმნება იმ ბანკებშიც. ზომბი-ბანკების საშუალებით ზომბი-ფირმების მხარდაჭერის რუტინა ყალიბდება მთავრობაშიც.

ზომბი ეკონომიკაში მოქმედ გაცოცხლებულ მკვდარ ადამიანს ეკონომიკური ზომბი, “ზომბი ეკონომიკუსი” ვუწოდოთ. სწორედ ის არის ზომბი-ეკონომიკის შესაბამისი რუტინის მატარებელი და მისი იმპლემენტატორი. ეკონომიკური ზომბის მიზანი არ არის მოგების მიღება. მისი მიზანია შეინარჩუნოს არსებობა, ისე რომ სულაც არ იფიქროს იმაზე, თუ რამდენად მისაღებია ბაზრისათვის მისი ფირმის საქმიანობა, თუ რამდენად ესაჭიროება მომხმარებელს მისი ფირმის მიერ წარმოებული საქონელი თუ გაწეული მომსახურება, მისი ხარისხისა და მასზე გაწეული დანახარჯების მიუხედავად.

გლობალური ფინანსური კრიზისი, რომელიც რომელიმე ერთი ქვეყნის საზღვრებით არ შემოფარგლება, საფრთხეს უქმნის არაერთ ქვეყანას ზომბი-ვირუსის გავრცელებაში. დღეს მსოფლიო დადგა იმ საფრთხის წინაშე, რომ ეკონომიკური ზომბის ფენომენი, რომლის გავრცელების არეალი ადრე ძირითადად მხოლოდ იაპონიით შემოიფარგლებოდა, დღეს შესაძლოა მსოფლიოს სხვა წამყვან ქვეყნებშიც გავრცელდეს, რაც მსოფლიო ეკონომიკის განვითარების სერიოზულ ბარიერად იქცევა.

ეკონომიკური ზომბისაგან თავდაცვის საშუალება არის რეალურად მკვდარი ფირმებისა და ბანკების იურიდიულად გაკოტრება.

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