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PARADOXES OF ECONOMIC THEORIES AND POLITICS¹

The article gives an overview of the evolution of economic theories, the conditions which led to the formation of their modern schools and focuses on the analysis of arising classic, neoclassic and Keynesian doctrines encouraged by the growth and development of productive forces (factors of production), the formation of big corporations-monopolists and technological progress. The severe global recessions (1929–1933) and other shocks of the capitalist system brought to life the doctrinal theory, which is alternative to the classical one. The doctrinal theory was a theoretic and methodological basis of the System for half a century, then it was replaced by neoliberal and monetarist theories that proved to be inconsistent during the global crisis and depression in 2008–2013. The article also touches upon the necessity to change the economic policy of Russia — an urgent problem resulting from a policy of the Western countries trying to suffocate the country with sanctions.

Keywords: history of economic thought, economic theory, economic policy, recession, the Great Depression, New Deal by F.D. Roosevelt, the Great Recession

Liberal Theories Are an Outstanding Achievement of the Civilization

There is a well-known thought of J.M. Keynes, a great economist, that the vision of the economic policy of any statesman is based on a particular economic view, regardless of whether he/she is aware of that. However, regular citizens are deluded into thinking that the government is free from any theoretical schools. They do not look at the “philosophy of politics”, rather consider the living standards of people, first of all, their key indicators — economic growth, salary, benefits and pensions, rate of unemployment, confidence about the future, etc. Are there many people who think about which theory (philosophy) has been the basis for the Russian economic (macroeconomic) policy since Vladimir Putin came to power in August 1999 until now? The matter is that however much people curse the “turbulent 90s”, Russia follows consistently the same very course offered to it by the Washington Consensus in 1991 (the Russian Parliament for the time being, opposed it and for that reason it was abolished) with further consequences. Another issue: it is strange to hear (and read) numerous speeches and massive publications of national politicians and economists, not to mention journalists and others who declare that the liberalism is the origin of all the problems of Russia one may think of. At the same time, despite some changes, although not very significant, the economic policy of the government, as I said above, rests upon clear neoliberal and monetarist concepts heavily criticized during and after the global recession of 2008–2010 [1]. However, these concepts can hardly be called liberal ones. They obviously contradict the classical economic liberalism that originated in the works of great Adam Smith and his followers — the fathers of the economic theory. Liberal ideas of the Enlightenment had a potent effect upon the formation and development of the economic doctrines that became the main components of classical economic theory (and political economy) by Adam Smith; they were the ones that influenced the social revolutions in Western Europe and North America (in North America, social (bourgeois) revolution had a form of anticolonial struggle against the Crown (British Empire)). The notion of “economic liberalism” is a catchall term, comprising a range of pre-classical, classical, Keynesian and socialist concepts and doctrines starting from the end of the 17th century until now. It does not only substantiate the free enterprise and free trade (Laissez-faire, free trade) based on private property and free competition but also places the problem of the man of labor in the center and considers labor as the main source of wealth. Adam Smith also introduced his famous “natural law of justice”. By developing different aspects of this law, Smith integrated it into the key doctrines of the “classical” theory. Smith’s successors (J.S. Mill, T.R. Malthus, especially David Ricardo), as well as Karl Marx (the founder of another system) elaborated the labor theory of value by Smith (Marx wrote about the capitalism 100 years later after Adam Smith, when it already acquired quite new features). But one main concern unites all the classics — care about the man of labor. They grounded a necessity

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of fair distribution of the newly created value in compliance with the role each of the three factors played in the production (labor, capital, land). They rejected the all-might of the absolutist state in the late Middle Ages and in the early period of capitalism, suppressing the emerging capitalism and the bourgeoisie — the progressive class, progress beams, whose ideology was the liberalism that played a huge positive role in the development of the modern civilization. By a strange coincidence, the principal work by Smith called *An Inquiry into the Nature and Causes of the Wealth of Nations* was published in 1776, the same year when the United States Declaration of Independence was adopted. The economic liberalism, just as the political liberalism, was a product of a long evolution of the Enlightenment and its consequence — the modernism. That is why not only limited educated strata of the society and the new commercial and industrial bourgeoisie but most of the urban population — labor strata (emerging proletariat, craft and workshop communities as well as prosperous farmers who supply their products to the town and suffer from strong pressure of feudal lords) embraced it in the 18th century. The central idea of the liberalism (both economic and political liberalism) was not only the equality before the law, but also the equality of opportunities, the creation of conditions for their implementation, the society's care for the weak and the vulnerable, children, ill people. As the capitalism was developing and the liberal values were disseminating, the vision of Smith's capitalism and its original classic interpretations were subject to the strongest erosion. The corporations — monopolies and banks — were becoming more and more powerful; they were not afraid of the state anymore, and influenced directly the formation of a particular government through the political parties or trade unions they controlled. The economic doctrines were losing their independence more and more, they survived only at a microlevel, in the areas related to the market forces and corporate competitiveness. It should be noted that the entire second half of the 19th century was the most serious test for the capitalism, in Western Europe the social revolutions followed one another, the wars were raging, Marxist theories were rapidly spreading encouraged by the extremely tight situation of the labor class, which number was growing fast as a result of the capitalism development. The living conditions were harsh, children's labor was widespread. The warnings of Adam Smith, a founder of the classical economic theory, with regard to the fair distribution of surplus product between all the owners of the factors of production, sank into obscurity — the only postulate remained from his theory: "absolute freedom of private enterprise". Perhaps, being influenced by a hazard of onrushing Marxism (that radically rejects private property), Otto von Bismarck, the Iron Chancellor of Prussia (who united the isolated German principalities into one state), was the first to feel the deadly threat. He introduced serious limitations to uncontrollable exploitation of workers through the labor laws, established eight-hour day, days-off, medical care for workers, universal education and other social standards. It improved significantly the economic and social situation in the capitalist countries where trade unions also started to operate. As an alternative to Marxist doctrine about the armed uprising of the laboring class, a reformist way of social protests appeared — the result of mitigation of the extremely rough model of the post-Smith capitalism (during its transition to monopolism). But the American capitalism in the second half of the 19th century had ferocious manifestations; the regime fiercely punished the dissatisfied workers who went to the protest demonstrations against inhuman labor conditions. By the way, here, in the US, May 1 was first declared the day of workers, having become an international Labor Day.

The End of Smith's Classical Capitalism

As it was mentioned above, the end of the 19th century was characterized by fast growing corporations and monopolist banks, the domination of giant economic and financial institutes which branch networks stretch to all the continents. The USA, Great Britain, Germany and partially the Russian Empire stood out, which economic interests (to be more precise, the interests of the leading entrepreneurs-monopolists) required the world repartition. Currently, in 2014, when many countries, especially in Europe, commemorate the 100-year anniversary of the First World War, the paramount attention in the speeches and publications is paid to subjective acts of the governors of main European countries, while the giant industrial and financial monopolies, among which German ones were especially aggressive, were the real triggers of the First World War. The war led to terrific consequences for the countries — key participants — four empires disappeared, the USSR appeared; the disasters of the peoples were awful, misery and hand-to-mouth existence, once seen in most nations, now were present in the richest countries, including the USA, up to the late 1940s and the early 1950s (when the welfare state appeared). It is not a common practice to write about this in the

scientific articles, perhaps, because of an illusion that “people in the Western countries have always lived well and happily”. However, some distinguished scientists of the West, including the USA, feel free to discuss this delicate issue [2]. This war, fatal for the absolute majority of the peoples in Europe (and not only), appeared to be good for big banks and corporations: they were growing at a record speed and “shared” their income with workers less and less. As a result, in the 1920s, the class struggle in Europe and the USA grew much sharper, mass strikes, demonstrations and other protest actions became usual. They were suppressed cruelly by policemen and army troops. Unprecedented despotism of big corporations and banks became a special phenomenon, first of all, in the USA, where stock market was then booming, speculative exchange transactions increased rapidly. Moreover, there was no central financial regulator — the central bank. Two attempts to create it in the 19th century failed — private banks considered it to be the violation of the Constitution and succeeded in its liquidation (both of the First and Second Central Banks) by the Supreme Court. Smith’s capitalism with a doctrine of relatively equal distribution of material benefits was already a history, although, the theoreticians, who reflected the interests of big corporations to a large extent, glorified the name of Adam Smith and the university professors were constantly “discovering” new ideas by Adam Smith that idealized the modern economic situation. A huge number of “parallel theories and concepts” appeared that glorified two doctrines of Smith, namely: absolute freedom for private enterprise and no government interference into the economy. All the other postulates by Smith, no less important, were rejected as junk.

The Great Depression — the End of Classical Economic Theory

It is not a coincidence that in 1929 the famous stock market collapse happened, the Great Depression began, spreading worldwide, having almost extinguished the world capitalism. A lot of scientific and other articles were written about the reasons of this crisis, which was unique in scale and depth. There were attempts to make an analysis through a combination of different accidental circumstances, some analysts saw the reasons in immoderate greed of the stock dealers involved into speculative trading, others (already at that time) were trying to see the origin of the crisis in the “interference” of the federal government into the financial sector (although these attempts were extremely timid). And, at last, one more point of view, new for that time, which appeared both in European and American printed mass media, challenged the system itself, although not very clearly. F.D. Roosevelt’s presidency in the midst of the crisis (1933) and his decisive measures laid the foundation for reconsidering traditional roles of the state and the enterprise. There were real grounds for the emergence of an alternative economic theory — Keynesianism — as a methodological basis for a new economic policy of the world capitalism. It became clear that Smith’s economic theory, especially in its absolutely vulgarized form with humanistic aspects removed, does not work anymore. “Free enterprise stayed in the age of Queen Victoria”, Professor Paul Samuelson, an American economist, aptly said. The problem was that the formation of the monopolistic economy sector changed the fundamentals of the classical (Smith’s) capitalism — financial capital appeared. The monopolistic sector — financial capital — lived its life and was indifferent to the competition, and the antitrust law and practice do not influence it much. In some sense, it started to remind the socialist public sector, although in terms of contribution into GDP its share did not exceed 25 % just before the Great Depression (now — around 40 %). However due to the huge power of individual corporations and influence upon the politics, they had (and still have) a dramatic impact upon the reproduction and the national policy. And since they were the key speculators, the crash of the New York Stock Exchange triggered the Great Depression.

New Deal of President Roosevelt and the Welfare State

Yet in 1933, during the continuing deadening economic crisis, F.D. Roosevelt, a new American President, came into the White House and started rapidly to introduce a well prepared program called the New Deal that meant. unprecedented state regulation of all the aspects of economic, financial, agricultural areas, and the labor relations. Big entrepreneurs and bankers were trying to resist, but their resistance was fast and intensively suppressed by the White House, moreover, they were frustrated by the accusations of the society that the “fat cats” were true culprits of the crisis. Many of them went bankrupt, others lost a significant part of their wealth. The tax for the rich class was increased unprecedentedly high — up to 90 %. Fundamentally new laws were formed and enacted, governing almost all the aspects of economic and financial activity of private agents of production and market. In 1936, three years after the

beginning of Roosevelt's reforms, a British economist J.M. Keynes wrote his renowned work *The General Theory of Employment, Interest and Money*, which immediately became famous like the work by Adam Smith *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), 160 years later. Over more than one and a half century, the capitalism became fundamentally different, the laws discovered by Smith were not relevant anymore, and a new model of politics, which would be able to ensure its functioning as a capitalist system, was required. Keynes, an outstanding economist of the 20th century, managed to do that. He studied not only the practice of the military regulation by the governments during the First World War, the USSR planning economy, but also the practice of the New Deal by Roosevelt. He came to an uncompromising conclusion: the modern capitalism can evolve as a global system through intensive regulation of main aspects of the economic and social life only, while Adam Smith, witnessing the emerging "young" capitalism, believed that the capitalism can develop successfully if the state (the Crown) did not interfere into the activity of entrepreneurs, restricted only to the functions of defense, law enforcement and establishment of common rules for business by free manufacturers. The age of the Keynesian revolution began that most successfully advanced during the second half a the 20th century. These years, the capitalism (taking into account the competition between two global social systems; the socialism was then extremely attractive for hundreds of millions people all over the world) allowed a significant improvement of life standards in all the developed capitalist countries (thirty countries); the consumer society was formed, the welfare state appeared (according to J. Galbraith), a potential of the mixed economy increased, which intensified the competition.

Defeat of the Keynesianism, Advent of Neoliberal Monetarism

One of the main reasons of the Keynesianism defeat is that West European corporations fortified their position in the 1950–1970s and entered into the competition with American ones as equal, particularly in West European economic environment (initially). They already did not need care by the state (in compliance with the Keynesian policy) but felt it as a burden and demanded from their governments to cancel many rules and standards governing big business — like it was made to a large extent in the USA. In its turn, the Keynesian proponents associated successful attack of the European and Japanese corporations upon the positions of American big business with active governmental interference into the economy and especially the finance sector, and persistently demanded the liquidation of many institutions created by Roosevelt's New Deal, and the relevant laws. Hence, slogans about return of the free enterprise were quite popular both in the USA and West Europe.

The second reason, undoubtedly, was that the frequently alternating governments in Western Europe messed around nationalizations and denationalizations. Nevertheless, the public sector in all industries of the leading countries of the continent (Great Britain, France, and Italy) was obviously unreasonably vast which resulted in lower efficiency and productivity, since the competition was getting narrower. The academic community understood this circumstance and concerned much about the unfavorable situation (especially in England from the second half of 1970s).

The third reason, in my opinion, was that, being in absolute domination for half a century, the Keynesianism was developing poorly, was not enriched with outstanding ideas and was turning into dogmatism more and more, although in the 1940–1950s some theoreticians (R. Harrod, E. Domar, P. Samuelson and other Keynesians and academic economists) someway contributed to its development (Neo-Keynesians). The Keynesianism inadequately addressed the issues of microeconomics, whilst the classical and neoclassical schools had always been strong in it, and macroeconomic developments were becoming more and more dogmatic. At the same time, the works of philosopher K. Popper, economists L. Mises and F. Hayek (American-Austrian school) were becoming more and more popular. These works heavily criticized the Keynesianism. The authors drew a parallel between the Keynesianism and the "ineffective socialism". Although their views ascended to Adam Smith, they were absolutely tough with regard to social politics and the role of working people, the distribution of surplus product and the role of working people in management. They were hostile to trade unions. These and other analysts used their talent to aggrandize private property, to remove all the existing obstacles for entrepreneurship, to exclude the government from the economy sector. F. Hayek even justified the necessity of money issue through private banks, "taking" this function from the central banks of the states. Samuelson wrote with regard to this trend: "While moving from the right flank to the left one, a new economy (Keynesian, mixed economy) was again attacked by the representatives of its profession, by economists-libertarians, the apostles of free competition. Such names as Frank

Knight, Henry Simons, Friedrich Hayek and Milton Friedman are associated with this main school". That is how the modern neoliberalism was formed as an extremely reactionary-conservative political and economic school of thought. These ideas were used by Chicago school headed by Professor Milton Friedman which was growing strong. He was engaged in the fundamental research of the role of money (hence from the term "money" or "monetary" economics comes), criticized the Keynesians for alleged disregard of the role of money in studying the dynamics of common economic processes and money influence upon them. But since there wasn't any own scientific background for the monetary economics, Friedman based it on the general theory of neoliberalism, on the well-known quantity theory of money, and on the Rational Expectations Theory (RET). The combination of these components formed the basis for the monetary economics. Having absorbed the doctrines of neoliberalists-conservators, the monetary economics became the same very neoliberal monetary economics that superseded the Keynesianism. According to its provisions, the influence upon the economy meant the manipulation of the interest rate of the Central Bank and money quantity with minimal taxes imposed on private enterprises (i.e., the concentration on the budget regulation only). The influence upon the investment activity to reduce unemployment and increase business activity, traditional for the Keynesianism, was declared unnecessary, since the freedom of private agents of market is a better mechanism to find a balance. The pure budget regulation prevailed in prejudice of the lending activity and tax regulation (with increased taxes for the rich people and big corporations). Thus, the opportunities to influence the cycle shrank to a great extent (by the way, in 2003 Professor Robert Lucas declared the cycle a non-topical problem). As a result, some sort of a theory appeared (although it reminded more an accounting approach). As it was mentioned above, a neoliberal monetary school in the modern economic thought appeared, called libertarianism by Samuelson absolutely reasonably [3, p. 401]. This trend had a slight relation to the classical theory, but nevertheless, they started to call it neoclassical school. Undoubtedly, it was a step back from the level achieved by the world's economic thought. In my opinion, a simplified approach, easy accessibility of the policy instruments, unsophisticated formulas used for development of the macroeconomic policy encouraged the dissemination of this trend among governmental authorities. By the late 1970s and the early 1980s, the neoliberal monetarism was fully introduced as the ideological and theoretical (intellectual) basis for economic policy of most developed countries, although to a different extent in each of them. The abolition of the Keynesian institutions and regulation mechanisms started, the public sector of economy was liquidated, the direct methods of the governmental influence upon the economy were declared to be almost evil personified, thousands of publications appeared saying about some "self-regulating organizations" (a shell notion) etc. The new laws of the USA (for example, Law On Deregulation of the Financial Sector adopted in January 1980 when Ronald Reagan was the President) opened the door for an explosive growth of derivatives, especially hedge funds, which played a fatal role in the global recession of 2008. A decade after, this theory was put into the basis of the Washington Consensus, developed by a group of professors from the US universities under the guidance of John Williamson, the Director of Peterson Institute for International Economics. The Washington Consensus was ordered by the Ministry of Finance of the USA and IMF [4] and was integrated into the adjustment programs of the international financial institutions and was later adopted as the reference reform program by all states that received aid from the IMF. This very program was fully implemented in Russia in the 1990s and, seemingly, has still been implemented. For this purpose, one should compare the Washington Consensus, Friedman's monetarism and Mises' and Hayek's vision about capitalism as the peak of civilization with that real economic policy pursued in Russia and with the statements of the Cabinet Members on these matters.

Plurality of Theories and Concepts with Limitation of Theory Systems. Policy and Interests

Inner propensity towards conflict, diversity of trends and longing to domination of individual theories and concepts has always been inherent to the economic science. The abundance of concepts, different methods and approaches to the analysis of economic processes are a permanent phenomenon since the time when this science emerged. They are especially typical in the periods of weak and exhausted official doctrines that form a basis of the economic policy of the state. In this case, another theory usually replaces it provided that it has a well-developed theoretic and the practical basis. However it does not happen, if the alternative theory does not reflect the interests of the governing class in full. This is typical for the out-dated neoliberal monetary school which inadequacy particularly manifested during the recent global crisis (2008–2009) and the Great Recession (2011–2013), but

political and business communities of the leading countries across the world hold on it desperately. It is interesting that with a huge variety of theoretical concepts, doctrines, etc. available, only few of them were/are self-contained systems which were/are used in practical politics of different states:

1. Classical economic theory by Adam Smith;
2. The Keynesianism and Neo-Keynesianism;
3. Neoclassical theory in a form of the neoliberal monetarism;
4. Marxism of Soviet-socialist kind;
5. State social capitalism as specific theory and practice of the People's Republic of China.

State capitalism originally launched in the USSR as the New Economic Policy (NEP) (1921–1927) is now deepened and enriched in the People's Republic of China.

The abovementioned schools have never been isolated one from another. The first classical theory absorbed many economic concepts of early ages (those of physiocrats and mercantilists), and later ones were glad to borrow the doctrines and approaches of others, provided that they did not contradict their principal postulates. The neoliberal monetarism is notable for the special “pantophagy”, it is ready to borrow any ideas from other schools if they do not aggress private property, free enterprise and do not require active governmental interference into the economy sector. With this regard, a lot of important questions arise. Are the laws of young growing and progressive capitalism, once discovered by Adam Smith, that oppose feudal and monarchial states with their privileges for the nobility, still of importance? Or, perhaps, they were not laws at all? This question was raised by J.M. Keynes. Or, perhaps, they changed, transformed into something new with other manifestations, lost their meaning and were replaced by other ones? If such other rules did appeared, what kind of rules are they? What do we, professors, have to tell our students about that? Is private ownership of the production factors “sacred and indefeasible”? This matter bothered ancient writers and philosophers (Plato was against private property, while Aristotle — in favour). Nowadays, this matter became topical due to more apparent weakness and inefficiency of the largest corporations and banks across the world. For example, what are the consequences of the socialization of production forces (factors of production)? Did the technological advance and, particularly, information and technological revolutions, which are like incoming waves, together with the internationalization and globalization, change the basic features of the capitalist system? If they did, which forms are they manifested in? Because a phenomenon always manifests itself, although not always expressly, meaning that it is not always obvious and evident. These matters require further elaboration. The economic system of capitalism was constantly losing its natural power of self-regulation through reduction of the competitive grounds from the moment of its establishment and development on the newest technological grounds, which inevitably led to enlargement of the market agents and, ultimately, to the monopolization and appearance of giant corporations. As a matter of fact, the competition between large monopolist corporations and banks disappeared, it remained only in small and medium business — Adam Smith and later classics discovered the laws of this (non-monopolized) economy. The biggest sector of the bank and corporation economy of the states is outside the competitive relations, the same as the whole segment of large international entrepreneurship. This is already secured politically by the decisions of international organizations — the Financial Stability Board (FSB) and Basel Bank for International Settlements (BIS) declared that backbone organizations (banks and corporations) are too large and public to let them go bankrupt (these are so called backbone and global backbone organizations Siffli and G-Siffli). As a result, two sectors operate in the economy of the leading countries and in the global economy, and this dichotomy is insuperable, it aggravates internal conflicts of the capitalism as the global system. High profitability of giant monopolies is not associated with their efficiency (the efficiency is weak) but with the effect of scale, overexploitation of the labor and redistribution into their favour of a portion of profit meant for medium and small business that is dominated by the monopolized sector, although the latter contributes only about 30–35 % of GDP even in the most developed and richest countries. In view of the above mentioned alone, the inviolability of the vision of the modern economic system represented in classical and neoclassical works is a dogmatism, which is quite close to that vision of socialism that existed in the USSR. The unwillingness of the politicians to see that real dogmatism, rather than implicit contradictions inherent to the socialism, resulted in the collapse of the USSR, as some analysts state. The same ignominious end threatens the modern capitalism if its leaders and scientific economic school of thought treat the dogmas of theory and politics a la-Soviet hoping for some internal impulses of development, which faded away when powerful financial capital came

on the stage in all its ugly majesty, having crashed the driver of Smith's economy – competition. Another evidence is the sanction policy of the leading economies, aiming directly and indirectly at the deformation of international division of labor and violating the interaction of production factors in many countries. Great Adam Smith, this high priest of the bourgeoisie, opposed these actions of the royal power. Modern libertarists, supposedly great admirers of his, on the contrary, oppose natural economic relations dictated by the interests of businessmen. This is confirmed by a sad fact: if politics starts dominating over the economy, it always has the bad end.

The economic theory as one of the main branches of the social science has never been free from the state policy, fight of the social strata and conflicts in the governing elites. As I wrote before, the second half of the 19th century was under strong influence of the Marxism and partially saw its triumph over other schools of economic thought. Tight competition and fight determined a high rise of the economic thought. The appearance of numerous schools of economic theory with bright intellectual leaders strongly influenced not only the history of economic thought, but, first of all, the formation of different aspects of the capitalist system itself and the economic policy of the state. However, the schools of economic thought had notably specific political and ideological views after the split of the world into two opposite world systems after 1917. During 75 years of the world socialism under the aegis of the USSR covering huge territories of all continents, innumerable ideas were born in political centers of this system that substantiate its eternity and inviolability, its superiority over the capitalist system. Simultaneously, in the centers of the world capitalism even more theories were born proving (and being not less convincing) the superiority of the capitalism and its brilliant future. Furthermore, these two systems were converging inexorably (although slowly and contradictorily) that was denied by the representatives of official science on both sides. It is not a coincidence that the work *The Stages of Economic Growth* (1961) by Professor Walt Rostow, an outstanding representative of convergence theoreticians, was acknowledged neither in the Western countries nor in the USSR. The explosion of interest to this book in the West was not long, and in the academic communities of the USSR it was unmercifully criticized for almost twenty years, although it was not published and there were very few people who read it. The fight and opposition in the economic thought were principal; innumerable philosophical, political and economic, sociologic, ethical and ideological and conceptual framework was developing. Certainly, it was a positive environment that was to encourage the development of both global systems, including towards their rapprochement – convergence worked regardless the will and awareness of politicians. Yet one system collapsed, which inevitably weakened the other one (since the global competition disappeared). As odd as it may seem, the fall of the world socialism synchronized with the beginning of the crisis of the international monetarism and neoliberalism, led to its new reinforcement. The Russian government (represented by the President and the Government despite the resistance of the Parliament) was glad to adopt the economic policy embodied as the famous postulates of the Washington Consensus. And despite this policy nearly brought the Russian Federation to break down in the 1990s, these postulates are still the basis for the governmental policy.

The Global Economic Crisis, State Expansion into the Economy, the Crisis of the Neoliberal Monetarism

A great number of academic and non-academic articles both in Russia and abroad study the reasons for the global recession (2008–2010), including international reports and reports of the UN organizations, the IMF, the World Bank, the Bank for International Settlements etc. My works (monographs, textbooks, research articles in journals, on the Internet, lectures in the European universities, and interviews in mass media within 2008–2014) also deal with this problem extensively. Hence, let's recall only some bad consequences of this smashing recession, which in terms of scale and depth is comparable with the classic Great Depression (1929–1933). According to the UN, in 2008–2010, the global unemployment rate rose by 50 million people, the standards of living in general deteriorated even in the richest countries in the world (it are still deteriorating). A huge number of companies and banks worldwide went bankrupt, including very large ones (General Motors, Chrysler, Ford, Lehman Brothers, the largest mortgage agencies Fannie Mae and Freddy Mac – the total assets of these two giants were USD 5 trillion); American International Group (AIG), the largest investment-insurance company with assets of USD 1.4 trillion, operating in more than 60 countries, ceased to exist. Two famous banks – Morgan Stanley and Goldman Sachs – were on the verge of bankruptcy, the same as a number of other banks in the USA, Europe, Japan and other countries. In 2008–2009 in the US only, about

200 large financial organizations, including all investment banks, went out of business. Confusion and disconfidence reigned in the political and business circles. Many analysts (let alone regular citizens) witnessed with gloating delight how powerful managers of the corporations and banks, who yesterday spoke scornfully against “state interference with the business”, were queuing humbly for “pecuniary aid” from the USA treasury. “All-mighty market works no longer!” “One should do something to the capitalism!”, these panic statements of Nicolas Sarkozy, the President of France, illustrate well the situation. “Hedge funds (the USA) must be liquidated!”, Angela Merkel, the Chancellor of Germany, said then; “Off-shore business of the European countries is also guilty of the collapse”, G. Bush, the US President, said in his turn. These were some statements of the principal leaders who blamed each other for what had happened, including at the G-20 London Summit devoted to the development of measures to stop further growth of the recession.

The hard choice for President Bush. G. Bush Junior is usually associated with an image of a dashing cowboy from Texas, a politician, not very intellectually competent, apt to adventurous actions (war in Iraq) etc. However, his reaction to the crisis in the US (from the second half of 2007) was extremely vigorous and more than appropriate. Being completely confident that absolute freedom of enterprise is good, George Bush, the conservative libertarian, an opponent of the state interference, would never agree to strengthen governmental interference in economic activities, they believed that it was a kind of taboo for him. And, correspondingly, these beliefs could restrict his anti-crisis measures a lot. Nevertheless, in the very beginning of the crisis, Bush and his Cabinet simply rejected the “values” of libertarians and monetarists and chose a way of intensive governmental interference, laying the foundation for return of the Keynesianism into politics. Beside a huge pecuniary aid to the large business, the aid was provided to small enterprises as well, and what is the most important — it was the first time since Roosevelt’s New Deal when the government decided to nationalize distressed banks and industrial corporations by establishing the governmental financial control over them. That in fact caused acrid articles in certain print media in Russia that started to speak about a “new socialism in the citadel of the capitalism — the US.” Similar actions were taken in Europe and other countries around the world. Totally, according to different sources, about USD 20 trillion were forwarded to rescue the world’s capitalist system in 2008–2010. The second determining factor that allowed terminating the recession by the end of 2009 and beginning of 2010 and reaching the dynamics of world economy growth is an agreement of the countries for non-admission of protectionist measures. Let me remind that the Great Depression of 1929–1933 was unprecedented in scale and depth because all the countries followed a strict trading protectionism and it completely disorganized the international trade. The third positive factor is the beginning of resolute reorganization of the whole system of international finances in 2008–2010 (frankly speaking, this reorganization failed later). This matter should be considered in more detail.

Institutional Changes in the World Financial System with Regard to the Global Recession

As the real scale and depth of the financial and economic recession of 2008 was realized, so called “backbone states”² cooperated to draft common and synchronized measures of global financial control. The G-8 and the G-20 played a considerable role in providing political support, assuring the elaboration and introduction of new mechanisms into the global financial control system. Moreover, decision-taking and adoption of key financial and economic recommendations passed from the G-8 into the G-20 which evidenced that the leading economics cannot already influence significantly without involvement of other emerging countries. The G-20 was created in 1999 to expand the discussion of key matters in economic and financial policy between the developed countries and the emerging countries. In the conditions of the global recession, the G-20 proved most suitable for the negotiation of common measures to overcome the crisis and for international coordination of activities of individual states. The first G-20 summit was held in Washington on November 15, 2008. As a result, the Declaration and the Washington Action Plan were adopted. The Action Plan stipulated the formulation and implementation

² The backbone states include those that contribute the biggest share of the world GDP, foreign trade and population. In terms of the level of development of the production factors, the backbone states are divided into the developed markets and emerging markets. Currently, the term “emerging markets” is used to characterize the countries with dynamically growing economy. Group-20 includes Australia, Argentina, Brazil, Great Britain, Germany, India, Indonesia, Italy, Canada, China, Mexico, Russia, Saudi Arabia, the USA, Turkey, France, Republic of South Africa, South Korea, Japan as well as the European Union, the IMF and the World Bank — as the institutional members. Around 90 % of the world GDP and 80 % of the international trade as well as two thirds of the global population fall onto G-20 share.

for new initiatives in the area of international finances. In compliance with the G-20 recommendations and approval by the national governments, the following decisions were taken:

1. The Research Group (RG) as part of the G-20 was created that is to study the reasons of the recessions and failures of the global lending market, to work out the steps to prevent similar crises and to submit such steps for consideration at the G-20 summit.

2. The Financial Stability Forum (FSF) that operated under the G8 was enlarged and transformed into a body of the G-20 — the Financial Stability Board (FSB). It is responsible for drafting, together with the IMF, the proposals to influence the world financial markets.

3. Initially the Recommendations were issued as strategic reports of the FSF, and after its transformation — as Reports of the Financial Stability Board (FSB) for the G-20. They were reflected, particularly, in the agreements of the Ministers of Foreign Affairs and chiefs of the central banks with regard to assuring better transparency of financial risks, enhancing the banks' responsibility, including in financial reports, on the basis of uniform standards of financial instruments assessment.

4. The IMF and the FSB were instructed to develop the regulating measures and recommendations to overcome cyclicity of the world economy. (It was a rejection of a monetarist doctrine that denies the concept of "cycle" itself). They provided these recommendations, including the ones involving the increase of the representative share of the developing countries in the Boards of Directors of the IMF and the World Bank.

5. The regulating agents were instructed to control the international rating agencies more efficiently.

6. The regulating bodies were offered to improve the recommendations to increase the efficiency of risk management in the banks, to reconsider the internal risk management and "Principles for Sound Liquidity Risk Management and Supervision" (Basel III).

7. The national and regional regulating bodies were also offered to enhance the cooperation on the improvement of the mechanisms of regulation between jurisdictions at the international level.

8. The supervision bodies were to closely cooperate in the creation of supervision boards for all large international financial institutions. These supervision boards were created in 2009–2010 in most of backbone financial banking institutions.

9. The regulating bodies were to take all the necessary measures to strengthen international mechanisms of crisis management. At the international level, one of the outlined measures was to extend the FSB to assure a wider participation of the emerging countries. That is why the FSF was extended and transformed into the FSB and new countries of the G-20 were included in it: Argentina, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Spain, Saudi Arabia, Republic of South Africa and Turkey as well as the European Commission (EC).

10. The IMF and the FSB prepared an early prevention mechanism; its first "launch" was made at the 2009 spring session of the IMF/ the WB. The IMF was obliged to play the main role in learning lessons from the global crisis³ in a tight cooperation and coordination with the FSB.

11. Four working groups were created for the implementation of particular measures contained in the Washington Action Plan: 1. The Working Group (WG-1) The Increase of the Regulation Quality and Transparency at the Financial Markets; 2. The Working Group (WG-2) Extension of International Cooperation and Assurance of the Financial Markets Integrity; 3. The Working Group (WG-3) The IMF Reforming; 4. The Working Group (WG-4) The World Bank and Other Multilateral Development Banks (MDB).

All these developments and recommendations were submitted for consideration by the leaders of the states and governments during the G-20 Summit in London on April 02, 2009, where they were generally approved. During the London Summit, the Leaders' Declaration was adopted. Besides, three additional documents were adopted: the Declaration on Consolidation of the World Financial System, the Declaration on Provision of Resources through International Financial Institutions and the Report on Implementation Results of the Washington Action Plan. During this Summit, the Financial Stability Forum (FSF) was finally transformed into the Financial Stability Board (FSB). Its functions were significantly increased, particularly, its tasks included the identification of weaknesses in the world financial system, the assurance of the coordination and information exchange between the authorities,

³ In order to get this done, the whole composition of the IMF analytical subdivisions had to be changed, since during previous years they were influenced strongly by the economic libertarianism, absolutely strange to those new instructions developed by the G-20 and other international organizations, including the UN.

the monitoring over the activity of the institutions responsible for the development of standards, the cooperation with the Supervision Boards. The Board also plays an important role in implementing the early prevention procedures to detect macroeconomic and financial risks. The commitments to strengthen the control over hedge-funds and regulation of the financial derivative instruments were accepted in the Declaration on Consolidation of the World Financial System and other documents of the G-20. The Basel Committee on Banking Supervision (BCBS) of the Bank for International Settlements (BIS) was instructed to reconsider the minimum capital of the backbone banks and to produce the relevant recommendations to strengthen the compliance control (all these transformations were called Basel III).

As a result, the system of international finances that had been evolving for 30 years was fundamentally reformed, a lot of new regulation and supervision institutions appeared, the statutes of traditional banks and other financial institutions were changed. Simultaneously, in many countries, including the USA, new laws were adopted (for example, the Dodd Frank Act in the USA) limiting the speculative trading and establishing tougher state control. Besides, certain actions were taken to disclose the banking “secrets” of a group of countries (Switzerland, Cyprus, Liechtenstein, etc.). Although they concerned little the Caribbean and Asian countries where, evidently, tremendous amounts of illegal money were concentrated. Broad statements concerning “a necessity of deep reforms of the Bretton Woods institutions” ended with a small enlargement of the IMF and the World Bank Boards of Directors for the account of the representatives of big emerging and developing countries. The policies of these organizations were not revised, although most analysts admitted inferiority of their activity in previous decades.

The Phenomenon of “the Great Recession” 2011–2013

The Return of Libertarianism. Since the end of 2009 and the beginning of 2010, the situation in the global economy, particularly in the developed countries, has started to change in a positive direction. That was caused not only by vast anti-crisis measures specified above, but also by a favorable situation in big emerging countries (China, India, Brazil, member-countries of the Association of Southeast Asian Nations, some African and Arabic countries) that remained during the crisis. In general, they supported the group of the developed countries through active trading and investments as well as purchase of securities and bonds. In this situation, the USA and the EU leaders decided to scale down many incentive measures, introduced within 2008–2009. They were called retroactively “provisional measures” (a necessity to reduce public expenditures, cancel easier access to lending resources, benefits for small enterprises, the regulation of the capital flow, taxes, employment support — these are measures of the Keynesian policy). The IMF was particularly aggressive in the restitution of monetarism, insisting on introduction of “austerity policy” (belt-tightening policy) in the EU countries. Berlin supported intensively this policy, supposing that Germany spends “too much of its own money for the stabilization of Europe” and it is for the “other” countries to save governmental expenditures. As a result, a quite dynamic restoration process, typical for 2010, was interrupted by late 2010 and especially in 2011. In fact, the capital inflow from the banking system into the economy was terminated. After all, the UN experts (reports of the United Nations Conference on Trade and Development for the end of 2010 and June 2011) warned about undesirability of regulating measures cancellation and as minimum — about their prematureness, since the growth was irregular and unsteady, the banks and companies did not come into force, they did not gain confidence and treated new investments composedly. In addition, the revival of business activity did not take place in a number of the Mediterranean countries of Eurozone. Nevertheless, at the EU Summit on July 21, 2011, a plan for gradual cancellation of “provisional regulation measures” and the “austerity program” were approved.

American Factor. Within this period a political factor came into play — the increase of confrontation between the White House and the Congress (summer 2011). It inevitably speeded up the impetus for debt crisis unrolling in Europe. The grounds for the debt crisis have already been laid by political debates in the USA about the size of debt ceiling to be determined by the Resolution of the US Congress. Having shifted to Europe, this scandal transformed into the debt crisis of the Mediterranean countries of Eurozone, then — into the financial crisis and soon — into the “great recession” (as analysts called it). In my opinion, the day when President Obama (July 2011) addressed the Congress with a bill On Raising the National Debt Ceiling (the final word rests with the Congress) should be considered the day when this recession began. The Republicans who control the House of Representatives (the

Lower House) literally started blackmailing the Cabinet of Barak Obama seeking to block the laws on comprehensive medical insurance and the tax increase for rich people (whose income exceeded USD 1 million). Eventually, the (temporary) compromise was found by the concessions of the White House, however the problem of public debt escalated. Everywhere — in the USA, Europe, Russia, Latin America, Asia, Africa — they started to speak about weakening US Dollar, rising Euro, a possibility for the Yuan to become the world reserve currency. Against this background, the US Dollar quotation was falling, the Euro was rising. All attention of the world media and economic analysts was paid to the situation in the USA, fight between the President and the Congress, giant debt ceiling and the US debt. At that very moment, the attention of the international public and media was switched to the European countries. Fitch Ratings and other American credit rating agencies downgraded the European banks in Greece, Spain, Portugal, Italy and France, and then — lowered the sovereign ratings of the states.

Attack upon Greece. Financial markets were the first to bring a knockout punch upon Greece, having brought it to the brink of bankruptcy. Desperate appeals of Greece government for pecuniary aid (initially in the amount of 30 million Euro) faced an unapproachable bureaucratic wall built diligently in the EU and Eurozone — endless sessions of different agencies lasted for many months. At that time, the artificial debt crisis fuelled by global political maneuvers unfolded rapidly into a full-scale financial and economic crisis in Europe, where Greece was the first victim of these phenomenal events and political intrigues. By this time, neither 30 million nor hundreds of millions Euro were able to save it from this crisis. Gradually, the whole group of southern countries of Eurozone — the Mediterranean countries, including Spain, Portugal and Italy (later Cyprus) got in the hardest financial situation that caused the fall of their governments and accession to power by other parties and their leaders. Could they change situations in their countries? Of course not since they were in a death grip of the destructive policy of the IMF, Brussels and Berlin. As a matter of fact, all countries of Eurozone, except the Federal Republic of Germany, experienced the strongest business slowdown — that was when “the Great European Recession” started. It moved fast to the USA (although it was the USA that caused it initially) and suspended the growth of the US economy, particularly, after the beginning of the above debates in summer 2011. Such a huge shake of two leading economic centers of the world — the European Union and the USA — certainly had a powerful influence upon the entire global economy, its growth slowed down drastically encouraged by the decline in economic growth of China, India, Brazil and other fast-growing countries, which during the previous crisis played a role of an engine impeding deeper fall of the developed countries economies. This time they could not reasonably play this role.

The Fundamental Causes of “the Great Recession” — a Man-Made Crisis

Let us summarize the factors that caused “the Great Recession” of 2011–2013.

Firstly, in my opinion, the political factor mentioned above played here a significant role — an explicit urge of the USA to switch the epicenter of attention from the UD Dollar depreciation and the interrelation between the supreme authorities (the President and Congress) to the other competing center — the European Union (in order to considerably weaken it). And for that purpose, Greece was initially chosen as the weakest link in the EU and (Eurozone). This plan succeeded completely. The all-round talks regarding the “weak US Dollar” and a necessity to substitute it with “another reserve currency” (Euro, Yen, Yuan, a collective currency, etc.) stopped: the Dollar started to grow strong and the Euro was falling. But this reason would not be able to work effectively if it were not for other fundamental reasons.

Secondly, in my opinion, it was fundamentally wrong policy both of the USA (the Ministry of Finance, the Federal Reserve System) and the IMF, the OECD, the ECB that in 2010 already proceeded to scaling down anti-crisis measures taken in 2008–2009. Under their pressure, the EU even drafted a schedule for cancellation of the specified “provisional regulation measures” (being far from “provisional” when they were introduced). The matter is that in 2010 the economy was overcoming the hardest situation, the revival that grew into the rise was only starting, and although the performance indicators of that year were encouraging they were unstable. The IMF and Brussels believed the crisis was over and one could come back to customary contemplative idleness of previous decades. But in fact the responsible policy required saving all those measures that guaranteed the positive result in 2010. Quick cancellation of the governmental measures that blocked the crisis stopped the growth, and the results of 2011 and then 2012–2013 appeared to be different from those estimated for the post-crisis dynamics.

Thirdly, the European Union completely lost an initiative in the development of own conceptual framework for the economic policy, and subordinated it to the IMF instructions that, in its turn, traditionally adheres to practices inadequate to the global economy requirements, hence, inflicting huge damage to national economies. This was not discovered yesterday or today, but at the time when the Washington Consensus was prepared that played a fatal role for the USA itself.

This Consensus caused a long period of poor growth rates of the USA, the EU, Japan (and Russia), whilst China, India, Brazil, South Korea and other countries started to push them out of their dominating positions in the world economy. These countries (especially China, India, Brazil and South Korea) that denied this Consensus were progressing successfully, consistently and dynamically.

Fourthly, in 2011–2013, an incomplete “loose” nature of the European united institutions became apparent, even more than during the crisis of 2008–2009. The author mentioned this incompleteness of the EU institutions in his books during the whole previous decade, long before the crisis began (2008). Is it rightfully to rise such a question now, taking into account a negative experience of Brussels’ macroeconomic policy in 2010–2013? Since the weakened countries have to accept the wrong decisions of Brussels (like it was with the Mediterranean countries — the members of Eurozone during last years), the strengthening of the Brussels positions, more probably, can bring harm to them.

Fifthly, such a unique phenomenon as a new centre of the real power was formed, without the consent of which no important financial decision of the EU can be taken: the triangle: Berlin — IMF — Brussels with evident domination of the IMF.

Sixthly, a pernicious role of the budget economy and cuts in public expenditures implemented in the late 2010 and 2011 became apparent. It artificially caused the great recession and depleted the growth potential of the European countries. Rigid cuts in the public expenditures for social purposes, including for education and health care, freezing of salaries, retirement benefits, and welfare payments — all these and many other factors reduced the demand, increased unemployment, decreased investments — these are the key factors that were to play a priority role during the recession.

Provocative Role of the Rogoff-Reinhardt’s Formula

The theoretical foundation for this policy of the IMF-Berlin-Brussels was the econometric researches of Rogoff-Reinhardt who derived a mistaken formula of correlation between the amount of country’s debt and the economic growth. These famous Harvard professors offered a “salvatory idea (formula)” for a “new austerity policy” in the EU. It proved fatal for the European economic policy encouraging the politization of the public debt problem and turning it into the horrifying factor, like a giant shadow of Hamlet’s father. Rogoff-Reinhardt’s formula allegedly proved a direct correlation between the amount of the public debt (within 90 % from the GDP) and the country’s economic growth rates. The EU officials used it, as Krugman specified, to justify the “austerity policy” (or “belt-tightening” policy etc) — “the most absurd policy for the country suffering from financial crisis and recession”⁴. I always believed that this policy might be justified in the conditions of the economy revival only, but not during the recession, when additional incentives are required for business recovery.

Firstly, there is no such a limit of 90 %, even despite that during the last years, European politicians were constantly saying that the economy would go into stagnation if the debt exceeds 90 % of the GDP. “The establishment of this limit in the original article was a result of data lack (it was unintentional, and, perhaps, inevitable when using strange statistical tools”, Paul Krugman wrote in his article (the word “strange”, probably, is an elegant euphemism for another term — “fraud”) [5]. He acted generously to his ideological opponents by protecting their names from the accusations in manipulation which does credit to him as a proper scientist. Frankly speaking, the representatives of the neoliberal monetarism are characterized with the opposite behaviour — aggressiveness, biting critics of opponents and bald rudeness. Secondly, there is a moderate inflation between the debt and the economic growth. Nothing more, even if we interpret it as causation, this correlation is too weak to explain the debt panic of last years. As Brad DeLong wrote in his blog: “As far as I may judge, the matter is that the increase of the debt from 50 GDP to 150 GDP can lead to the decrease of the growth rates by 0.1 per year within the next 5 years”. Even if it is so, it is not dangerous, and, accordingly, there is no direct correlation, thus, the derivation of the basic constructions in politics based thereon is a height of irresponsibility. Thirdly, there are quite convincing evidences that low growth rates, as a rule, lead to the debt increase, but not

⁴ Greece is meant.

the opposite, as the formula of Rogoff-Reinhardt says. “We allowed for unjustified fear to dominate the economic discourse for three years”, a famous economist says. In the EU, particularly in Eurozone, the situation remains unstable, since a group of countries is experiencing an acute budget crisis, hardly managing to service the public debt that grew beyond measures in the world crisis of 2008–2010 and the recession of 2011–2013. Business recovery that started in autumn 2013 as a result of positive changes in the US economy and a new upturn activity in China and India are weak and unstable now. Nevertheless, in the middle of 2014, “the Great Recession” was over.

Unbalance of the Structures of Eurozone Countries’ Economies as a Factor of the Crisis

The underlying causes for the crisis of the Eurozone are serious intraregional differences in the levels of competitive abilities and growing regional disbalances related thereto (including inter-country trade in the EU that is considered as regional trade). The members of the Monetary Union were obliged to keep a common low inflation rate at the level of “lower but around 2 %” and so made themselves trapped, having given the priority to the control over the inflation and cuts in public expenditures by balancing the budget at any cost rather than to economic growth and struggle with unemployment. It turned into a growth of trade non-balance in the EU, since the countries with low inflations were more competitive than the countries with rapidly widening inflationary spiral of “salaries-prices”. As a matter of fact, the FRG with its powerful advanced technological production, which is extremely diversified, always wins from the regional trade. In the EU, as analysts stated, these imbalances in trade can remain for a long time, if the surplus countries finance the deficit countries through the financial transfers. In the Monetary Union of the European countries, the growing trade imbalance influenced the finance sector in a form of private debt flows since the banks in the surplus countries, not having an opportunity to expand the operations on the domestic markets, lent money to the deficit countries [6]. The inflow of the private loans, on which non-balanced European growth started to depend, stopped when the creditors became uncertain about financial solvency of the debtors. The global crisis was merely an impulse that turned the booms and bubbles in the housing sector caused by internal reasons, into the decline that covered the whole Europe. Then the ceased fever at the private loan market resulted into a series of debt crises, since the initial debt burdens of households turned into the bank crises, which, ultimately, transformed into the sovereign debt crises. Trying to treat the symptoms of the sovereign debt crisis with bigger budget savings, the European authorities raised the stakes in the game under the conditions when the draconian measures of the budget savings drift debtor countries into the debt deflation. The defects of initial model of the Monetary Union are partially guilty for that. The authors of the Monetary Union did not provide for the demand regulation and denied a necessity of the regulatory tools in the state macroeconomic policy. There was no coordination of the common European policy for these issues. Limiting the fiscal transfers, yet having no opportunity to prevent the growth of the “imbalance areas” that determined the necessity for these transfers, the Monetary Union found itself in a dead-end and in the “trap of obviousness” – that’s how the analysts revealed the internal springs of the crisis [7]. At present, having shifted the unproportionally high share of the re-balance burden to the countries with public budget deficit, the authorities of Brussels – Berlin increase the expenditures of this course.

Certain measures have recently been taken that provide for the establishment of a “firewall” in a form of the European Financial Stability Facility and the European Stabilization Mechanism as principal regulatory tools. However, they, as demonstrated by the experience of 2012–2013, proved ineffective, since they were based on initially wrong theory. In fact, all new initiatives are still developed based on a traditional slightly changed model of the Washington Consensus. The UN experts confirm this idea: “The measures are aimed mainly at strengthening the so called Stability and Growth Pact and bringing the policy in compliance with the latest version of the long-term structural reform program in the EU – the Europe-2020 Strategy. Europe continues ignoring the critical matters of the domestic demand regulation and appropriate policy coordination to assure internal balance” [8]. Let us mention, this conclusion of the experts from one of the most reputed UN-related international organizations was made in the 2012 Report of United Nations Conference on Trade and Development. In practice, in 2012 and throughout 2013, the economy of most Eurozone countries underwent a severe financial crisis, although enormous financial resources were attracted to overcome it. The matter is that the basis and the principles of the market fundamentalism that is still being worshipped like a god by the leading politicians of the IMF – Brussels – Berlin result in a very little positive effect with giant

expenditures. In these centers of power, as I think, there is no real great leadership, hence, there is no political courage to change the vicious paradigm of the economic policy, which became evident as a result of two crises: 2008–2010 and 2011–2013. The IMF report for July (2014) predicts the bottom-level growth rates for the leading countries in 2014: the USA — at the level of 1.5 %, the EU — around 1.0 %, China — 7.7 % growth, Japan — 2.1 % growth, Russia — 0.2 % growth (in 2015 — around 1 %) [9, p. 5] As we can see, hard times are waiting for the leading countries, including the European ones, and the “bright spot” in Q4 2013 that widened a little in 2014, may well be covered again by a thick veil of stagnation. That will be more evident if Brussels and Berlin continue sticking to a blemish policy of reducing public expenditures and the “austerity policy” as dictated by the IMF, not speaking about destructing policy of sanctions against Russia that restrict the foreign trade relations of the European companies and banks.

Destructive Role of the International Organizations

There are no doubts in the necessity and a huge positive role of international financial and economic organizations, but their activity can hardly be called positive in Europe in 2010–2013, rather counterproductive. Practically out of nothing, they provoked a new strongest financial and economic crisis while the previous global crisis was not over yet (2008–2010). After reading the key provisions of February (2010) Report of the IMF, I saw the threat of a disruption of the global recovery process. Its authors (mostly neoliberal monetarists) suggested that the governments, taking into account their dynamic economic growth, should begin cancellation of “provisional regulation measures.” During 2010, a number of reports of the IMF, the World Bank, the OECD, the Basel Bank for International Settlements were published. They provided numerous reasons (schedules, calculations, tables) that substantiate this necessity. At the same time, the Report of the United Nations Conference on Trade and Development warned that the cancellation of “provisional regulation measures” is strictly undesirable, at least, in the nearest future, because the world economy growth was still unstable and there was a threat of its slowdown, if multidirectional political actions were performed. Nevertheless, the Europeans decided to follow this way and to eliminate incentive actions and the governmental control over the financial institutions for the purposes of “new return of market freedoms”. Paul Krugman wrote later about the impact of these organizations upon the European economy: “One of the distinguishing features of economic discourse after 2008 was a dramatically destructive role, which most of (although not all) international technocrats played. Facing the high unemployment and low inflation, the key institutions — the European Commission, the Bank for International Settlements, the Organization for Economic Cooperation and Development, the IMF — persistently appealed to pursue the policy of budget savings that just intensified the depression in the developed countries” [10]. It is interesting that these recommendations did not appear as a result of strict adherence to traditional economic models of liberal monetarism, as it could be expected. The traditional models state that fiscal policy of compression leads to compression and should not be applied when its effect can be neutralized by more liberal monetary policy. And, sure enough, these approaches and models, even taking into account their doubtful nature, do not suppose the increase of interest rates in the conditions of high unemployment and low inflation. However, specialists — managers (technocrats) in these institutions decided that this process could continue endlessly. They assumed that simultaneous toughening of fiscal and monetary policies is right. Moreover, they were thinking up different stories on-the-go (it is hard to call them models) to justify their requirements. Krugman writes: “I think we should call these people just “crats” because “techno” was thrown away into the bin and substituted for intuition or something more doubtful. Anyway, the Organization for Economic Cooperation and Development is the arch villain, or well, one of them (the Bank for International Settlements can compete with it with regard to expensive money, the same as the IMF), in terms of the “austerity policy” implementation. And certainly, the Eurozone business is bad: the recession became protracted and the growth appeared to be weak. What are the reasons? Of course, it is the uncertainty of business communities, as the chief economist of the Organization for Economic Cooperation and Development states. And this uncertainty was caused by the mentioned international regulators, their destructive “policy of compression” and “austerity policy” at the most unsuitable time. In the article devoted to the analysis of the situation in the EU, Antonio Feitas, an economist, is surprised that the Organization for Economic Cooperation and Development in Europe seems to be unable even to admit that bad economic performance of Europe may result from the budget savings policy. After all — the OECD was among the first and largest advocates of the belt-tightening policy. It is clear why they do

not want to admit that, actually, they were the ones that pushed Europe to a disaster. This is an explicit fear of responsibility and forced resignation from cushy jobs. Krugman stresses: “What we have just seen in Eurozone is the closest to reality experiment on budget policy we have ever seen, and its results mostly point at the rightness of the Keynesian views. The followers of the “austerity policy” used the prospect of another Greece for intimidating politicians and the community, in order to introduce the policy that only worsens the economy decline. A wrong approach to Greece practiced by many of those who feed these fears made the prospect of another Greece even more scaring. At least the IMF learnt something from its experience. But, as Wren-Lewis wrote, the European Central Bank does not seem to change its point of view or to show any remorse, but it is a really important player at this stage” [5, p. 5]. At the same time, the EU administration (eurobureaucracy) costs a lot for the countries (their population) — the staff is 46 thousand people, the budget exceeds 18 thousand Euro annually, minimum salary is 18 thousand Euro, plus lots of benefits covering their families. The economist wrote: “The facts show that the advocates of the austerity policy in Europe made a fatal mistake, having destroyed the well-being of millions of people. However, the guilty persons will never admit that, they will do anything to be off the hook. As a matter of fact, the advocates of the austerity policy pushed Europe to catastrophe. This is what happened in 2011–2013 when entire Europe was squeezed by the great recession; it became significantly weaker politically as well and that increased the opportunity of the USA to press upon it. With this regard, the New York Times makes a conclusion: “Instead of learning from the mistakes of the past, the European officials seem to be ready to repeat them in Spain, Italy and other countries”⁵. The most surprising is that these obvious mistakes of the most influential international organizations are not taken into consideration in the economic policy of the European Commission and the European governments. However, the UN and its organizations (the Economic and Social Council, the United National Conference on Trade, etc.) had the other — opposite — attitude to the decisions related to the countermeasures to a new cycle of the European and global financial crisis. In June (2012) Report of the UN Economic and Social Council, in Chapter 3 called Some of the Keynesianism, the following was stressed: “After many years of appeals to weaken the role of the state in economy management, many governments both in the developed and emerging countries introduced extensive stabilization measures to recover the aggregate demand and took measures to save the financial sector. Before the crisis, the stimulative fiscal policy was often considered ineffective because any increase of deficit in the public sector must be compensated by the same decrease of private expenses. But since the impact of the monetary policy during the crisis was limited, the traditional concern about the budget balance or short-term fiscal targets merged into the background, and the governments were again considered as “ultimate buyers and borrowers”. These were classic methods of the Keynesian regulation, which brought a positive effect and facilitated the economy recovery from the severe crisis” [8, p. 4]. What happened later? The Report of the United Nations Conference on Trade and Development has the answer: “However, the recent trends of the fiscal and monetary policy in many countries, and the recommendations of leading international institutions, such as the International Monetary Fund and the Organization for Economic Cooperation and Development, demonstrate that there was no deeper re-thinking of the macroeconomic policy after the admission of a necessity of fiscal incentives during the crisis. In 2011, many governments changed radically their policy again, shifting from the fiscal incentives to tougher fiscal policy, and the others are planning to do that. This causes a special concern since in most of the developed countries that suffered seriously from the financial crisis the private sector has not finished the adjustment of the debt and assets ratio, within which non-financial subjects strive for decreasing their debt and the banks try to recover their capital ratios. During this debt deflation, even if the monetary policy continues weakening and low interest rates remain, such tougher fiscal policy will hardly have a serious incentive influence upon the expected growth” [8, p. 4]. Further, the authors of the UN Report stress that in this situation, a restricting monetary policy aiming at the budget consolidation or the decrease of public debt is unlikely to succeed since the national economy functions in a way different from a particular company or a household functioning (as some experts of the IMF and other organizations that influencing the European and the global policy, think). The UN experts warned foresightedly that the harsh austerity measures, due to their negative influence upon the aggregate demand and taxation base, would lead to the reduction in the budget receipts and would disrupt the budget consolidation, would lead to the deterioration of the situation in the European countries and many other countries that may follow the same reformation policy. In chapter

⁵ The New York Times. — 2013. — June 7.

Financial Deregulation Opened the Door to Excessive Risk Taking, the UN experts highlighted that the increased deficits of public sectors and public debts were a consequence of a hard crisis in the financial system caused by a wave of liberalization of this system, where so called Anglo-Saxon countries played the leading role. Thus, there is a particular paradox: those participants of financial markets that ignited the crisis are to judge the optimality of the public policy aiming at the crisis mitigation. The liberalization and deregulation of the financial system were based on widely spread belief into better efficiency of the market forces, and they led to the formation of increasingly sophisticated financial instruments. New financial instruments and continued liberalization of the financial system opened an opportunity for significant expansion of the speculative activity, as a result of which stock exchange gambling turned into an important, sometimes even dominating, element of the financial activity. That became the strongest source of instability in many countries and in the entire global economic system. The strong belief that the markets are the best judges of efficient distribution of the production factors gave an impulse to the policy developers to continue this deregulation. Only after the global financial crisis unfolded, serious debates about a necessity of fundamental reforms to prevent the analogous crisis in the future finally started. A wide acknowledgement that the deregulation was one of the main factors that led to the global financial and economic crisis raised the appeals to strengthen financial regulation and control. Fatal defect of the financial markets is explained by the fact that the activity associated with the “gregarious behaviour” (i.e. following a tendency for a while and withdrawal of funds just before the crowd makes that) brings the highest profit. Besides, making the tasks of the budget balance or low public debt an end in itself can have a destructive impact upon the achievement of other economic goals, e.g. high employment rates and socially acceptable distribution of income. The increase of infrastructure expenditures, social transfers or grant-in-aids for private investors, as a rule, can be more efficient for the economy stimulation than tax cuts, since that leads to the increase of purchases and demand immediately [8, p. 7]. This policy is more favorable for big countries with strong economy but disastrous for weak and poorly balanced national economic systems, critically associated with big economic blocs and international economy. With this regard, one can definitely say that the triangle of Brussels – Berlin – IMF with obvious supremacy of the latter, that forced Europe to accept the “austerity policy”, cuts in public expenditures, leads to further weakening of the weak countries and the rise of Germany, its economy. This policy is nothing but a grave digger for the economic growth of the countries that are weaker than a powerful, extremely diversified, highly technological economy of the FRG that is connected to the global market economy. Putting aside any economic theories and using only the simplest common-sense logic, it is impossible to understand the essence of the EU policy. How can the savings of financial resources revitalize the struggling economy in the conditions of severe crisis? Shouldn't more money be allocated to enlarge employment, to support entrepreneurship, to help the population in need, etc.? It is not a discovery that the “policy of austerity” should be introduced in the periods of dynamic growth, but not during the crisis time – that is the ABC of both classical and Keynesian schools. But it completely meets the latest interpretations of the Friedmanism that had such a poisonous influence upon the global economy. It meets the interests of financial and governing political strata, and what is not less important – the interests of national and international bureaucracy.

This artificial theoretical framework forming the basis of economic policy holds in its iron grip the governments and international bureaucracy, which is possible, first of all, since this bureaucracy is interested in this policy. The declaration of the global market as a sort of all-mighty Leviathan, a universal regulator of the economic processes, released the governments of the countries and international bureaucracy from responsibility for the state of economy – “so it goes, that is a market”. And the declaration of the private property only as a sort of a sacred cow at the heart of this market, turns the politics into dogmatism, promotes the irresponsibility of politicians, creates illusions based on realities of previous ages.

Russia-Ukraine Crisis, Western Sanctions and New “Old” Pressing Tasks

I, like many authors of the journal, during the previous years often wrote about a necessity to balance the national economy, to restore the destroyed machine-building (and machine tool building), to recreate the former Ministry of Electronic Industry, to rebuild completely destroyed civil aircraft industry and so on. All that became more than topical in light of the crisis of our relations with Ukraine and unfolding Western sanctions, which probably would unfold even more. By the way, the break-off with Ukraine means more than Western sanctions, taking into account that the Ukrainian military-space complex supplied the

crucial equipment for Russian heavy strategic missiles (adjustment and maintenance); other enterprises of the Ukrainian military-space complex supplied the engines for military helicopters, deck machinery etc. It is also strange that at the background of numerous statements about a “complete destruction of the Ukrainian economy”, it managed to save the manufacture of the whole class of famous Antonov (AN) planes and even successfully manufactures Mriya, the biggest plane in the world, with weight-lifting capacity of 250 tons. These Ukrainian enterprises had been successfully cooperating with the Russian ones until the last months. The question is: why did the Russian “captains of the military-space complex” not transfer these manufactures to Russia, for example, through some subsidiaries or branches? And why did this simple idea not come to the government top leaders? Moreover, there was plenty of money in the treasury. I am not sure that they will be able to cope with the current, quickly complicating situation, if they were not able to cope with these tasks almost in the ideal conditions. To manufacture a “super-jet” somewhere near.... Genoa (!) having collected every little bit, some minor details from the world and having spent a lot of public money on this junk – probably, it was considered more “efficient” – but for whom? And that is the result – the ball started rolling – the Russian company Dobrolyot lost an opportunity to fly their aircrafts in the Russian sky only because it had flown to Simferopol. Is it not a shame for the country? The explanation is the only one – it flies the aircrafts manufactured abroad. If the sanctions become more extensive – all aircrafts will “lay up”: they are mostly Boeings or other ones, but manufactured abroad. And what about the powerful construction, mining and agricultural machinery? Almost everything is made abroad, the same as consumer goods industry (clothing, footwear, household appliances etc). Of course, for China, South Korea, Turkey, Taiwan, etc. (if some of them do not join the regime of sanctions) the opportunities at the Russian market are becoming wider, but they will hardly cover losses from the West. Therefore, the governing class (political elite and business) is facing challenges on real diversification of the national economy. For that, the full rethinking of the economic policy is required, particularly, the government must cast off the false interpretations a la market fundamentalism, with which it is significantly contaminated. Russia has been in need of another theoretic and methodological basis for serious economic policy that will serve the interests not only of the rich class, but also of the whole society for a long time. Many people can say “right” speeches but few can implement them into particular business. I would like the words to materialize into real achievements while it is not late.

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