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THE WORLD OF ECONOMY AND FINANCE AFTER THE CRISIS¹

Abstract: The paper analyses some aspects of the period generally called the crisis of 2008 to 2010 from the perspective of business administration, and the consequences the general economic depression had on Czech companies. By comparison with macroeconomic data, the paper sums up some strategic decisions of companies which could have substantially helped restructure the companies during the crisis.

Keywords: crisis, depression, machinery industry, equity, liabilities

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1 The World of economy and finance in the period between of the deepest and final phase of the crisis ?

It is not a matter of words only – it may seem of lesser importance whether we have overcome the crisis, or whether we find ourselves in its final phase. However, I do not think that we should disregard that. The thing we should be discussing here is primarily the nature of future development. Years from 2008 to 2010 represented definitely the deepest and biggest crisis since the thirties, therefore we should not be indifferent about the fact that we still do not agree about the its causes; nor do we have any idea of to what extent of – to put it with some exaggeration – “self-cure”, and to what extent its course was been affected by governments of individual countries by means of budget deficits. Since it is from this that the very fundamental question of present days arises: What has to be the next mix of monetary and fiscal policies, and what is to be the nature of the state in its relation to the economy in upcoming years anyway? However, by raising this question I have reached the conclusion of this paper. That is why now I am going back to the very beginning.

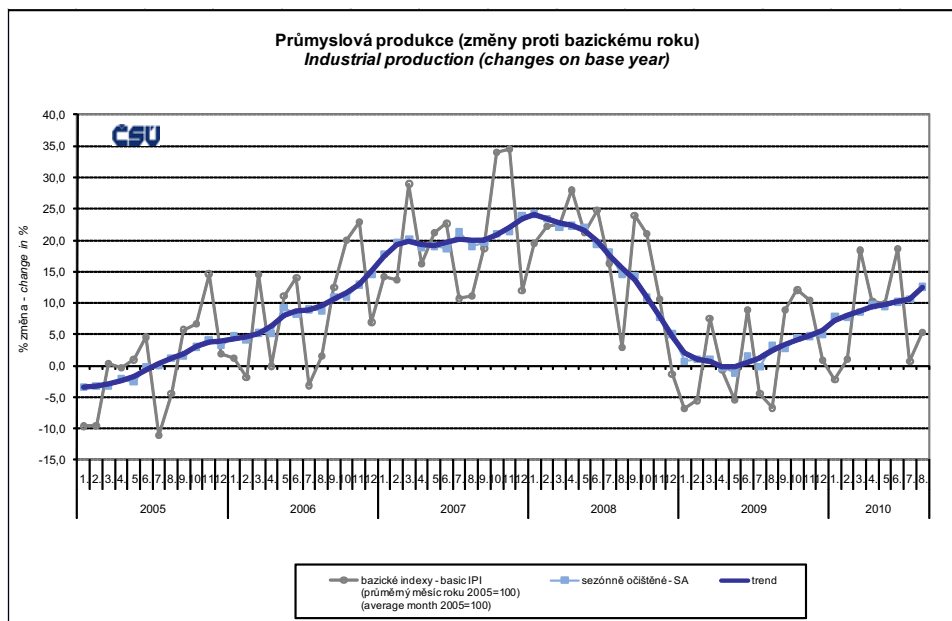
In this connection I do not intend to amass statistical data; I do not doubt there will be a lot of them in other papers and all of them will be presented with well-founded interpretation. Instead, I intend to deal with a particular overall view of risks, which

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we are still facing and to which we can never refer to as insignificant. And even if economics is in the first place a science of man rather than a mathematical discipline, yet I cannot do without some numbers in any case.

Figure 1

Industrial Production



Source: www.czso.cz

This graph is a highly instructive picture of how the key industry of the Czech economy – namely industry – fared in the course of recent years. A closer look at the development of the blue curve, which shows the trend, i.e. direction cleared of seasonal influences and individual deviations, then the present can be ranked very precisely. At present the performance of industry is, in fact, approximately the same as that achieved in the year 2006. This is an important information that should not be disregarded. Without trying to offer some new definition of the concept of crisis, I would like to express here idea that the crisis will be really overcome only from the moment when the real performance of the economy will get back to values before the crisis. Let me remind you that in the thirties numerous advanced economies fell back to the level of the year 1928 or even deep in the second half of the thirties. It was a slow and uncertain recovery. I do not intend to claim that we can reach the 2008 performance after some similarly long period of time, definitely not, and I will come back to these problems later on. In any case, the growth of the economy has hampered and the present continuous turbulences on markets and also in relation between states indicate that the economic space invariably reminds us of a minefield rather than the area of cooperation.

Decision-making processes on numerous parameters of the economy are in the hands of political representations and their testing on the part of voters is largely influenced mainly by to what extent so to say “the government has managed to reach the growth” or “what was the government’s economic policy”. In other words and in plain language, the success of political leadership in the country is rated by the growth of gross domestic product. It is mainly for this reason that the growth and stability of this growth is a highly critical issue nowadays; it determines not only the standard of living of a country’s population, but also the future of political leaders. And let us admit that political leaders act in many cases in order to support the growth without regard to costs of this support, thus cost-efficiency. Please, this is not intended as some kind of focused criticism; so do not put in these words any more than they mean: a simple statement of the state-of-the-art, one that is quite frequently repeated in all advanced countries.

2 Even when the economy is growing, we cannot say that the crisis has been overcome

- Low costs of 2009 improve the figures of the year 2010.
- There are always about 50,000 more unemployed than in the year 2006.
- September 2010: 500,481 people jobless.
- September 2006: 454,182 people jobless.
- Even those with higher qualifications find it difficult to find jobs.

That is why in a number of advanced countries there is announced the end of the crisis, which makes an impression that the current political representation has managed to drive away the crisis. However, to be sincere, all of us pursue some information and trends, we are trying to find an answer to the question to what extent we have overcome the crisis; and let us admit we are inclined to opt for the more optimistic variant, i.e. the statement that the crisis is over. But we should beware of making some simplifications, which are now very frequent, and refrain from irrational optimism or deep depression. Let me describe the current state by the following statement, which may appear paradoxical at first sight: ***Even though the economy is growing, the crisis persists.***

Let us have a look at some proofs or rather explanations of this statement. In the first place, we have already stated the present performance of industry is roughly on the level of the year 2006, and although the aggregate of the national economy is doing somewhat better, but basically rather similarly, although there are considerably more unemployed people, namely approximately by fifty thousand, and what is worse, towards the end of the year the situation is likely to be deteriorating. There also appears something that has so far been little observed – even workers with higher qualifications find it difficult to get jobs. Understandably, this may be taken on the one hand as a favourable situation; in fact, it indicates a favourable development in productivity of labour. However, for domestic demand as one of

the pillars of growth it is naturally a very bad news.

On a more careful examination of the situation of industry *per se*, we can see a number of other interesting phenomena, which may be labelled as “proof of overcoming the crisis”. At the same time we can use a more conservative criterion and say these are some slight indications of improvement but they still appear in the corridor, which in itself stands for the risk of a potential fast return to the depression phase.

Table 1

Sales in Industry (year-on-year indices)

CZ- NACE	Index (stejné období předchozího roku = 100) (Corresponding period of previous year = 100)					
	červen 2010 <i>June</i> 2010 p)	červenec 2010 <i>July</i> 2010 p)	srpen 2010 <i>August</i> 2010 p)	květen až červenec 2010 <i>May to</i> <i>July</i> 2010 p)	leden až srpen 2010 <i>January</i> <i>to</i> <i>August</i> 2010 p)	září 2009 až srpen 2010 <i>September</i> <i>2009 to</i> <i>August</i> 2010 p)
Průmysl ČR (B+C+D) Industry, total (B+C+D)						
Tržby z průmyslové činnosti (b.c.) <i>Sales (current prices)</i>	112,1	107,8	114,4	112,4	108,7	102,1
Tržby z přímého vývozu (b.c.) <i>Direct exports sales</i> <i>(current prices)</i>	117,3	116,1	122,0	120,2	115,3	107,3

p) *předběžné údaje*

p) *Preliminary data*

Source: www.czso.cz

As we can see from this table, which contains the most recent data of the Czech Office for Statistics, year-on-year figures on sales in industry as a whole and mainly in the manufacturing industry look extremely interesting and show a dynamic improvement of the situation. We cannot fail to notice that it is primarily export that is the growth driver, which again confirms the ability of the Czech economy to draw benefits from the recovery at our key trade partners. By the way, we need to add at this point that in summer 2010 year-on-year growths of new orders from abroad were lower than those of new orders from the domestic market. However, I would like to remark in particular that these comparisons work with some base; figures in our table are mostly based on the year 2009 – that is why I suggest to pay the greatest attention to the last columns, which profile against the period of September 2008 till August 2009, and there we can see visibly lower indices of industry production.

So there are two facts here. In terms of its volume the industrial revolution has returned to the level of the year 2006; let me point out that it was also owing to some decline in producers' price level, which was indisputably brought about by a higher competition during the recession. However, the present-day dynamic growth is to some extent only a mathematical affair, while its size is strongly affected by a very low comparison basis. Moreover, the economy is slowly absorbing new employees, so the decline of unemployment is not so distinct, and that influences domestic demand, as can be seen from the following two tables.

Table 2

Development of Unemployment in the Year 2010

		January	February	March	April	May	June	July	August	September
Unemployment (MPSV)	%	9.8	9.9	9.7	9.2	8.7	8.5	8.7	8.6	8.5
Unemployment	No	574 226	583 135	572 824	523 591	514 779	500 500	505 284	501 500	500 481

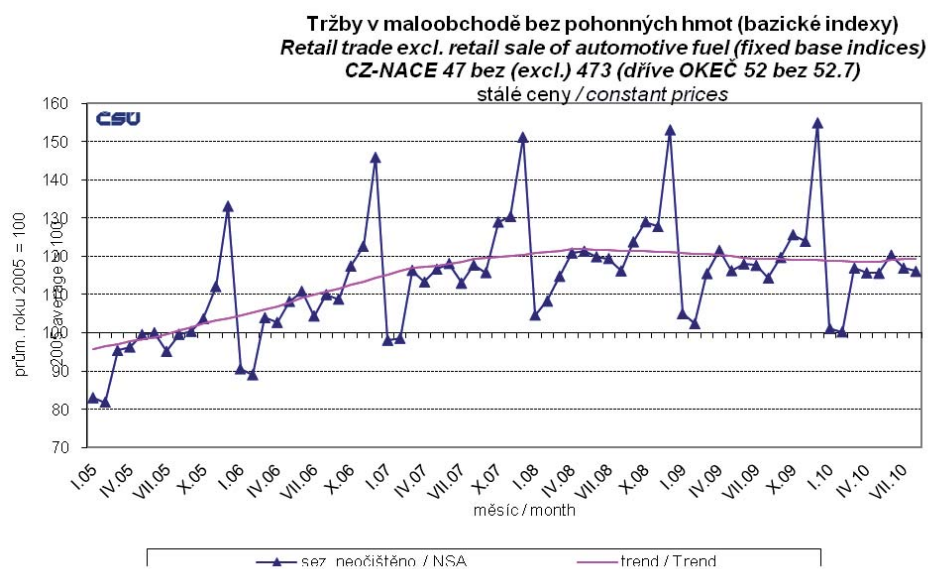
Source: www.czso.cz

We can see here that a decisive shift in unemployment occurred between March and May 2010, when approximately 60,000 people found employment, but for most of other months in principle nothing significant happened. There were changes in series of thousands of people at most; there were shifts by tenths of percent. As long as we take a standardised course of unemployment as it is usual in the Czech economy, then at the end of the year we can expect the return to some nine percent of people without job, that is an increase in the number of the unemployed to roughly 520 thousand persons.

This also means we cannot expect any change in the development of retail sale.

Figure 2

Retail Sales



Source: www.czso.cz

As we can see, since the half of the year 2008 domestic sales stagnate at best. These are figures without retail in automotive fuels, and if we included also this segment, results would be clearly worse. The sale of automotive fuels declined year-on-year by more than eleven percent – which in itself is a signal which should not be disregarded. Even when this was also owing to the decrease in sales of motor oil in transit transportation, because the prices in the Czech Republic are unfavourable in comparison with those in some neighbouring states, and this is what this type of clientele influences to some extent.

However, this does not affect the fact that prospects of the domestic market cannot be overestimated. A probable restriction of wage rise in the sector in the following year and in next months with high unemployment indicate there is no point to expect favourable development on the domestic market.

However, this raises the question with an increasing urgency: anyway, what will be the economy like in following two years?

3 What will be the next two years like?

- Let us not expect any dynamic growth.
- Production of industry will get to the level in the year 2007, at the earliest in a year, i. e. that is in the second part of the year 2011.

- The building industry will start growing only in the year 2012, and the losses of last years can be caught up only in the year 2014.
- Unemployment will not be rising for the time being, at least not in the long term.
- Domestic demand will grow only slowly.

At first let us try to describe these years in figures. This year will bring, in my estimate GDP growth by 2.5 percent. Let me remind you that the last prediction of the Ministry of Finance is 2.2 percent, which is an insignificant difference. The Ministry's estimate for the next year is a slowdown of growth to 2 percent; I would, personally, be more careful and expect the result by two or three tenths worse, that is 1.7 or 1.8 percent. The year 2012 will probably mean the return to the growth around two percent, but it is a rather distant time, which will be strongly affected by the political decisions adopted in the interim. When we go back to the year 2011, then the industrial revolution will be recovering also more slowly, so that we will reach the state of the year 2006 sometime by the end of the future year. Last figures from the building production show, that in this branch the crisis will be long and lengthy; there appear also other year-on-year declines in production. Next year will not be probably better than this year, and only in the year 2012 can we assume, the production in the branch starts growing again. The return to performance of the years 2006 and 2007 can be expected in the year 2013 soonest and rather even a year later. The number of people out of work will continue stagnating; the decline in unemployment cannot be expected within a very short time; on the contrary, at the end of the year 2010 the number of people without work will go back to the level of approximately nine percent. Also for this reason the domestic demand will be growing slowly and the number of family defaults will continue rising. Let me mention at this point that this problem may be still underrated by the Czech banking world.

So if we summarise what we have said so far, then the growth of the Czech industry is dynamical, but a part of the dynamics is an illusion. Moreover, with regard to the growth of the industry and the entire economy, the number of the unemployed remain considerably higher than it would correspond to the situation. The chance for the growth of domestic demand is not very high, that is why the Czech economy will depend on impulses from abroad.

These prospects are not too optimistic. But how do we know that in the years to come the boom will not speed up and remain only a mild one or rather milder than this year? It would be possible to list a number of various indications or proofs, but I find the following data highly illustrative of the situation. Let us have a look how Czech banks lend to businesses and how they lend to households:

Table 3

Development of State of Loans in mld. Crowns

	2009/ 02	2009/ 03	2009/ 04	2009/ 05	2009/ 06	2009/ 07	2009/ 08	2009/ 09	2009/ 10	2009/ 11	2009/ 12	2010/ 01	2010/ 02	2010/ 03	2010/ 04	2010/ 05	2010/ 06	2010/ 07	2008/ 08	2008/ 09
Loans to business es and house- holds (free of CP)	1,898	1,896	1,900	1,899	1,908	1,905	1,907	1,913	1,914	1,915	1,905	1,904	1,897	1,894	1,895	1,903	1,915	1,918	1,928	1,934
Loans to business es (free of CP)	1,002	990	984	976	975	962	956	954	948	942	922	918	908	901	898	899	904	901	907	906
Loans to house- holds (free of CP)	896	906	916	923	933	945	951	959	966	973	983	986	989	993	998	1,005	1,012	1,018	1,022	1,028

Source: www.czso.cz

We can see several interesting facts in the tables. In the first place, let us follow bold middle lines – these are loans to non-financial businesses. When looking at the year 2010, then there is no revitalisation/recovery in engagement of banks. The decline in preceding periods was clear and logical, performance of the economy was falling, so undoubtedly there were less and less of projects and firms capable of standing the test of reviewing return of investment and return on investment and rate of risk. Yet, despite indisputable recovery of the bank they do not do further financing. I know very well how businesses argument: often banking houses are criticised for their little willingness to share risks with the manufacturing sphere or services. I offer you a different perspective – banks in the Czech Republic are private entities, and the way they overcame the financial crisis in the year 2007 has demonstrated they are managed in a highly conservative way, and as it turned out, also this is the right way. So we have in fact no reason to expect them to behave in a different way, after all, in the first place we have no right to make them do that. If then the banking houses hold their engagements in non-finance businesses at the level closely above the volume of 900 milliard Crowns, then it is likely that the economy does not offer adequately interesting opportunities, where those interested in loans would be able to eliminate risks or at least minimise their inadequate level. However, this does not mean that it would be unreasonable to expect in the nearest time to do anything that might look like a permanent and continuous growth – it is hard to imagine such a growth without higher investments.

There are also other signs of that the present recovery should be considered as a permanent one. Again, we can for example see the situation when even within the industry there is a distinct differentiation in the speed of development. Next to some industries, where the year-on-year growth rates achieved even thirty percent and where the collapse of the years 2008 and 2009 has been almost deleted, there is a number of other ones that on the contrary remain in crisis or have not overcome the stagnation – not even in comparison with very low bases in the year 2009.

4 Several industries continue in declining, while others are in stagnation

(July / August 2010 against July /August 2009):

- Manufacturing of foodstuffs: 94.1 / 99.5
- Manufacturing of beverages: 96.0 / 90.3
- Manufacturing of clothing: 87.2 / 105.7
- Manufacturing of leather and related products: 102.5 / 94.1
- Wood-processing: 95.2 / 102.9

- Manufacturing of coke and refined oil products: 97.9 / 99.1
- Manufacturing of non-ferrous mineral products: 94.4 / 102,8
- Manufacturing of furniture: 90.9 / 97.0

As we can see, for instance the industries as manufacturing of beverages, the coking industry or for example manufacturing of furniture continue declining or stagnate. Of course, we can say it has its logic in each particular case – for example the food industry in the years 2008 a 2009 was not falling so much as the automobile industry or manufacturing of machinery, so naturally, it cannot copy the contemporary dynamic figures of these industries. But it is a fact that the internal development of the economy is highly disproportionate and the growth concerns primarily export industries and the businesses which supply export segments of the economy. The rest of the economy remained in trouble, and this also the way we should read the present figures. That is why if we now follow the recovery in the production of industry and after all also in the aggregate indicator, which is gross domestic product, then we can doubt about the internal power of this recovery, about its capability to survive the trial of time.

In order to be able to discuss what has to be done now and what could help the economy, we should look at in the first place at the cause of the crisis. Of course, it is true that it is too early today for some strong majority opinion to exist, and we know many people turn to the so called inadequate regulation of the financial markets as something what brought about the financial collapse in the year 2007 and later the sales crisis in the years 2008 to 2009 or 2010. Other authors speak about the instability of the global economy as an environment, which is so complex, that it cannot be managed, as a result of which it has to inevitably go through crises. There have already appeared a lot of similar explanations, but in my opinion the following influences are of primary importance.

5 Causes of global crisis during the period 2007–2010 can be summarised in the following points:

- Subsidies and state subventions to some branches – mortgages.
- Easy money policy and space for creating investment bubbles.
- Continuous barriers in foreign trade.
- High indebtedness of advanced countries which means another pressure on unnatural development on the money market.

Subsidies and subventions concern a lot of areas in advanced countries, but a relatively principal is the entire area of mortgage banking and policy mostly referred to “housing for everybody”. According to a number of estimates of the American government as much as approximately two or three milliard dollars was placed in this area within roughly seven years by means of subsidies, tax reliefs and other methods. The disequilibrium that inevitable had to arise is obvious. Hand in hand with this was a pressure from national banks on cheap money – a period of steep growth of production and at the same time the Prussian growth in demand with low inflation made an impression that the price of money could be artificially decreased and nothing would happen. But it did and it was the very policy of low rates that has led to an extreme investment activity and creating a series of bubbles in the area of financial bubbles. Let us ask ourselves the question again: how can find out the right price of money, not the price of money affected by issue and monetary policy of national banks? In fact, unless the price of money is right, how can we trust all other prices? When we look at the next line, there is no solution either. Negotiations on free foreign trade have brought in the course of the last twenty years immense benefits to the entire world, but they have stopped halfway. Here, I am afraid, it is in particular the governments of advanced countries and the European Union that are often is at the head of those who thwart further liberalisation of trade. The debt of advanced countries is the worst phantom of the next decade, and the danger it poses for the world prosperity is extreme.

a. Have these causes of the global crisis been eliminated?

Unfortunately, we have to state, all the causes of the global crisis we have just mentioned, remain to pose a real threat and it is clear we cannot expect them to disappear by themselves. In fact, the reasons of a crisis are not in the economy but in how various entities, in particular states and governments, interfere in the economy. I am afraid that the national bank system and its interventions into the price of money is one of fatal neuralgic points of the world economic system. I have already mentioned the issue of government debts and how these debts create an unnatural environment in the area of the price of money – there are needed hundreds of milliard dollars for funding these debts, which leads to increasing the price of money with respect of risks that states represent at present. However, in order to support growth national banks stand up against it and push down the price of money.

FED’s decision of November 2010 to buy back from American banks American government bonds for 600 mld. dollars is equal to the issue of money, while this money, to be sincere, is not covered by anything at all, not even by the trust in the US economy. The potential of the dollar depreciation resulted in money flowing to commodity exchanges and pushing prices of raw materials and essential food commodities upwards.

The deposit of the Federal Reserve System into the instability of the global economy is huge and it is at least equal to the influence of the post-Communist Chinese government and its policy of a weak yüan.

6 Chronic Crisis of the Global Economy

- Contradictory trends
- Wealth versus poverty
- National isolationism replaced by isolationism of economic groupings
- New colonialism

The global economy came into being on the principle of technological revolution of the last thirty years, while a typical feature of the revolutions was that they did not recognise borders, to some extent they even needed pulling down of the borders – a full utilisation of possibilities of technology necessitated the removal of at least some of the barriers, which used to be considered as normal or standard thirty years ago. However, the rate of development of adjustment of the world stopped in a similar way as did the liberalisation of foreign trade. In the present-day global world there are two clearly contradictory tendencies opposing each other, while for instance it is the very continuation in trade barriers that maintains an artificial barrier between the rich and the poor, when the original trade barriers in individual countries have been replaced in principle by a free space between separate states, but within the grouping the members of which they are. However, these groupings continue in a mutual policy of restricting trade. A new colonialism assumes various forms as in the case of Burma controlled by China.

Contradiction between: needs of the global economy (freedom of people, capital, and trade) and reality (restricted freedom of people, regulation of capital, trade barriers) equal to: chronic global crisis

In this environment crises are and will be a standard part of the economic cycle. And now I would like to express a really huge speculation – nevertheless in my opinion it is true that these crises will be deeper and deeper; in the same way that the contradiction between the needs of the global economy in the area of freedom, disposing with resources, supranational trade, movement of labour force and other areas and reality consisting of the mix of economic freedom, government regulation, trade barriers, strategic and political needs of separate states, and other influences will be stronger and deeper.

In the title of this conference we are asking what is the post-crisis world like. At the beginning of my presentation I suggested a change in the title to “The World of Economy and Finance after the Crisis”. And now, in the conclusion – please, excuse my pessimism, I do not want to spoil humour at all costs, but I suggest another change: „The world of economy and finance in the period of chronic economic crisis“. There is no “The World after Crisis”, instead we have the world economic system, which demonstrates so much disequilibrium and risk, that it may be called a system in a permanent crisis state.

7 Is there a way out from this condition?

Yes:

- Return to a balanced government finance and fundamental solution to government debts.
- Minimisation of the influence of governments on the volume of budget and general reduction of the power of governments in the economic area.
- Suppressing government and supranational subsidy systems at all levels.
- Continuation in liberalisation of foreign trade.

Symbolically, the thirteenth picture offers some solution, which is, however, of a highly long-term nature, and its fulfilment is a matter of decades rather than several years. Nevertheless, after decades of a continuous increase in government debts the trend seems to be turning round, and even the traditionally irresponsible states return to the road that seems to be reasonable. In a number of countries voices are raised, that governments have to be restricted in the way what kind of money they have at their disposal. This sounds like some promise that this problem is already perceived and mechanism is being sought how to refrain from the irresponsibility of political representations elected for four years while facing the resolutions which affect the life of people for decades. Unfortunately, subsidy policies are still considered useful parts of government systems; however, in the case of restriction of power related to increasing the volumes of budgets and state revenues these policies would probably gradually disappear. I do not doubt that sooner or later trade barriers will fall and a genuine free trade will finally bring a real benefit not only to advanced countries but to the entire planet. We cannot exclude the possibility that during a transitional period we will be going through some more phases of trade wars and “god forbid” also the “monetary“ wars. I have already spoken about the risks posed for the world economy by the Federal Reserve System and the Chinese government.

8 Basel III – Rescue or Useless Measure?

- Regulation of banking has so far never removed banking crises.
- Regulation is not the solution to asset risk assessment.
- Regulation means costs, namely cost transferred to clients.
- Regulation, however, will not limit the access to loans.

Let me mention, almost in conclusion, the rules of Basel III, which were adopted several weeks ago. In principle, there are, apart from other things, new regulator's powers to increase across-the-board the capital adequacy indicator tier 1 by 2.5 percentile in times of high volume of loans granted, that is in the period of boom in order to strengthen the banks' resistance. Regulators here obviously calculate with the fact that each asset price rise is inevitably followed by its fall, which may be realistic, but it somewhat questions the existence of regulators themselves, I might say with a touch of irony. That is to say, from the present state of capital adequacy of 4 percent, Basel III shifts us to the standard of 4.5 percent and potentially even to seven percent, if the national regulator decides so. The pressure on banks to operate with a larger equity and restrict leverage deals is undoubtedly logical, but it does not mean banking crises will be removed. Here the same holds for regulators as for generals who are making perfect preparations for the previous war. Basel III rules would probably considerably protect the banking system from some practices, which turned out to be deadly during the crisis in the years 2007 and 2008, but I see no reason why the new crisis should necessarily follow the steps of the previous one. It has never been like that and it has been always true that "a crisis will never step into the same river". Secondly, any method of determining capital adequacy to risk weighted assets does not solve the problem of assessment of that rate of risk. It seems that in the global economy everything is accelerating and the same is true of the loss in the value of assets – or about the growth of their rate of risk, if you like. Recently we have witnessed a drastic loss in the value of price of assets considered to be of top quality, at such a rate with which no bank was able to keep up. It is an interesting element of Basel III, which even more restricts for banking institutions pay-out of dividends and bonuses to managers in case of non-fulfilment of regulatory criteria. However, it is too early for its evaluation. Each regulation means costs and here we can fear in particular that the costs will be transferred to banks' clients – either in the form of lower yields from deposits, higher prices of loans, or in the form of higher fees. However, I do not feel that Basel III should restrict the access to loans – mainly, not the access to loans for corporate sector of an efficient and successful economy. To introduce new regulatory rules is mainly time-consuming – they will fully come into effect only after the year 2018. That is enough time to adjust to the norm mainly if a series of separate parts of the new regulation is by no means

a tough one. In the series of areas, solutions were adopted which were acceptable for banks, for instance in the possibility to count in total capital figures minority shares in other entities.

I know there is a great deal discussion about Basel III and the reactions vary a great deal. There appear contradictory estimates of the impact of these rules on the future lending activity of banks, but I would not worry about this. I do not doubt that in countries with a conservatively tuned banking sector– to which fortunately the Czech Republic belongs– good projects and quality businesses will find space in banks to obtain finance needed. After all, I cannot remember the case of a bank that would go bankrupt because of lending to standard businesses for standard projects or provide them operating capital and go bankrupt just because these businesses stopped paying. As far as I know banks go bankrupt because of high-risk projects or in times when they are not able to assess the risk, or because of the purchase of completely different assets than are debts of businesses. That is why I cannot neglect my own personal feeling that similar regulations in principle deal with only a relatively small section of danger for the financial economy. In the first place, no regulation, in fact, can refrain the existence of risk. If we suppress the risk on one side, it will appear in another form elsewhere. Basel III may then be worked out better and it may be a more knowledgeable regulation mechanism, but it does not mean it is going to be efficient.

Summary

At this point we cannot help asking the question: what will be the cause of the next crisis? Personally, I can see the causes in the following three items:

- Fiscal irresponsibility of governments and mismanaged government debts.
- Trade wars and monetary wars – efforts to export own problems to neighbours and trade partners.
- Political mismanagement of globalisation.

Financial and banking crises result from instability of the economic system that developed during globalisation. They are the same results of instability like a sales crisis, which followed a financial crisis, and which will most likely bring about the next crisis resulting from the impacts of government debts of advanced countries. Rather than regulate banking institutions, it would be more useful to regulate governments and their fiscal policies. However, this is really just a dream. It seems to me therefore that the main result of the most recent economic crisis is the knowledge that globalisation is an economic process, and it has developed as such. Politics has so far not succeeded in following it, and I am afraid I cannot see too many indications of how politics should achieve that.

I would not like to bring this pessimistic mood into this conference, which is held on the occasion of the 70th anniversary of the establishment of the University of Economics in Bratislava. Nevertheless, I am sure it is always better to look on the dark side of things and then get a pleasant surprise than to fall into a pit smiling.

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