THE CURRENT FINANCIAL AND ECONOMIC CRISIS AS A NEW STAGE OF TRANSFORMATION OF THE GLOBAL ECONOMY

Olga B. Koshovets, Igor E. Frolov

Institute of Economy of the Russian Academy of Science

Moscow, Nahimovskiy Avenue, 32

Abstract
It is now widely accepted that modern economic science failed to foresee the financial and economic crisis of 2008-2009. However it is appear that there is still a lack of understanding fundamental causes of this crush and its aftermath. The available standard forecasting models and theories for the growth of the global economy are barely able to make correct forecasts in a crisis period and treat this crisis as a cyclical one. Moreover the nature of this crisis and its long-run effect on the global economy cannot be grasped within Keynesianism and neoliberalism, which prevail in economics and policy makers` discourses. The authors argue that today`s crisis is not a regular cyclical one. It is of systemic nature and in fact has been provoked by a surplus of financial rather than productive capital. The current conditions of the global economy development deeply impacted by the crisis of 2008-2009 have the character of restructuring the entire economic system and economic relations. Actually, this crisis has to form a new the 21st century global economy and to destroy the old economic, financial and technological relations. It is very likely that period from 2014 to 2016 will be marked by a new phase of the global economy transformation towards the building of new types of financial and economic relations, as well next wave of crisis phenomena will occur.

Key words: *global economy and financial crisis, economic theory, anti-crisis policy, global economy growth forecasting, Keynesianism, neoliberalism, post-crisis development of the world economy, systemic crisis, financial capital, business cycles*

1. INTRODUCTION: DIAGNOSING THE CRISIS

The current global financial and economic crisis which began in late 2007 as a subprime mortgage crisis and financial institutions collapse in USA, and has not yet been successfully passed is often compared to the Great Depression. Indeed nearly all economists agreed that this is the worst financial crisis since the Great Depression of the 1930s. K. Rogoff, formerly chief economist at the International Monetary Fund (IMF), described the current recession as "a once in a 50-year event" [1]. The crisis resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. It is damaging many people's well-being in terms of growing unemployment and increasing insecurity for all – households, bankers and governments.

However as it has turned out this crisis became a big surprise to the majority of economists and policy makers, it was not widely predicted by mainstream economists, who instead spoke of the Great Moderation. As Nobel laureate P. Krugman noted many prominent economists believed "they had things under control: the "central problem of depression-prevention has been solved," declared Robert Lucas of the University of Chicago in his 2003 presidential address to the American Economic Association. In 2004, Ben Bernanke … celebrated the Great Moderation in economic performance over the previous two decades, which he attributed in part to improved economic policy making" [2].

The crisis generated many articles and books in the scholarly and financial press, and has had a great influence on the content and orientation of the discussion on many economic and financial problems among theoreticians and economists working with applied economic models. Whereas in the period of autumn 2008 - spring 2009 many analysts and gurus of economics were very pessimistic, in the summer of 2010 there was bias in the opposite direction. Many researchers, government officials and international organizations took too optimistic stand that, in our opinion, indicates a lack of understanding fundamental causes of this crisis, which is interpreted as cyclical.

One can ascertain that examining the accuracy of the forecasts of the leading international institution, which have at its disposal the most complete databases on global economic development. The further assessments are based on the summarized data on the GDP dynamics in 2009–2013 presented in Table 1.

Table 1. Forecast and actual IMF estimates of the growth rates of the world economy in the systemic realignment period

Countries /years	**2009 г.**		**2010 г.**		**2011 г.**		**2012 г.**		**2013 г.**		
Date forecast / Result	October 2008	Result	October 2009	Result	October 2010	Result	October 2011	Result	October 2008	October 2012	Preliminary result
World	3.0	-0.39 / -0.57 *	3.1	5.22	4.2	3.95	4.0	3.2	4.7	3.6	3.0
Advanced Economies	0.5	-3.44	1.3	3.01	2.2	1.63	1.9	1.42	2.5	1.5	1.3
USA	0.1	-2.80 / -3.07 *	1.5	2.5	2.3	1.81	1.8	2.8/2.2*	2.3	2.1	1.9/1.6*
Euro Area	0.2	-4.43	0.3	2.01	1.5	1.45	1.1	-0.7	2.2	0.2	-0.5
EU	0.6	-4.42	0.5	2.05	1.7	1.61	1.4	-0.3	2.8	0.5	0.2
United Kingdom	-0.1	-5.17	0.9	1.80	2.0	0.9	1.6	0.3	3.1	1.1	1.8
Italy	-0.2	-5.49	0.2	1.70	1.0	0.43	0.3	-2.4	1.3	-0.7	-1.9
France	0.2	-3.15	0.9	1.66	1.6	1.69	1.4	0.0	2.8	0.4	0.3
Germany	0.6	-5.09	0.3	3.9	2.0	3.4	1.3	0.9	1.7	0.9	0.5
Japan	0.5	-5.53	1.7	4.7	1.5	-0.5	2.3	1.4	1.7	1.2	1.5
Developing Economies	6.1	3.11	5.1	7.61	6.4	6.37	6.1	5.0	6.9	5.6	4.7

Russia	5.5	-7.80	1.5	4.50	4.3	4.30	4.1	3.4	5.5	3.8	1.3
Brazil	3.5	-0.33	3.5	7.53	4.1	2.73	3.6	1.0	4.0	4.0	2.3
India	6.9	8.48	6.4	10.26	8.4	6.64	7.5	4.74	8.0	6.0	4.4
China	9.3	9.21	9.0	10.45	9.6	9.24	9.0	7.8	10.0	8.2	7.7

Sources: [3] and World Economic Outlook Database, April 2014, IMF: http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx

* Data on Increment of Growth for the US in 2008 UNSNA/1993 UNSNA.

As can be seen in the Table 1 the expectations of the IMF forecasters were excessively optimistic at the very beginning of the recent global crisis (October 2008): it was assumed that developed countries and the overall global economy would show *positive dynamics* in 2009. The actual outcome was quite the opposite: the global economy has undergone a short-term, but strong, slump in production for the first time in the post Second World war period (see set off in red type results of 2009; Table 1). A recession was only forecasted for some developed economies, namely, Great Britain and Italy, but the slump in these economies was apparently understated. In fact, the forecasted growth rates of the global economy for 2013 (with the expected recession already surmounted) were quite high again (4.7%) which indicates that a typical insignificant *cyclical crisis* was the worst possibility anticipated by the IMF experts in autumn 2008.

In relation to 2010, the forecast estimates of the recovery of national economies have significant divergence from the actual data, this time swinging towards pessimistic expectations (the same with UK and Japan in 2013, see highlighted by yellow results of 2010 and 2013; Table 1). Meanwhile the forecast estimates for 2011-2013 once again rely on excessively optimistic hypothetical assumptions of stable post crisis growth. Moreover, it is appeared on the example of 2012 that, as early as autumn 2011, the IMF experts did not notice any symptoms of the incoming crisis in a number of leading European economies and the European Union as a whole. The example of a relatively accurate match of the forecast estimates with the actual results for 2009 and 2011 can be found for China's economic dynamics (this country did not notice the global crisis). This is uncommon exception along with forecast for France in 2013 (see highlighted by green data of 2009, 2011 and 2013; Table 1). However, it should be noted that the Chinese economy differs strongly from the economies of other countries and is identified by its self-designation as "market socialism with Chinese characteristics". The most important economic indicators, including GDP are planned and supposed to be implemented, therefore it is easily to predicate[1].

As evident in Table 1, the US growth rates have been steadily decreasing since 2012. Moreover, if it had not been a switch-over to the new method of GDP measurement and estimation (from the 1993 UNSNA to 2008 UNSNA), then, in 2012, the US GDP would have risen by 2.2 %, but not by 2.8 % under the new method and, in 2013, it would have risen by 1.6 %, but not by 1.9 %. Even the 2009 downturn would have been deeper under the previous method—minus 3.1 %, but not 2.8 % under the new method (see Table 1).

[1] Nowadays, the 12th five year plan of socioeconomic development of China (2011-2015) approved by the fourth session of the 11th National People's Congress in March 2011 is being implemented. The decrease in the GDP increment rate from 9 to about 7.5% was *planned* for 2012 and 2013. It should be noted that China excessively stimulated its economic growth during the global crisis of 2008–2009 and after it. As a result, disproportions have accumulated in its economy, which will not let the Chinese administration painlessly live through another cycle of global crisis phenomena, despite the still rather large reserves of the Chinese economy compared to developed countries.

Thus, a conclusion may be drawn that the available standard forecasting models and theories for the dynamics of the global economy are barely able to make correct forecasts in a crisis period. As a result external hypotheses are to be introduced for these models to work. It should be noted that statements by IMF officials still remain cautiously optimistic on the whole, as was before [4]. Despite that, in our opinion, it does not seem justified to extrapolate the present trends under the present circumstances, since such forecast estimates implicate that the nature of the present crisis is fully understood and the world economy will develop successfully until the next cyclical crisis. It can be clearly seen in the IMF forecast estimates for 2014–2016, which project a new increase in the economic growth rate [3, Statistical Appendix].

2. TRENDS OF THE POST-CRISIS WORLD ECONOMY: IS THE RECESSION OVER?

In the recent economic publications, the prevailing view is that the world economy in 2014–2015 is gradually re-emerging from the global crisis and making up for the downturn in business growth throughout 2011–2013 (Table 2). Activity is gaining momentum in North America and Japan, and the situation in the euro area is slightly improving. However, the third consecutive year of the world growth rates slowdown (after the post-crisis "rebound") provides no grounds for relying on any substantial acceleration in the global economy growth rates in 2014. There remain a large number of serious risks that will need to be mitigated and challenges that will need to be addressed to put the global economy on a path of sustained recovery.

Table 2. IMF`s (April 2014[2]) and World Bank`s (June 2014[3]) forecast of GDP growth, in %

	2014		**2015**	
	IMF	**WB**	**IMF**	**WB**
Word (PPP)	3.6	2.8 (3.4 – PPP)	3.9	3.4 (4.0 - PPP)
USA	2.8	2.1	3.0	3.0
the Eurozone	1.2	1.1	1.5	1.8
Japan	1.4	1.3	1.0	1.3
China	7.5	7.6	7.3	7.5
India	5.4	5.5	6.4	6.3
Brazil	1.8	1.5	2.7	2.7
Russia	1.3	0.5	2.3	1.5

Yet according to many expert reviews, the US economy is facing steady growth prospects in 2014–2015; the aftermath of its deceleration in 2011–2013 will be handled efficiently, for the greater part [5]. However, such opinions are poorly substantiated. The US growth rates have been steadily decreasing since 2012 (see Table 1). The slower rates of the US economic growth were largely due to the reduction of investment into the fixed capital stock as well as the depletion of post-crisis recovery potential. Besides, the over-stimulating monetary policy that is termless Quantitative easing pursued by the Federal Reserve is drawing to a close; it has substantially reduced the amount of the US government debt purchases. In December 2013, it was announced that the volume of the US mortgage bond and government debt purchases would be gradually curtailed, and since that time, the monthly bond purchases have been reduced from US dollars 85 billion to 55 billion per month. This is due to the fact that only in 2013 the Federal Reserve bought mortgage bonds and the US Treasury debt to 552

[2] https://www.imf.org/external/pubs/ft/weo/2014/update/01/pdf/0114.pdf
[3] http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014b/GEP2014b.pdf

billion US dollars, and totally in 2008-2013 to 1.45 trillion US dollars. It is important to mention that nearly half of the US Treasury debt is held in trust for people's retirements, and if the US defaults on its debt the greatest harm would befall the average US citizen. Furthermore artificially low government bond yield rates induced by Quantitative easing will have an adverse impact on the underfunding condition of pension funds, since "without returns that outstrip inflation, pension investors face the real value of their savings declining rather than ratcheting up over the next few years" [6].

When the Federal Reserve began its program of Quantitative Easing it aimed to stimulate the economy to escape the grips of the 2009 recession by purchasing more Treasury notes. This stoked demand for Treasuries and kept interest rates low. As a matter of fact the Federal Reserve simply monetized the debt and this has the same effect as printing money. The Quantitative easing policy has contributed to improvements in market confidence and increasing consumption in USA, nevertheless there was very little impact on the economy. Actually cheap money spurs corporate investment outside USA.

The recently issued preliminary data for the 1-st quarter of 2014 indicate that the US GDP decreased at an annual rate of 2.9% in the first quarter of 2014 (in the fourth quarter of 2013, real GDP increased 2.6%).[4] That makes the 1-st quarter of 2014 the US economy's worst one in three years. It also represented the fastest rate of decline since the recession of 2008-2009, and was the largest drop recorded since the end of World War II that was not part of a recession. The question arises: what factors can be responsible for the US GDP growth rates of 2.8% in 2014 and 3% in 2015?

As far as the economies of the Eurozone and EU member states are concerned, in 2012–2013, the European economy was affected by recession (Table 1) and only in the 4th Quarter of 2013 it began to show the signs of growth. However, the preliminary data for the 1-st quarter of 2014 indicate that this growth is fragile. Euro area GDP increased by 0.2% (+0.9% compared with the 1-st quarter of 2013) and in 28 EU countries up by 0.3% (+1.4%)[5]. It is worth noting that the Eurozone economic growth in the 1-st quarter of 2014 was much weaker than expected (+0.4%) and inflation remained locked in the 'danger zone' below 1%. The weaker-than-expected economic growth adds to pressure on the European Central Bank to loosen monetary policy further to reduce the risks of deflation in a barely growing economy. It is most likely that slight symptoms of post-crisis recovery that is less than 1% of GDP growth will be visible in Europe in 2014 after the 2012–2013 period of recession, at the same time the statistical "base effect" will be of considerable relevancy.

The dynamics of Japan economy in 2013 is described, primarily, in terms of its reaction to the initial results of the Abe reforms—an unprecedented package of monetary and fiscal stimulation measures. Such stimulation measures caused the deflation to halt, but the macro-economic consequences appeared to be of minor significance (Table 1), while the effect of Abenomics in 2013 can only be perceivable on the dynamics of Japan's foreign trade (exports increased by 3.8%, imports increased by 1.1 %). According A. Kaletsky the Japanese government bond market is in an enormous financial bubble that could burst catastrophically if Prime Minister S. Abe's audacious economic program is seen to have failed [7].

In April of 2014, industrial production in Japan dropped 2.5% over the previous month in seasonally-adjusted terms, which contrasted the revised 0.7% increase recorded in March and exceeded the 2.0% decline that it had been expected. The decrease marked the lowest reading since June 2013. It could be said that one of the fundamental problems of the Japan economy is that the country is facing the aging of population which means that the labor pool shrinks from year to year. Besides, the government commitment in spending on pensions, medical expenses and social security will continually act as a substantial burden to the already indebted country with a public debt of 240% its GDP.

As far as the developing countries are concerned, China presents a most striking example where the economy has been demonstrating its stable growth rates at the historically low levels for the recent years, and this tendency was prevailing in 2013. Currently, the economy of the People's Republic of

[4] http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=1
[5] http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-04062014-AP/EN/2-04062014-AP-EN.PDF

China is facing the trajectory of slower growth rates (Table 1 and 2), it is most likely to follow it throughout the year 2014, at least, and the GDP growth rates are expected not to exceed 7.6% [5]. Furthermore it should be observed that now China has a big debt problem which might affect country`s financial stability in the medium run. It involves effectively managing the process of rapid credit growth and gradual and orderly deleveraging of large stock of local government debt accumulated through off-budget and quasi-fiscal platforms. The high and rising level of local government debt, including the use of "special purpose vehicles", has raised concerns about local government's capacity to service their debt. If left uncontrolled, this could be a source of significant instability in the Chinese economy and by implication the world economy.[6] A large number of economists believe that China is most likely to disappoint expectations this year, and perhaps even cause a financial crisis big enough to break the momentum of global economic recover.

To conclude, some of the above evidence shows that both the IMF and the World Bank forecasts for 2014-2015 based on the assumption of the global economy acceleration and deeper on the interpretation of this crisis as a cyclical one appear to be too optimistic and does not reflect the actual global trends. The world economy have been facing continued vulnerability of the euro area to renewed financial, banking and sovereign debt tensions; exceptionally high public debt in Japan; deadlock and brinkmanship over fiscal policy in the US, and slowed growth in several major emerging-market economies. It seems everyone hopes that economic slump will not happen. But hope is not a strategy.

3. UNDERSTANDING THE CRISIS: THEORIES TO BLAME FOR THE CRASH AND PRESCRIPTIONS TO CURE THE MALAISE

It is now generally recognized that modern economic science based on conventional economic and mathematical models failed to foresee the current financial and economic crisis and that has made the ground especially fertile to rethink the discipline foundations [8]. Why did mainstream economics miss the crisis? Today critics tend to agree on what is wrong with current macroeconomic forecasting. Most of them targeted the "dynamic stochastic general equilibrium" models used by the Federal Reserve and other central banks. In addition many of the mainstream assumptions have been attacked including efficient financial markets and rational expectations, on which these models are predicated. These assumptions were widely recognized as too simplistic equally unrealistic. Evidently risks increase if right steps are not taken. However there is less agreement on what should replace the old ways. Could any other economic theory and its prescriptions for economic policy do better?

In 2008 - 2009, there was a resurgence of interest in Keynesian economics among economists and policy makers. This included discussions and implementation of economic policies in accordance with the recommendations made by J.M. Keynes in response to the Great Depression— most especially fiscal stimulus and expansionary monetary policy. Meanwhile Keynesian ideas have also attracted considerable criticism in recent years.

Here we offer a review of the current crisis impact on the two most influential theoretical trends in modern macroeconomics – the New Keynesian economics and neoliberalism (which is based on neoclassical economic theory[7]). In our opinion, their theoretical discussions are determining the evolution of the economic theory after the crisis of 2008-2009, as well as a large number of attempts to understand the crisis itself and its consequences.

Although economists are in agreement as to the external dynamics of the current crisis, they have significant differences in explaining the deeper-going fundamental causes of the crisis. The New Keynesians, e.g. P. Krugman and R. Reich, the former Secretary of Labor in the Bill Clinton's Administration, argue that the fundamental cause of the crisis is the concentration of wealth and

[6] http://www.stanlib.com/EconomicFocus/Documents/Global/China%20local%20government%20debt%20Feb%202014.pdf
[7] As an academic paradigm the term of neoliberalism is closely related to neoclassical economic theory. Under reference to this theory neoliberals support for great economic liberalization, privatization, free trade, open markets, deregulation, and reductions in government spending.

the dilution of the middle class in the USA [9, 10]. Their opinion is based on the old hypothesis advanced by Keynes on the decrease of the marginal propensity to consume with growth in disposable income thus resulting in underconsumption, i.e. the lack of aggregate demand. In the event of the Great Depression of the 1930s, such lack of demand should have been offset by the government expenditures, on the one hand, and progressive taxation, on the other hand.

The Keynes hypothesis was criticized. According to neoliberal economists, it is the rich who provide major investment through high level of savings and a relatively low marginal rate of consumption, if applied to the long term period. The high rate of savings of the rich enables economic growth on the basis of on-going technological innovation.

This argument is refuted by the New Keynesians – in the era of globalization and "financial capitalism" the rich Americans invest in the real sector abroad, thus giving rise to a specific model of economic growth – the growth of consumption accompanied by relative slowdown of the volume of industrial production. Therefore, the crisis of 2008-2009 was basically caused by the growth of consumption in the USA at the expense of the aggregate government and household debt, while the income of most households has been at a standstill since the early 1980s. What is the reason for the concentration of profits? According to P. Krugman, this is the result of the policy which he described in the collection of his columns entitled *The Great Unraveling*, where he calls neoliberal economists and neoconservative politicians 'conspirators' and illustrates his thesis by the examples of establishing shadow 'think tanks' that service the neocons. People from such think tanks are promoted to key positions, from those who mastermind academic programs to governors and members of presidential teams [11].

Hence the new Keynesians' recommendations on the building of welfare economics – progressive taxation, tightening of government regulation on the financial markets, increase of the aggregate effective demand through government investment in the reconstruction of public infrastructure (from roads and "green" energy to health care, education and spending on R&D). History repeats again, and this is actually the well forgotten old truth – the welfare economics model that was in the mainstream after World War II till the end of the 1970s. This is also a revival of the economic discussion of that time that led to the defeat of Keynesian regulation in the 1970s.

The Keynes renaissance comes as no surprise. The Keynesianism is the only theory in the mainstream economics to handle depressions and to tackle such a severe crisis as the 2008 -2009 slump, which was declared to be comparable only to the Great Depression. This comparison itself implies to turn to Keynes legacy. Thus it is not misleading to talk of a shift to Keynesian policies as governments across the world spend trillions to help private capital survive the 2008 -2009 global crisis. There has been, as P. Krugman says, a "return of depression economics," and in that sense one can talk about a revival of broadly "Keynesian" policies. Keynes advocated expansive fiscal policy and deficit financing in a depression, and during the current crisis acute phase most governments were seeking to put such expansive policies in place to some degree - although generally not on a big enough scale.

Nevertheless, under the burden of budget deficits in the developed economies, the growth of government investment in infrastructure projects has its natural limits, which already challenged the discretionary fiscal policies in the 1970s. The failure of Keynesian economy at that time was caused by financial, rather than political factors – neither the USA, nor the UK could cope with stagflation in the wake of the oil shock of 1973. The New Keynesians still give no answers to these long outstanding questions. Moreover, at present, the debt problems in Greece, Spain, Portugal, Italy and Ireland are the problems of bloated budgetary obligations, i.e. too big public sector. Thus the burning problem is what should the public sector be like? Is there a probability that the reduction of the public sector would result in the dilution of the middle class and other negative effects which already exist in the USA? The New Keynesians have no answers to these questions.

It should be noted that the New Keynesians identify one more cause of the crisis, i.e. the monopolies whose influence deteriorates the functioning of the market mechanisms and exerts pressure on the creeping inflation. Nobel laureate J. Stiglitz, a most harsh and staunch critic of transnational corporations and deregulation conducted by the US Government under G. Bush Jr., consequently

considers regulation a requirement for solid recovery and promotes to undo the 1999 repeal of the regulative Glass-Steagall Act. Thus he contends that for the markets to operate properly, the government must intervene, what was proven by the 2008 financial system collapse [12]. Besides he strongly believes that neoclassical model of economy, which theoretically and ideologically uphold the pro-monopoly policy has crashed. The model's theoretical assumptions – rationality of individuals (and the rational choice based on it), homogeneity of goods and labor, perfect information (with the corresponding negation of widely accepted information asymmetry), flexibility of prices are unrealistic. This is the very point promoted by the Keynesians.

Meanwhile, neoliberals, advocates of minimal government intervention, also have a say in post-crisis theoretical discussions. Note that ideological victory of neoliberalism in the 1970s was backed by the failure of most governments in the developed countries to get through stagnation using Keynesian methods. Neoliberalism at that time was associated with the name of Nobel laureate and a leader of the Chicago school of economics M. Friedman. To head off inflation, M. Friedman developed a theory of monetarism. He believed giving governments any flexibility in setting money growth would lead to inflation and therefore, central banks should follow a procyclical monetary policy and expand the money supply at a constant rate, equivalent to the rate of growth of real GDP. Many monetarists aimed at reviving the pre-Keynesian view that a market economy is inherently stable in the absence of major unexpected fluctuations in the money supply.

The confidence in the efficiency of procyclical policy is based on a much more dubious assumption that is the velocity of circulation of money thought to be constant in the long-run. Practically during the 30 years of neoliberal policy, it was the uncontrolled credit expansion that took place, and not an active constraint of the growth rate of money supply. The theory has been exploded by the precipitous fall in velocity in the Japanese "Lost Decade" and a phenomenon of a liquidity trap. Furthermore it does not help in the short term and does not allow central banks to respond directly to immediate financial and economic turmoil. Though it might seem strange, but the monetary policy based on monetarism appeared to be totally utopian. Such policy was not pursued over any extended period of time by any country. M. Friedman's ideas, if assessed on the basis of his own methodological criteria [13], seem to be incorrect – no matter what were the primary assumptions of this concept, the monetarist predictions have never come true.

Among neoliberal concepts there are other ones, not less known theoretical ideas, which by now have gained the status of intellectual error. The model of A. Laffer curve, for instance, is a vivid and illustrative explication of "supply-side" economics. This theory was not confirmed by any practical evidence; nevertheless it was used to substantiate the need for tax reduction and liquidation of progressive taxation during Ronald Reagan's presidency in the USA [14, 15]. Another under the crisis disputable theory is the hypothesis of rational expectations developed by R. Lucas and T.J. Sargent, both of then received the Nobel Prize [16]. It is based on the assumption that prices bear all information, which is necessary for decision making, and the markets due to high flexibility of prices are always in the state of equilibrium. Therefore, the case of deflation is impossible, and inflation may be defeated by simple actions – rising interest rates, decreasing money supply (also through the sale of treasury bonds). Had this theory been true, the crisis of 2008 - 2009 would have been impossible.

It is worth noting that neoliberalism is sharply opposite to the frame of reference under the orthodox liberalism. Liberal war against monopolies, their strong state regulation is replaced by neoliberal abolition of restrictions on mergers and acquisitions, the granting of opportunities to one business entity to act simultaneously in various jurisdictions, which helped the formation of huge modern transnational corporations who are not less economically powerful than the state itself. Such policies are not in conformity with the classical liberalism – business entities should not have the right to set legislative rules, which they themselves use to conduct their business. Economics must not be mingled with politics. Otherwise, corporations would gain their exceptional competitive edge.

This is likely to limit the consumer freedom of choice. Nevertheless, according to R. Pozner, the courts that deal with antimonopoly cases should be oriented at maximization of consumer welfare, but not choices [17]. Consumer welfare should be construed as the welfare of the public, at large. Therefore, according to the neoliberal doctrine, the growth of efficiency (in fact, profitability) that is

achieved through mergers and acquisitions may increase the welfare, even if the choices are narrowed down. The above argumentation helps to explain why during the 2008 -2009 crisis the US Government granted an unprecedented funding to bail out corporations, mainly those of financial sector. The requirement of the classical liberalism would be the recovery of the economy through the bankruptcy of inefficient and weak businesses. Yet there are none on them and the market is oligopolistic, thus a downfall of any big efficient corporation would entail the downfall of the whole consumer welfare. Such state of affairs has become indubitable to the American (and apparently to the European) establishment and no fierce debate is fueled on the matter. As a result, big corporations and banks (mostly in the USA) came out the crisis of 2008-2009 bolstering their economic and also political influence.

To conclude, the neoliberalism, neoclassical economic theory and particularly the classical Chicago school position had already been under criticism, but the 2008 financial collapse came as a big shock to the profession. Indeed, it challenged the fundamental Chicago`s theoretical assumptions, which at the same time are ideological postulates, notably the thesis of market efficiency. Despite many evidence of inefficient markets given by the crisis, one can see tenacious unwillingness of some orthodox Chicago scholars to accept the fact. E. Fama formulated in 1970 the efficient market hypothesis still thinks that the market is highly efficient at the overall level and "if it isn't, it's going to be impossible to tell" [18]. A similar view is shared by G. Becker, though he mentioned that not always "free markets do a good job" (because "they are not perfect"). However, in his opinion, they are merely "not very effective", but still fundamentally effective in comparison with the government [19].

Discussing the causes of the 2008 crash and subsequent recession of 2009, E. Fama insists that the recession predated August 2007, when the subprime bond market froze up. When asked about what caused the recession if it was not the financial crisis, he gives a response that in the theory there is no such thing as a crisis, so there is nothing to explain it: "that's [the point] where economics has always broken down. We don't know what causes recessions. Now, I'm not a macroeconomist so I don't feel bad about that. We've never known. Debates go on to this day about what caused the Great Depression" [18].

All in all, despite its failure to predict and explain the crisis of 2008 – 2009 and criticism from the New Keynesians, the neoliberalism, from our point of view, remains in the mainstream of the modern economic theory, and has determined to a certain extent the state regulation doctrine pursued on its basis over the post-crisis period [8, 20]. G. Becker is convinced that this crisis will not change economics and "economists will be struggling to understand how this crisis happened and what you can do to head another one off in the future, but it will be nothing like the revolution in the role of government and in thinking that dominated the economics profession for decades after the Great Depression". And further: "I think we are going to improve macros, some of the models were too simplistic. They captured important parts of the economy, but they weren't really preparing us for how to handle a crisis". Thus G. Becker simply ignored the fact that the neoclassical economic theory, including the Chicago school`s models were designed not to handle crises. These models and their builders ruled crises out by assumption [19].

In 2010 with the recession averted but unemployment in many countries still high, policy makers generally decided against further fiscal stimulus that is ceased Keynesianism infused policies. The neoliberal policies are still viewed by many as discredited, yet many insists that core concepts of monetarism remain valid [21]. Indeed, the aftermath of the current explosion of government spending and budget deficits may bring a corresponding revival in monetarist economic theory. It seems that history is about to repeat itself. Therefore finally one cannot but agree with the view that the recent financial and economic crisis and the response to it revealed a crisis of ideas in mainstream economics and within the economics profession and call for a reshaping both of them.

4. TAKING A BROADER APPROACH TO CONCEPTUALIZE THE CRISIS ANT ITS ORIGINS

In view of the crisis of 2008 - 2009, multiple problems that seem to have been solved many times on theoretical or application-oriented levels of the economics become urgent again. First of all there will be a lot of work trying to figure out what happened and why it happened. Many economists believe that the recessions as a part of ordinary business cycles are quite normal periodical fluctuations in production or economic activity. However the main point what turns a normal recession or downturn into a big depression. This is a subject of much debate and concern. Scholars have not concurred on the causes and their relative importance yet obviously that its detecting and exact defining are closely connected to the issue of preventing future depressions.

Evidently today we are not facing a normal cyclical downturn. The recession may now be officially over, but its effects live on in the form of a host of associated labor-market problems and the ongoing threat of a double-dip recession and new financial bubbles. Furthermore now we have still had extremely weak growth of GDP for advanced economies, European sovereign-debt crisis, and lack of fundamental changes in banking and financial markets. And it seems that a recovery will be very slow. Thus it appeared that the economy worldwide is being impacted by a deep systemic crisis.

The Great Depression was the first global systemic economic and financial crisis and so can be treated as the wrecking of at that time historically established structure of the world economy. It was accompanied by the sudden devastating collapse of US stock in 1929. However it was not the cause of the depression rather a symptom. Regarding today`s crisis, obviously things have changed enormously – the US went through a big credit crisis, having damaged financial institutions globally and as a consequence the global financial system brought down the economy (which is nowadays hugely dependent on finance), and not vice versa. Firstly the world economy slowed as credit tightened and international trade declined, and then there was downturn in economic activity leading to the global recession (the so called Great Recession).

In view of that the authors accept the hypothesis that the current crisis was triggered by a surplus of financial rather than productive capital [22]. Consequently we should place the current events and process in global economy within a broader crisis of monopoly-finance capitalism and agree with those who consider the 2008 crash and subsequent recession as a systemic crisis —one that has been gestating for several decades [23]. It resulted in the author`s hypothesis to advance that in-crisis global finances and economy are moving to a qualitative restructuring, to a new stage of its development and this process can be compared with the same one in time of the Great Depression and during the structural and monetary crises of the 1970s [22]. Thus the current crisis phenomena is not so much a crisis (recession, downturn) itself, as symptoms of demolition of the existing global economic and financial structure and rising of a new one. A somewhat similar view can be founded in the recent A. Kaletsky's suggestion of the birth of a new economy in the aftermath of the crisis, emergence of a new form of capitalism, which he calls Capitalism 4.0. He puts forward for consideration that capitalism is "not a static set of institutions but an evolutionary system that reinvents and reinvigorates itself through crisis" [24].

We evolve our hypothesis related to the nature of the current global crisis on the basis of the historical studies and the Marxian induced conceptual apparatus including a notion of "reproduction" (instead of too general term of "development"). Briefly, the essence of our hypothesis is as follows [22, 25]:

1. Historically, the economics emerges in Antiquity as a synthesis of global trade and some of the handicraft industries based on the division of labor that was in existence in the Mediterranean region at those times (6th–4th centuries BCE). However, the economics of Antiquity was characterized by its dependent nature and formed a certain superstructure over the local bunch of households of that time, which relations were based on barter transactions. Therefore, it was developing extremely slowly along with the development of economies based on the influx of slaves. Here, economy (in a broad ancestral sense of German "Wirtschaft" and French "vie materielle" that is material conditions of life) is understood as a social structure of reproduction of material conditions underlying human existence. Within the context of such concept, the market is not an exchange system, as it is generally accepted.

The market is a specific global trade structure that is formed on top of the totality of local "exchange places" and embodies, actualizes a merchandise transportation and wholesale goods storage function. Understood as above, the market becomes together with the state a precondition for the emergence of the first monetary systems. At that time, these systems embody and actualize money functions as well as finances and capital functions (wealth growth). In the High Middle Ages (13th century), within the framework of the banking sector, finances materialize and gradually become objectified— initially as a form of bills circulation.

2. Banking (initially referred to trading houses' branches) separates the functions of money and finance circulation giving rise to the circulation of debt obligations with interest. Under the state fiscal system establishment, which fuels a demand for fiduciary funds, finances become a special domain— the domain of extended reproduction of debt obligations in a monetary form. Loan market extension becomes a prerequisite for an expansion of commodity markets and new types of commodity productions, whose actors are always short of money.

3. All the above, along with the advent of wage labor and manufactory system becomes a precondition for the emergence of productive capital in 15th–17th centuries, it gradually capitalizes the "old" medieval economics and transforms it into social production, a synthesis of merchandise production and circulation. Step-by-step, the capital develops into a new (and then typical) model of wealth taking this function away from the monetary (coins) circulation. The interaction of capital and other economics components forms the value as a new wealth type and promotes a transformation of prices, money, and financial instruments into the modern types of the same economic phenomena. Gradually, capitalized economics becomes not only independent, but also acquires its own evolution and development regularities, thus separating from its parent domain, economy (material life conditions). From here, economics is a domain for expanded reproduction of value and its own evolution give rise to imbalances involving slow development of material economy. This, in turn, creates prerequisites for economic declines and depressions.

4. Gradually, within the 18th–19th centuries, a new field of activities is formed — financial asset circulation, initially in the form of stock markets. Stock markets, based on shares circulation as capital stock titles, actualize an additional function of capital flow bypassing finance and banking sector. Indeed, before the age of fund markets, a production capital actor had to buy an entirely private enterprise or build a new one. Now it is possible to be an owner of a business with only a share. Therefore in point of fact, the domain of financial assets creates one more "layer" of social interaction on top of such social sphere as economics and finances.

5. Thus, in the systemic sense, a global economic system is a synthesis of realms ("layers"), which historically emerge, reproduced themselves, and interact – local economies (material conditions of life), world economics, global finances, and financial assets. Each new configuration of the above-listed components within the scope of every cycle of economic development is *unique*. Moreover this unity is active and agile in its essence, and its growth in the beginning of the cycle of its development is relatively balanced: economics stimulates the development of local economies, and finances raise the levels of activity in economics. However, the capital develops faster than its fundamental material productions and this causes new disproportions to store and then to surface. Therefore, ultimately, under each configuration certain conditions are shaped which are "external" to historically established types of capital and wealth and their particular development, and these conditions cause each global critical juncture or a regular crisis.

6. Thus world crises should be studied as the processes that destroy such configurations (temporary syntheses) of self-reproducing and interacting realms. Upon the end of each world crisis, which partially eliminates disproportions related to the overproduction of different types of capital, a new synthesis evolves and enables global economics and finances to grow. This happens due to the factors listed below:

- growth of a certain segment of businesses based on material productions;
- taper of local economies and households, which are not yet capitalized and under the process of capitalization destroy and take part in economics.

7. However, the crises themselves are characterized by devaluation of all wealth types, inter alia:

- curtailment of commodity manufacturing along with a likely deflation, as well as funds devaluation;
- devaluation of all types of productive capital, including banking one, which is manifested in the interest rate increase and growth of borrowing cost with view to eliminating risks;
- financial asset devaluation that is stock market decline.

8. Within several industry and commerce cycles (about 4–7), such a vast number of new elements is accumulated across the spectrum of local economies, economics, finances, and financial assets and their interactions; and such a great number of disproportions is amassed within the specific historical configuration of economy, economics, and finances that it gives rise to the transformation into new quality. Therefore, a severe systemic crisis develops, which has to deal with even deeper imbalances, and a "new" global economy (a new synthesis), which is formed at the turn of the crisis, differs from the "old" one in its essential features and irreversible character.

5. CONCLUSIONS: IN THE AFTERMATH OF THE CRISIS

What conclusions can be drawn from the above?

1. Today's crisis that hit the global economy is not a regular cyclic crisis, and, in fact, it has been provoked by the over-accumulation of financial but not productive capital.

2. The current crisis is of *systemic* nature, and its character is not described under the mainstream economics theories that outline cycles. It is most likely that we are witnessing a process of establishment of a new financial capital form, which is based on derivatives circulation; it commenced in the late 1970s and early 1980s. The development and reproduction of these new types of financial relations is of a parasitic like nature as to the rest of the global financial system. It means that the new superstructure is not stable yet and it does not act to stimulate global economic growth, but exhaust economic resources. Under the present circumstances, the crisis of this rather unstable superstructure appears to be of systemic nature.

3. This crisis commenced in 2008 exposed a "triple" imbalance in the global economics:

a) between the accelerated reproduction of the new form of financial assets based on derivatives circulation and the slower but expanded reproduction of the "old" global credit and financial system, which was formed after the Great Depression;

b) between the expanded reproduction of the global credit and financial system and even slower but always expanded reproduction of the global economy (material and social production);

c) between the expanded reproduction of the global economy and limited reproduction of global material conditions of life (especially within certain sectors as replenishment of fresh drinking-water and some minerals, recultivation of soil and forest, renewal of basic economic infrastructure), which also includes destruction of the traditional type of family that causes migration from underdeveloped to developed countries in order to meet the demand for labor force.

4. The previous authors` analysis of crush of 2008–2009 and recessional development of 2010–2014 [22] reveals that in the crisis situation, an "old" international financial and banking system, controlled by the Federal Reserve, got the upper hand, while the financial institutions based on the reproduction of derivatives lost their positions. However, it was a Pyrrhic victory. An attempt to restart the existing global financial system with the dollar dominating as a global reserve currency is feasible for a mid-term perspective, yet for a long-term perspective, its instability is bound to increase. In the long run, the most likely scenario is a gradual relocation of the center for financial capital reproduction to China (as before, at one time, the financial center was relocated from the British Empire to the USA).

5. To the extent that the global slump of 2008–2009 was triggered by the derivatives overproduction, it gave rise to the decline in the real sector of economy *earlier* (at least one-three years earlier) than the

economic overproduction crisis should have actually anticipated to occur. The global economy appeared to be thrown back to its 2006–2007 level. However, due to the fact that it had not reached its peak by 2008, it has been re-establishing its former local tendencies in the course of its development since 2010 (certainly, involving a degree of substantial adjustment). This means that within a foreseeable perspective, as a matter of fact, the overproduction economic crisis, as such, may occur, and its time limits hinge upon the reorganization of forces within the USA-China-ASEAN "triangle".

6. If this hypothesis is correct, the current global economic development can be considered not as a process of sluggish post-crisis recovery, but as a worldwide transformation of the global financial and economic system. Yet, regarding the extent of problems it has to handle, it surpasses the crises of 1970s changes. This crisis is just one of the aspects underlying the formation of the new global economy in the 21st century and the destruction of the old economic and technological relationships.

7. What is a tentative date for the new slump? We believe that by now every month counts, maximum one-two years. A period from 2014 to 2016 will be marked by a new phase in global economic transformation—transformation toward the establishment of new types of financial and capitalistic cooperation, including a new wave of crisis phenomena. The vagueness of time limits is explained by the feasible variations of the politics pursued by the world powers, as well as by the process of global finance reorganization.

REFERENCES

1. Three Top Economists Agree 2009 Worst Financial Crisis since Great Depression; Risks Increase if Right Steps are Not Taken // Reuters, February 27 - 2009.

2. *Krugman P.* (2009). How Did Economists Get It So Wrong? // New York Times Magazine, September 2.

3. World Economic Outlook. April 2014, IMF. http://www.imf.org/external/Pubs/ft/weo/2014/01/

4. Communiqué of the Twenty-Ninth Meeting of the IMFC. 12 April 2014, IMF. http://www.imf.org/external/np/sec/pr/2014/pr14169.htm

5. Global Economic Prospects. June 2014, World Bank. http://www.worldbank.org/en/publication/global-economic-prospects

6. *Cruise S.* (2012). Zero Return World Squeezes Retirement Plans // Reuters, August 4.

7. *Kaletsky A.* (2014). Japan as the Crisis Next Time // Reuters, March 14.

8. *Hodgson G.M.* (2009). The Great Crash of 2008 and the Reform of Economics // Cambridge Journal of Economics Vol.33, Issue 6, pp. 1205-1221.

9. *Krugman P.* (2009). The Conscience of a Liberal. — W.W. Norton & Co.

10. *Reich R.B.* (2010). Aftershock: The Next Economy and America's Future. — Vintage.

11. *Krugman P.* (2004). The Great Unraveling: Losing Our Way in the New Century. — W.W. Norton & Co.

12. *Stiglitz J.E.* (2010). Freefall: America, Free Markets, and the Sinking of the World Economy. — W.W. Norton & Co.

13. *Friedman M.* (1953). The Methodology of Positive Economics. Essays in Positive Economics. — Chicago: University of Chicago Press.

14. *Stockman D.* (2013). The Triumph of Politics: Why the Reagan Revolution Failed. — PublicAffairs.

15. *Krugman P.* (1995). Peddling Prosperity: Economic Sense and Nonsense in an Age of Diminished Expectations W. W. Norton & Company (April 17, 1995)

16. *Kay J.* (2011). The Random Shock that Clinched a Brave Nobel Prize // Financial Times, October 18.

17. *Posner R.* (2001). Antitrust Law. — Chicago, University of Chicago Press.

18. Interview with Eugene Fama posted by John Cassidy // The New Yorker - January 13, 2010. http://www.newyorker.com/online/blogs/johncassidy/2010/01/interview-with-eugene-fama.html

19. Interview with Gary Becker posted by John Cassidy // The New Yorker - January 14, 2010. http://www.newyorker.com/online/blogs/johncassidy/2010/01/interview-with-gary-becker.html

20. *Levine D.K.* (2012). Why Economists Are Right: Rational Expectations and the Uncertainty Principle in Economics // Huffington post, January 26.

21. *Issing O.* (2010). Is Monetarism Dead? Has the Resurgence of Keynesianism Already Peaked? // The International Economy, spring

22. *Frolov, I. E., Koshovets O. B., Ganichev, N. A, Tsipko V. A.* (2011) Budgetary Resource Management and Expenditure Control against the Backdrop of the Financial and Economic Crisis: International Experience and Lessons for Russia. — Moscow, Accounts Chamber of RF. (Russian).

23. *Foster J.B., Magdoff F.* (2009) The Great Financial Crisis: Causes and Consequences. — Monthly Review Press.

24. *Kaletsky A.* (2010). Capitalism 4.0: The Birth of a New Economy in the Aftermath of Crisis. — PublicAffairs

25. *Frolov I. E.* (2010). Theoretical and Methodological Aspects of the World Economic and Financial Crises Forecasting // Scientific Transactions of Institute of Economic Forecasting of the Russian Academy of Science. – Moscow, MAKS Press. (Russian). http://www.ecfor.ru/pdf.php?id=books/sa2010/01