

Economics

On the Main Challenge of the Current Global Financial and Economic Crisis

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ABSTRACT. The contemporary financial crisis has transformed into economic crisis or financial-cum-economic crisis. 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 through 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. It is of great importance, therefore, the extent to which a government will go to continue supporting insolvent companies and banks in the post crisis period and to what extent it will facilitate simplifying the bankruptcy procedures. © 2010 Bull. Georg. Natl. Acad. Sci.

Key words: global financial and economic crisis, necroeconomy, zombie-economy, bankruptcy law.

The contemporary global financial crisis has created complex problems the world over [1, 2]. The first signs of the crisis appeared in the US financial system in the summer of 2007. Later it expanded to Western Europe and Japan and reached all developing countries and economies in transition by the end of 2008 [3: 5]. The financial globalization accelerated the spreading of the crisis worldwide [4: 126-131]. The progression of the modern financial crisis may be described in the simplest way by means of the following chain of transformations: there was a mortgage crisis at the start which – as should be expected – grew into a banking crisis which led in turn to an industrial crisis [5: 72]. The current financial crisis is also labelled as a demand crisis [6: 1]. Therefore the contemporary financial crisis has transformed into economic crisis or financial-cum-economic crisis, which is very important to understand the current economic difficulties [7: 9].

In numerous instances, the overproduction of goods and services was a key characteristic feature of the economic crises of the 20th century. With respect to the nature of the contemporary crisis, however, there is hitherto no universally shared opinion. Some believe

that, unlike the preceding crises, whose cause rested upon the overproduction of goods and services, the root of the present (which is labeled as a “Credit Crisis”) one should be connected to the overproduction of debts [8]. Others suggest that the modern crisis is nothing unique but is actually the result of the previous situation of an overproduction of goods and services fuelled by the expansion of “fiduciary money” and resulting in excessive supply which eventually led to the current level of consumption of goods and services at the expense of future incomes which sometimes were not received at all [9: 22].

It appears that both of those views as concerns the present economic crisis are correct and by no means contradict each other. It simply depends upon the length of the period of time in which the given phenomenon of the crisis is to be considered. Specifically, in a *short-term perspective*, the existence of the overproduction of debts is apparent. In other words, the crisis was preceded by the continued financing of the growing current consumption. The financing took place by means of loans which were extended on the account of some future – but not always realistic and reasonable – incomes. Moreover,

due to their being tied-up with consumption in the past, the future incomes can hardly be used for consumption in the corresponding period of time. As a result, the cost of goods and services to be produced in the future is higher than the buying capacity of incomes raised in the corresponding period. Consequently, in a *long-term perspective* the effect of the overproduction of goods and services also becomes apparent.

As far as anti-crisis programmes are concerned, the most common recourses include the avoidance of protectionist measures, nationalisation and expansion of the public sector [3: 5] even though it is not recommended that solutions to some substantial social problems be suspended for an indefinite period of time [10: 13-14].

Although financial markets are not developed in the post-Communist countries, it was also expected that even these countries could not escape any negative implications of the global financial crisis [3, 11].

The post-Communist countries shared common starting conditions and similar challenges twenty years ago and, currently, they encounter the common problems under the conditions of the global crisis. Key objectives, however, and the ways in which to achieve them differ according to the extent they overcame the Communist past (as “leader” countries) or to what extent they are enslaved by their Communist heritage (as “outsider” countries) [12].

The transitional period in “outsider” post-Communist countries has ended but, unfortunately, the economic (and not only economic) system of some of them is far from a European style of capitalism. The phenomenon of the “outsider” post-Communist countries can be explained by the human factor [13: 198].

The dead enterprises which the “outsider” countries received as their legacy of the command economy have proven to be quite “tenacious of life” [14: 199]. As a consequence, the market economies of “outsider” countries have been hampered by the burden of a necroeconomy [15, 16].

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 through 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 [14: 200-202].

This threat of an economy’s zombie-ing is even greater in the “outsider” countries given that this zombie-ing 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 [17: 47-50].

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 [13: 201, 17: 46-47].

Certainly, there are more frequent cases of companies and banks becoming insolvent during the economic crisis although it is very difficult for a government to make a political decision and put into effect the bankruptcy legislation by initiating its activation. As a rule, governments are so interested in even artificially maintaining the employment level that, in order to achieve their political goals, they try to make such a decision which will facilitate keeping insolvent companies and banks in business under the circumstances of economic crisis. It is of great importance, therefore, the extent to which a government will go to continue supporting insolvent companies and banks in the post crisis period and to what extent it will facilitate simplifying the bankruptcy procedures.

The degree of democracy of the democratic institutions and the extent of the reformation and transparency of the public administration system will be of significant importance in the post crisis period. As to what extent the government of a country will be able to avoid zombie-ing the economy, this is something which will depend upon these factors to a certain extent.

Under the conditions of the current financial and economic crisis, the anti-crisis measures of all the post-Communist countries contain the threat of zombie-ing the economy whilst those of “outsider” countries also contain the threat of zombie-ing the necroeconomy which is a much worse phenomenon.

The countries without the post-Communism past and the “leader” post-Communist countries are likely to have better economic conditions in the post-crisis period. This optimism is founded upon the relatively higher effectiveness of the bankruptcy legislation. Despite the challenges arising from the current financial and economic crisis, the bankruptcy processes in these countries are more dynamic [6] compared to the other countries.

A great majority of the “outsider” countries encounter a real threat of zombie-ing the necroeconomy. In this respect, the situation is the worst in Russia and Ukraine whose governments significantly assisted and enabled necro-economic enterprises before the financial and economic crisis started and provided even more assistance after the crisis. A similarly difficult situation has developed in Albania and Moldova. The political

instability makes it difficult for any of the governments to say no to populist measures. This situation severely impacted Moldova and Ukraine under the conditions of the financial and economic crisis.

Finally, in the post-crisis period, the most successful

country will be a country whose government will have a political will to cease the managing of the economy through zombie-ing mechanisms. This is particularly important for the “outsider” countries which are already “afflicted” with necroeconomy.

ეკონომიკა

გლობალური ფინანსური და ეკონომიკური კრიზისის მთავარი გამოწვევის შესახებ

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თანამედროვე ფინანსური კრიზისი ეკონომიკურ კრიზისში გადაიზარდა, ანუ სახეზეა ფინანსურ-ეკონომიკური კრიზისი. ფინანსური კრიზისის დროში განვრცობა ხელს უწყობს ისეთი რუტინის შექმნას, რომლის საფუძველზეც მთავრობა საბანკო სექტორის მოშუალებით სპეციალური დახმარების პროგრამებით სტაბილურად უზრუნველყოფს ფაქტობრივად გაკოტრებული ფირმების ფუნქციონირებას. იქმნება ზომბი-ბანკებისა და ზომბი-ფირმების ქსელი, რასაც ზომბი-ეკონომიკის სისტემა ეფუძნება. ძალიან დიდი მნიშვნელობა ენიჭება იმას, რომ პოსტკრიზისულ პერიოდში მთავრობამ აღარ გააგრძელოს გადახდისუნარიო კომპანიებისა და ბანკების მხარდაჭერა და გაკოტრების გამართლებული პროცედურები აამოქმედოს.

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Received April, 2010