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CRISIS AND POST-CRISIS ADJUSTMENT AND NEW CHALLENGES FOR THE ECONOMIC SCIENCE

***Abstract**: The author claims that to overcome real causes and the true nature of the current crisis, approaches of financial analysts do not suffice; what is needed is the approach based on political economy, identifying historical roots of causal relations. An unbiased identification of the causes of the contemporary crisis necessitates an internally stratified and multi-aspect approach, reflecting mutual interdependence of layers, driving forces and interests of agents. This is an irreplaceable pre-requisite of choosing such means and methods of crisis and post-crisis adjustment processes, which are inevitable for real overcoming of global systemic character of the crisis. The outline of the context reflects a breakthrough nature of the period, which creates new challenges also for social sciences and requires changes in paradigms and principal methodological innovations. It is also the aim of this paper to contribute to their development.*

***Keywords**: causes of global crisis, crisis adjustment, financial system, financialisation, global financial crisis, indebtedness, recession, superbubble, USA*

JEL: B 2, E 44, G 15, 18

Introduction

Viewing contemporary crisis process as a current failure in the operation of the economy, or as one of regularly repeated recessions is a hardly sustainable approach today, under which the return to pre-crisis state is considered as success. It is not only unrealistic, but also extremely risky. We are witnesses to a historical milestone, which is the result of explosion of long-term accumulated problems and epoch-making changes generating qualitatively new character of the crisis. P. Krugman expressed a complex nature of the crisis in words “we have seen everything, but now it is everything at the same time” [4]. G. Sőrős [10] used the expression “superbubble” to refer to the quality of the crisis. The most pertinent description in terms of methodology of the new multi-dimensional character of crisis process and revealing its causes is offered by S. Stiglitz [12] who compares it to skinning an onion. Similarly as during skinning the onion, when we have removed the first layer, another layer appear, and after it another one etc., also revealing causal relations in immediately observed phenomena raises new questions and looking for answers to them leads us to deeper causes and new aspects. However, their understanding evokes the need for another shift towards a deeper and more complex view. A gradual coordination of attributes to describe the contemporary crisis showed a well founded nature of Stiglitz's comparison. At the beginning there was a talk about the mortgage crisis, but it was soon found out that the problem was wider and affected the entire financial sector. In fact, an extremely expanded financial sector and its extensive negative impact on real economy had to ascribe the crisis an attribute "economic" and then of course also "social". Removing other layers gradually revealed also political, debt, psychological, moral, and value aspects, which results in the understanding that mankind is facing the global crisis of a systemic and civilisation character. However, this character is far from being generally recognised, which not only results in methodological problems in examining the global crisis but also conditions of approaches to ways of overcoming the crisis. This is manifested in particular in a wrong assumption or pretending that measures efficient in the case of surface causal relations can at the same time remove even deeper systemic problems. Even worse and dangerous are real experiments to replace and blur true causes by pseudo-causal constructions and "disguising" real agents of the crisis as its victims, or even as rescuers of the system.

An unbiased identification of causes necessitates an internally stratified and multi-aspect approach, reflecting mutual interdependence of layers, driving forces and interests of agents. This is an irreplaceable pre-requisite of choosing such means and methods of crisis and post-crisis adjustment processes, which are inevitable for real overcoming of global systemic character of the crisis. The outline of the context reflects a breakthrough nature of the period, which creates new challenges also for social sciences and requires changes in paradigms and principal methodological innovations. It is also the aim of this paper to contribute to their development.

Historical Roots and Fundamental Causes of Global Crisis

In order to overcome real causes and the true nature of the current crisis, approaches of financial analysts do not suffice; what is needed is the approach based on political economy, identifying historical roots of causal relations, their genesis into the present time and striving for a view of probable scenarios of the future. In this sense it is necessary to go back to the thirties and begin with a retrospective view back to the Great Recession.[1]

[1] For decades causes have not been largely sought in the monetary sphere, and also ways-out from the crisis by means of monetary policy were considered inefficient. Instead, the explanation was sought for in an excessive investment activity, which led to collapse, when return on investments did not fulfil expectations. Indeed, in connection with crisis there was a lot of talk about the financial system reform, and there were over 2,000 various suggestions, while all of them had one feature in common: they claimed the system should not be based on debts [7]. It is this requirement that revealed the core of the problem. At the beginning of the 20th century, when the USA started to assume the position of a leading power, the Federal Reserve Bank for 16 years after its foundation provided loans not ten-times but multiple amounts of money in savings. Money based on savings thus changed into to the

The break-up of the Bretton Woods System and Glass-Steagall's Act led to eliminating two key obstacles to expansion of the financial sector. Analyses of longterm trends in the operation of a capitalist economy as a whole and in the USA, where it assumed the most advanced and influential form; specifically, revealed the nature of an enormous interest in and pressure on a rising expansion of the financial sector, which has assumed not only colossal dimensions especially in connection with globalisation, but also an extreme contradiction. The mainstream economists relate that to the American addiction on high consumption, chronic indebtedness and with the spending of personal savings, which is made possible by means of supply of capital from abroad owing to the hegemony of the US dollar (Foster – Magdoff 2009, p. 100). Although these circumstances are important accompanying processes, real problems are deeper – they are in structural transformations of the capital accumulation process, which have been strongly advanced in the course of the most recent decades of the 20th and in the first decade of the 21st century as financialisation of capital.[2] As early as Keynes warned that structural character of modern finance led to a periodic upsetting of links between the market and production and increased the risk of de-stabilising the entire system with the rise of speculative bubbles and their inevitable collapse. "Speculators bring about no damage, as long as their activities are bubbles in a smooth flow of business. However, the situation becomes critical when the business changes into a bubble in the whirlpool of speculations" [3]. Developing Keynes' ideas in Minsky's [6], Magdoff's and Sweezy's works [5] showed the shift of the focus of the economy from productive branches into the financial sphere and posed problems of a destabilising trend that results from a rising indebtedness in relation to productive economy. Indeed, this is a contradictory process, as since the sixties advanced capitalist countries have to some extent managed to avoid a deep economic decline through the increase in indebtedness and speculation. This inspired several economists to cock-sure statements. P. Krugman [(4, p. 15; 20)] reminded them R. Lucas's idea that from a practical aspect the central problem of preventing depression has been resolved. The cycle was tamed to the extent that advantages of future regulation were "trivial"; R. Lucas's and Ben Bernake's opinion that "the world economics can from time to time suffer a minor decline, but the days of real great

money based on debt, which resulted into the then greatest financial and economic crisis in history. President Roosevelt understood it and prudently authorized Congressmen C. Glass and H. Steagall to work out 3 important banking laws. In the context of causal relations of the crisis of key importance is the law that separated commercial and investment banking. In view of the fact that investment bankers were inclined to invest also all the commercial deposites, it repealed the banks to carry out at the same time commercial, investment and insurance operations. Although this act did not return money its original character, but it gave the operation of debt money a tolerable framework that could be better controlled. However, this was at the same time the reason why the Wall Street fought for 65 years for the cancellation of this Act. In the year 1999 the pressure from investment bankers during the Clinton administration the Glass-Steagall Act was repealed. Even before an important milestone was the year 1971, when the Bretton Woods monetary system set up in the year 1945 stopped operating. It was founded on fixed rates of member countries tied to the US dollar, which was convertible to gold. This system became untenable in view of a rising demand for gold and longterm deficit of current account of US balance of payment. Indeed, also the present-day system is unstable because of a dominant position of USD as a reserve currency and longterm external disequilibrium of the US economy.

[2] The term "financialisation" has been introduced by K. Phillips (1993, 1994) when he defined this phenomenon as a widening gap between the starting real economy and the financial economy getting off the ground.

depression, let alone, a world-wide one, are definitely over".

Since the sixties it as been possible to record political-economic analyses, which revealed that the expanding financial sector and rising indebtedness in relation to GDP operated as a primary medicine against the tendency to stagnation of the economy.[3] The growth of the capitalist economy necessitates looking for new sources of demand for immense surpluses that are generated by it. An extremely increasing disproportion of incomes and distribution of wealth leads to a distinct restriction of consumption demand on the part of low-income groups of population. This is naturally, reflected in the accumulation of surplus production capacities and in restricting investment. This, in turn, results in a rising capital surplus which in real economy cannot find the space needed for its realisation. The absence of real demand needs to be in some way replaced by means of additionally created or even virtual demand. To generate it an expanding financial sector is necessary, which enables to provide an adequate demand as a factor of growth based on cumulating debts.

This internal logic of the global economic crisis can be best demonstrated on the development of US economy. The United States was the most advanced and strongest part of the world economy, at the same time it became the epicentre from which the crisis of global dimension arose. Foster and Magdoff, 2009 offer persuasive arguments. They demonstrate on concrete facts that the share of wages and salaries on GDP decreased from 53% to 45% from the year 1970 to the year 2005. An extreme growth of polarisation of wealth will be apparent if we compare incomes of 90% bottom income spectre with those of 0.01 % at its top. While during the period 1950 – 1970 on each dollar in the first group fell 162 dollars in the second group, then during the years 1990 – 2002 the amount reached 18,000 dollars (Foster – Magdoff, 2009, s. 130).

This development has been naturally reflected in relatively declining sales and caused the corporations face the problem of limited demand for their production. As a result of it the utilisation of industrial capacities was declining in the long-term from 85% in the year 1970 to 78% in the year 2005.

Increasing problems in the process of net capital creation led to the re-directing of profits. Instead of flowing into capacity-formative investments profits started to increasingly flow into the financial sector, the expansion of which, widening spectrum of products of prevailingly speculative character were to provide space for the utilisation of capital, surplus in terms of real economy. This fact arouses an illusion, as if financial investments and financial profits "squeezed out" real investments by more lucrative opportunities. In reality, the basic cause rests in the nature of capital accumulation, which does not offer enough opportunities for realisation, it falters and is accompanied with accumulating debts, which have become a powerful driving force of support to growth. The slowing down of indebtedness consequently endangers the growth, and maintaining the growth is increasingly dependent on running into debts, which has assumed immense dimensions.

[3] It was for example the journal of *Monthly Review* edited by H. Magdoff and P. Sweezy, where the issues were widely discussed (Foster – Magdoff, 2009, s. 91).

The space for unprecedented trend of indebtedness necessitated or was possible only within an extreme expansion of world financial markets, where the present form of globalisation is most dramatic, and where it dangerously exceeds the limits of untenable development.[4]

It is evident that this nature of finacial sector development, which generates conditions of an increasingly intolerable indebtedness as the main factor of, in essence, a fictitious growth, cannot continue for ever. It was only a matter of time, when this mechanism had to fall into pieces. It is, however, amazing to observe the dimensions of the operation of the US debt-ridden economy, which increased with the help of this mechanism.

Tab. 1

GDP and domestic debt by sectors USA[a] (v mld. USD)

	GDP	Overall indebtedness	Households	Financial firms	Nonfinancial businesses	Government (local, state and federal
1970	1,0	1,5	0,5	0,1	0,5	0,4
1980	2,7	4,5	1,4	0,6	1,5	1,1
1990	5,8	13,5	3,6	2,6	3,7	3,5
2000	9,8	26,3	7,0	8,1	6,6	4,6
2007	13,8	47,7	13,8	16,0	10,6	7,3

[a] The federal part of local, state and federal indebtedness includes only liabilities of the public. Overall federal debt in the year 2007 as well as the debt of federal agencies reached 51.5 mld. dollars.

Source: Foster – Magdoff (2009), s. 121.

Table 1 shows that in the period monitored the US GDP rose 13.8-times, but the overall indebtedness increased approximately 32-times, and in the year 2007 it achieved roughly a 3.5-multiple of GDP. Since the year 1970 the government debt and that of non-financial and financial firms increased extremely, while household indebtedness climbed to the level of the total GDP. Also the change in the structure of indebtedness is striking. If in the year 1970 it was the business of real economy and households that had the highest share of real economy indebtedness, then in the year 2007 the biggest debtor was already the financial sector with more than a 33% share. A cumulative increase in the overall debt burden[5]

[4] The combination of deregulation, liberalisation, opportunities for overcoming time and space limitations via ICT (information and communication technologies) and innovative diversification of financial products extraordinarily accelerated the extreme asymmetric expansion of financial markets. In the years 1995 – 2005 the world GDP recorded the growth by 52%, but capitalisation on exchanges rose by almost 400%. If in the early 80-ies the annual volume of financial operations ranged from 1 do 1.5 mld. dollars; today there are financial operations in the volume of 5 – 2 mld. dollars. Analogically, the ratio of annual world export and annual sales on world financial markets increased from the ratio of 1:12 to over a hundredfold. From 100 dollars, which changes its owner within a second, 98 dollars is not covered with production activity and services; instead there are various forms of speculative virtual financial flows.

[5] It is the debt burden of firms of financial and non-financial sectors, households and government on local, state and federal levels.

in the year 1959 in relation to GDP rose from the level of 151% to an astronomic 373% GDP in the year 2007 (Foster – Magdof, 2009, s. 123).

The process of financialisation as a radical shift of focus from production to the financial industry is accompanied with a radical change in the share of non-finance and finance sectors on profit. While in the year 1965 the share of manufacturing industry of the US on profit as percentage of GDP accounted for 50% and the financial sector 15%, then in the year 2005 the situation was completely opposite: the share of the financial sector was 40% and that of the manufacturing industry 13% (Foster – Magdoff, 2009).

If as early as in the 70-ies the focus of the economy was on manufacturing capacities that the financial sector modestly attended on, then in the course of the 80-ies the situation radically changed. The financial sector expanded relatively independently of the manufacturing base; it transformed into an increasingly unnatural superstructure above the real economy. Financialisation and an artificially blown up growth actively stimulated by it naturally lead to the collapse of speculative bubbles. Their bursting assumes the character of a process which is repeated at a higher and more risky level with increasingly destructive consequences, which, however, disintegrate extremely disproportionately. Large financial corporations are able to relatively well protect themselves not only by numerous ingenious investment insurance policies and methods of how to transfer the losses to entities found on lower hierarchical levels. Moreover, they often are "dragged out of a scrape" also by the government, and so most of the losses are collected by small investors, employees, consumers, and developing economies.

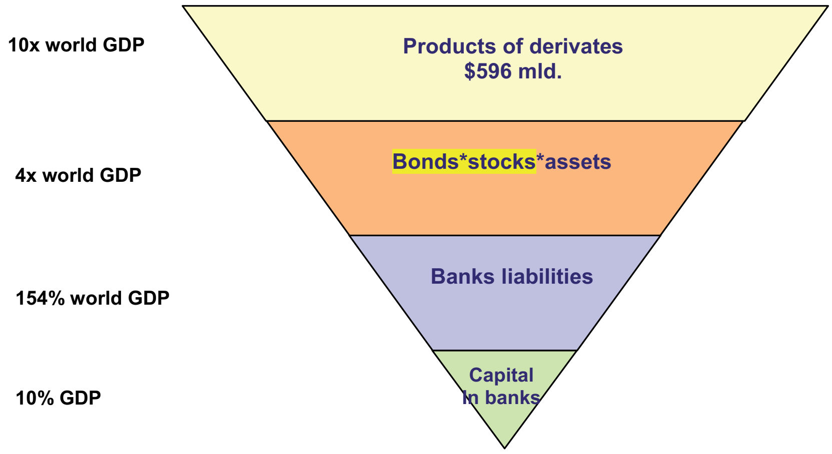
The existing character of anti-crisis measures and their global orientation indicate that these measures are not going to more radically affect the alleviation of an extreme polarisation of incomes and wealth. It is rather the very reverse: the crisis appears to impact the poorest strata of society and countries, that is, those who could create a larger real demand and contribute this way to a meaningful recovery of the economy. Challenges for creating a new global architecture for the financial sector and its efficient regulation in practice are carried out in such a "helpful" way towards global financial circles, so that they did not in principle disturb a perverse logic of financialisation as a key factor of stimulating the creation of spare or rather, fictitious rising indebtedness of "nourished" demand, which inexorably leads to the collapse of speculative bubbles. It is not by chance that justified fears already appear that in the foreseeable future the rise of the bubble of government bonds issued in very large volumes is highly probable, while their maturity is founded on a highly insecure assumption of longterm growth of the economy.[6]

[6] Experts who were addressed by the German server Welt Online reacted to opinions about the end of the crisis by warnings that on the contrary, there is a danger of a new bubble. They see it on the market in government bonds, which is the focus of attention on the part of investors as well as speculators. The government bond market has become one of the biggest markets ever; most countries wish to use them to finance large expenditure packages, but according to experts markets are unable to absorb such large volumes. They point to a rising risk of government bond bubble, the bursting of which could have even more severe consequences than those in the case of previous bubbles (Moderní řízení, január 2009, s. 5).

An inadequate crisis adjustment has fully exposed the debt dimension of the global crisis. Financialisation created space for a longterm accumulation of debts as "motor" of fictitious growth. In this mechanism an important role is played the system of financial "leverage", which is depicted in Figure 1.

Figure 1

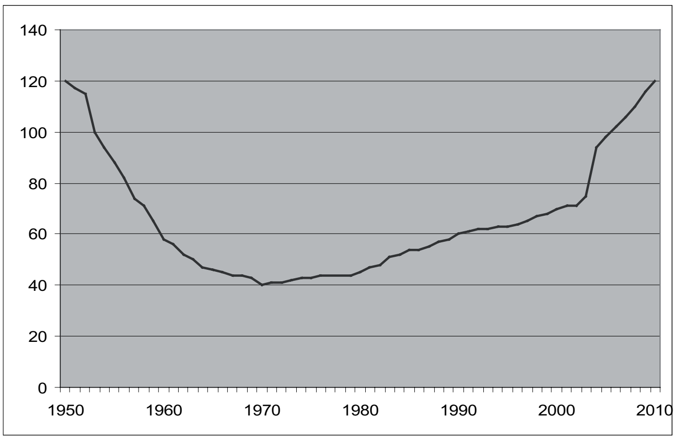
System of financial "leverage" instable pyramid



Increasing excessive use of "leverage effect" since the 80-ies in advanced economies caused that within three decades the public debt in G-7 countries climbed to the level of 120% GDP. It is embarrasing to realise that they should reach this intolerable level of indebtedness, which was characteristic for the post-World War II period, i.e. at the time considered as a period of longterm prosperity.

Graph 1

Problem of public debt G7 (public debt to GDP in %)



Source: IMF, GFSR (Global Financial Stability Report)

The graph leads to significant conclusions not only about the nature of contemporary global crisis, but also about the importance of overcoming this crisis in terms of time and content. G-7 countries needed two decades to gradually decrease the public debt to a bearable lowest level of 40% GDP. It is obvious that the decrease of these figures awaited at present cannot take place as a fast jump; the process will be probably more demanding than after World War II. An essential difference is that the post-war renovation provided a large space for a long-term growth of economies, while at present it is characteristic of a relatively restricted and disproportionately distributed global demand.

After-crisis measures paradoxically accelerate public debts. With increasing incomes immense funds "have been poured into" into the financial sector, while these sources would have been needed for creating conditions of economic growth. It is an adequately fast long-term growth that is an irreplaceable condition of real redemption of public debts. Overcoming this "vicious circle" of intolerable indebtedness induces requirements for qualitative changes in the nature of growth, connected with re-calibrating production, distribution, allocation, and consumption structures. It is obvious that the enforcement of these changes is going to be very complex, conflicting and demanding. In the first place, it will require a scientifically justified argumentation on the basis of methodological innovation and synergic interdisciplinary character of economics, sociology, politology, psychology, and other social and in many respects also natural and technical sciences. In this sense, I consider it reasonable to describe several hopeful approaches.

New Political Economy of Financial Crisis

An imperative need of an all-round systematic exploration of contemporary crisis is emphasized by Roy E. Allen [1], when he explains the inevitability of new thinking in explaining it and looking for answers, why a greater progress has not been made in how to prevent from the crisis. To achieve this, according to him a "new political economy of financial crisis" is necessary, for which wider relationships between the financial crisis and creation and distribution of wealth and power are of key importance, and which should help in the future not only research, but also in policy creation[7] (Allen, 2010, s. XII; 136). Allen enriched the investigation of the present-day crisis with several interesting perspectives, which usefully supplement and support our understanding as a qualitatively new crisis process, which is of a global and civilisation character. As a follow-up to works of C. Reinhart and K. Rogoff[8], who on the basis of analysis into historical data revealed certain laws of duration and frequency of financial crises, Allen demonstrates and explains a unique character of the current crisis. Historical data that for the first time provided a systematic outline

[7] Allen has been doing research into financial crisis for a long time and as early as in the first edition of the book *The Political Economy of Financial Crisis* (1994) revealed several causal relationships between the financial globalisation and crisis phenomena in the world and American economy. At that time Fed representatives criticised him of exaggerating when speaking about the crisis.

[8] More about it see Allen (2010, s. XI; 162).

of severe crises since the year 1800 indicate that advanced economies since then have spent 7.2 % years in various banking crises. The figure was 8.3 % years in developing economies. Since the year 1945 these figures have slightly changed to 7% in the former group and to 10.8 % in the latter. However, Allen focused his deeper analytical attention on the period of the last three decades. By means of econometric analysis he found the solution to some "riddles" of supply and demand for money, identified key structural changes in financial trends and revealed new features of utilising money, credit, capital and wealth. He presented persuasive arguments in favour of the influence of globalisation, deregulation and ICT application on the separation of financial markets processes from the creation and use of GDP. Allen supports the P. Drucker's opinion (1985 – 1986) that since the beginning of the 80-ies financial markets set out on the journey of seeking their own profits, quite irrespectively of markets in goods and non-financial services.[9] He further develops this argumentation and shows how structural changes in the development of the financial sector, which are frequently chaotic, make up an important source of a special demand for money, which then absorbs money liquidity distant from an observable use of money in real economy processes.

His conclusion about how a newly formed global economy is radically changing the development of the financial sector and real economy is of an extraordinary importance. Invisible financial processes can increasingly autonomously call forth changes in material relations of production. Central banks and other agents in financial markets may in some cases dangerously increase or decrease money wealth independently of any original changes in GDP creation, or in any real economic processes (ibid, p. 130). Allen thus belongs to the economists who legitimately claim that one of significant aspects of globalisation is a rising power of finance over manufacturing.[10]

An original contribution of R. E. Allen is his essay on a long-term "super" financial cycle and in particular the conclusion that the contemporary economic crisis arose from a long boom, which started in the early 80-ies, culminated in the year 2006 and its bust phase, which started in the year 2007 will therefore take a longer time to evolve (Allen, 2010, s. XIII). This way he contributed to the deepening of the argumentation about a longer duration of the global economic crisis and to rebutting opinions which interpreted the crisis only as a smaller bubble after a previous shorter boom. In contrast to neo-classical model of general equilibrium and other approaches of the mainstream he proposes an evolutionary and all-round systemic approach to understanding the present crisis as a newly understood large-scale crisis. A long boom since the beginning of the 80-ies based on the leverage effect of financial transactions was thus a phase of shift in a complex adjustment system by a transition to new "mezzo-structure" in sense of evolution economics. Empirical research into structural changes in relations of money supply and demand connected with

[9] In mid 80ies the value of trading in eurodollars on London market exceeded 25-multiple of the value of deals in goods and services (Allen, 2010, p. 35).

[10] Compare *Review of International Political Economy*, 1994, p. 3.

financial globalisation has revealed that financial markets absorbed a newly created power of money far above the level of predictions of equilibrium models, and this, in turn, has resulted in the inflation of asset prices and the stimulation of production and consumption far exceeding the predictions. Afterwards in the course of the bust phase there arose a reverse movement of variables, stronger than expected, including the crash of prices of stocks and real estates and destruction of money wealth.

This expansion and globalisation of financial markets accelerating from the 80-ies, which started dramatically to live their own lives, as if separately from the processes connected to GDP, assumed, according to Allen the nature of knowledge and knowledge-interactive processes, and it can be modelled by means of approaches of the third and fourth levels of complexity. An existing "animal spirit" of irrational surplus or fear, transcendental "law of composite interests" and creating money liquidity does not necessitate reserves and the like, as well as interactive thought models have brought the financial cycle and processes of creation and destruction of money wealth exceeding the limits of general equilibrium to the level that causes the collapse of balancing processes. The boom phase and its accompanying mezzo-structure were untenable any longer (since the year 2006) and now a new mezzo-structure is in the adjustment process (Allen, 2010, p. 130).

In his new, more complex methodological approach Allen contributed to the understanding of changed internal mechanisms of an increasingly autonomous operation of financial markets and their influence on the development of real economy. In this way Allen has significantly contributed to a deeper identification of causes of global economic crisis, and as a result of this also to more adequate understanding of inevitable starting-points of efficient crisis and post-crisis adjustment processes.

In the interest of global sustainability of the economic system Allen differentiates between the following three essential directions of adjustment processes, which countries and international institutions should implement in concord with their policy:

– Reduce the number of changes in the world and at the same time support bettter organised regional currency blocks such as the euro; this would result in the reduction of destabilising financial flows between national currencies, and as a result, the dominating dollar nucleus of the global system would acquire less mercantilist benefit in money at the expense of other, less organised currency areas, which would decrease the risk of financial crises and other inequalities of wealth across the entire global system.

– Develop more stable and forward-oriented financial markets with larger reserves so that all types of financial markets participants could better manage future risks of destabilising changes in credit rates, exchange rates, financial crises, recessions, etc. at each level.

– Better manage liquidity within the entire global system with a continuing research and better response to monetary politicity. A larger offer of money has to be adjusted to a rising absorption of financial as well as non-financial activities, to changes in the speed of money. It is necessary to study how to direct a suitable offer of money which can be used in the rest of the economy for a non-inflationary economic growth. Therefore a new thinking is needed, one that is based on an evolutionary and complex systemic approach and better understanding of psychological and social factors (Allen, 2009, p. 160). The global economic crisis induced a partial nationalisation of banks, in increasing the direct participation on the market as well as in a better survey of financial markets on the part of governments and official institutions, which have at their disposal greater opportunities for currency reserves, and active stakeholders are improving in their role on financial markets. For these reasons Allen makes a conclusion that there are better conditions for mastering a sustainable global economic system.

Stiglitz's fundamental criticism of the system's failure

A different way of exploring in-depth causal relations of global economic crisis have been presented by J. Stiglitz [12]. In his most recent book with a telling title ***Freefall America, Free Markets and the Sinking of the World Economy*** he brings a summary of his uncompromising critical analysis of theoretical starting points and economic and political practice of the concept of market fundamentalism. He emphasizes that the contemporary crisis has refuted illusions of efficiency of free and unlimited markets, and their capability of fast self-adjustment in case of their failure. The state should focus only on inevitable tasks, because the regulation hampers an innovative force of the economy. In this connection he makes a highly serious conclusion namely that "capitalism" and communism are probably over, but there are various types of the market economy, which continue in competing [(12, p. 10)]. Stiglitz draws attention to topicality of Keynes' approach, in which the market is at the centre of a successful economy, but it cannot operate properly in itself. The state must play an important role not only when the economy needs to be rescued, when markets fail, but also avoid market failures by means of regulating markets. The contemporary modern economy requires the market equilibrium of the market and the state supported by non-market and non-state institutions. Stiglitz reveals false arguments of those who profited from market fundamentalism that the contemporary crisis is just an "accident", one of those that happens from time to time, and that is why it is necessary to return as soon as possible to into pre-crisis situation of the year 2008, because "also because of an accident we don't stop driving a car". There is an episode from the time of President Reagan's stepping into office which illustrates how purposefully the concept of unlimited and unregulated market was advocated in the US. It was under Reagan that the most influential financial groups were successful in pushing through the deregulation ideology. This became apparent in the year 1987 when A. Greenspan was appointed Fed president. Although his predecessor P. Volcker merits a mention for a radical decrease in inflation from 11.3% in the year 1979 to 3.6% in the year 1987, which automatically pre-determined him for the office for the following period, it did not happen. Reagan needed somebody who would "liberate" the market from binding rules. If

Greenspan had not been then willing and capable to undertake this task it would have been somebody else [(12, s. 16)]. However, Greenspan took over the task and together with Secretary of the Treasury R. Rubin[11] he was long ascribed a personal merit on a long-term boom, which the contemporary crisis revealed as a debt-bubble inflated growth.

Stiglitz emphasizes it is not his intention to find a "culprit", but to fin dan answer how the biggest world economy got into freefall, what political measures and what events and processes led to the crisis in the year 2008. But if we are unable to agree on the answer to these questions, we are unable to agree on what has to be done to overcome the crisis or prevent it in the future. Without revelation of and admitting real causes of the crisis no efficient crisis and post-crisis adjustment is possible.

The process of cognition and a persuasive power of Stiglitz's approach rests in that he is not trying to give some simple straightforward answer to the question about the cause of the crisis; instead he reveals multi-layer chains of causal relations, in which an answer on one level makes us ask increasingly essential questions on deeper levels ranging from causes of egoistic motives supporting myopic and risky behaviour of banks, drawbacks in the management and control system, through causes of why the market does not punish bad management and incentive structures, and why those who are oriented to long-term success do not thrive. Then he describes causes which made it possible for subprime mortgage credit and reinsurance financial instruments to spread. After that he continues with the creation of real estate price bubble; cover-up of difficult credits so that these did nor appear in balances; to causes of further rise in indebtedness and the question, why innovative instruments (CDS) which were expected to better master risks, in fact cheated supervision and in reality they even increased the risks. Stiglitz shows it was the irresponsible behaviour of banks, supervision failure, as well as a lenient Fed's monetary policy that had their share on inflating the crisis bubble. That is why he considers financial markets and financial institutions to be responsible for it [(12, s. 16)]. Greediness of Wall Street could attract unscrupulous bankers, but the fact this problem was of a general nature, suggests, according to Stiglitz, there are fundamental errors in the system [(12, p. 18)]. He criticises a double-facedness of IMF policy and of the US Treasury Department, as they required from countries which found themselves in financial crisis high interests and cutting expenditure, while the US and Europe do the very reverse during the present-day crisis. According to Stieglitz the contemporary crisis disclosed fundamental defects of capitalism, or at least of its American variant [(12, p. 21)]. He also emphasizes the US problems are of a global dimension, and their consequences are reflected in the form of the world economy disequilibrium. The global economic growth is determined by the global demand of the world economy. This framework also determines the growth of the American economy. The problem is that while one part of the world produces much more than it consumes, and the other part that should be also saving to satisfy

[11] Influential journalists created around them an aureola of demigods. L Summers called them "committee for the rescue of the world" and B. Woodward named Greenspan "Maestro – conductor of the world economy" [(12, p. 15)].

the needs of its ageing population, consumes much faster than it produces, as a result of which the world economy cannot operate in a balanced way. These distortions in shaping global demand and distribution processes witness of the fact that even deep systemic problems are of marked global dimensions.

Stiglitz's analysis of the global economic crisis has decoded the multi-layer character of its systemic causes. He says that the failure of the financial system is a reflection of general failure of the economic system, and in turn, the economic system failure mirrors deeper problems of the society [(12, p. 368)].

It is obvious that the crisis will result in changes, because the return to pre-crisis conditions is impossible. Stiglitz is therefore right when asks the question whether the changes are and will be deep and radical, and if they will be in the right direction. His answer is both critical and pessimistic. It was necessary to respond to long-term challenges so that budget deficit would temporarily rise, but the money would be meaningfully used to help the families to maintain their own housing, for investments, which would increase the long-term productivity and the environmental protection. At the same time, banks in return for the financial assistance provided by the state would provide the share of their future yields to public finance as the settlement for the risk that the public assumed. These expectations have not been fulfilled. A threat of an immediate catastrophe was avoided but the help to families with indebted flats was a small one, gifts to banks mindless, looming contours of the new financial system suggest its lower competitiveness; and mega-banks, which, in fact, due to their size use the government protection against default risk, pose a new, even greater problem. The money that could have been used for restructuring of the economy and setting-up of new dynamic firms was wasted on the protection of businesses doomed to bankruptcy. Mega-banks will be able to do business in over-the-counter (OTC) derivates, because, in fact, they will not be significantly restricted, and financial managers will continue collecting excessive bonuses. In the course of the crisis the situation in many areas has further deteriorated. Not only that institutional changes have occurred that help further concentration of the financial sector but also rules of capitalism have been changed. Because of preferential treatment of financial institutions, as Stiglitz notes [(12, p. 369 – 340)], we have in the long-term or completely eliminated the operation of sanction market mechanism and created a "substitute capitalism" with vague rules, but with foreseeable consequences – another crisis in the future. He claims that the scope and course of the global crisis gives the concept of "moral hazard" a new dimension and meaning. Likewise the rules on a global scale, stresses Stiglitz, e.g. "Washington consensus" policy and its ideological base – market fundamentalism are dead; but a desirable reform of the world economic order that creates the framework of globalisation is still rather distant [(12, p. 370)].

The Chinese character for *crisis* has two meanings – threat and chance, and Stiglitz closes his book with a question if we will make use of the chance to restore the equilibrium between the market and the state, between individualism and collectivism, between man and nature, and between means and ends. And of course, the chance to create a new financial system, which will correspond to its original irreplaceable role in the economy.

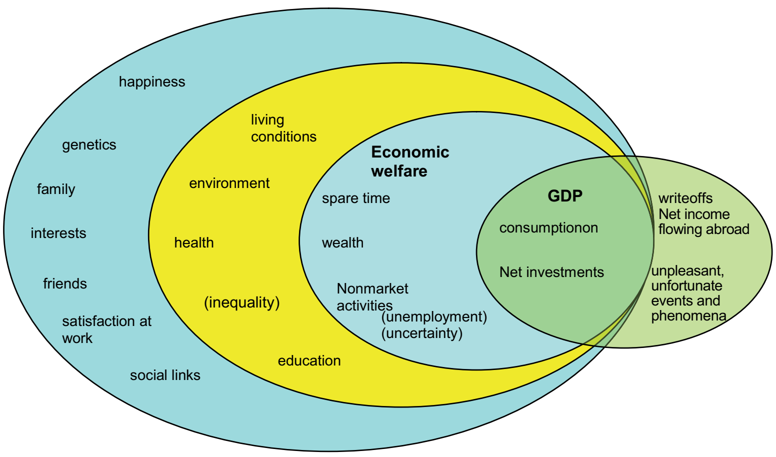
The third remarkable approach that deserves attention is the *Report by the Commission on the Measurement of Economic Performance and Social Progress*, which has been worked out at the instigation of the President of the French Republic by a group of distinguished economists headed by J. Stiglitz, A. Sen and J. P. Fitoussi [(9)]. These authors claim it was also due to the crisis that the importance of adequate measuring of economic performance has enormously risen in the course of the last two decades. They emphasize when measuring effects of what we do and if our measurement is faulty as it may be distorted, so can be our decisions. They view a frequently formulated requirement for choosing between supporting GDP and supporting the environment as false and harmful. They point to a serious fact that surveys have showed a marked difference in a standard measuring of socio-economic magnitudes such as growth, inflation, unemployment and their broad understanding on the part of population, whose one third believe official figures. The global crisis has not settled this problem and even intensified it, and it poses an urgent request for reform of measuring economic performance and social progress. On the basis of extensive analyses then they propose the following eight dimensions on which the measuring should focus. They are as follows:

- material living standards (income, consumption, wealth),
- health,
- education,
- personal activities including work,
- political voice and governance,
- social connections and relationships,
- environment (present and future conditions),
- insecurity of an economic and physical nature.

A complex structuring is described in Fig. 2.

Fig. 2

Components of economic welfare and quality of life



It is obvious from the picture that measuring is not and cannot be an exclusively technical affair. For this reason the authors emphasize that although their Report deals in the first place with measuring as policy and its aim is not to discuss the best ways for our society to strive for various targets via a joint action. However, at the same time they point out if what we measure creates what we are collectively striving for, and if what we are jointly striving for determines what we measure, then the implementation of the report can significantly affect the way society sees itself, and thus also the way what policies are used to shape, implement and evaluate it.

The existing course of crisis and post-crisis adjustment processes, their contradictory nature and examples of methodological innovations mentioned in this paper and interdisciplinary approach clearly indicate new imperative challenges for the economic science and their desirable orientation.

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