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NEW PARADIGMS OF GLOBAL ECONOMY

Abstract: *The paper deals with the causes of the current economic crisis (immense polarisation of wealth and poverty in the world, global change in consumption, virtualisation of the financial sector, etc.) in the context of significant changes that the author views as paradigms. The restoration of balance in the global economy is expected from mainly from China, India and some Latin American countries. In connection with the expansion of Chinese private firms on the world markets the author speaks about a kind of restoration of state-monopolistic capitalism. In the conclusion he points to the change in the overall structure of the competition in the world, which take place between separate regions rather than separate states.*

Keywords: *business cycle, causes of crisis, collapse of markets, crisis, global crisis, polarisation of wealth and poverty, unemployment, virtual assets, virtualisation, European Union, United States of America*

JEL: E 3, G 1, G 15

When evaluating the concept of “causes of crisis” we can see that the fundamental cause, i.e. an immense polarisation of wealth and poverty in the world, but at the same time also a resulting global change in consumption, is paid a minimum attention, either on the level of national governments or on that of supranational institutions (International Monetary Fund, World Bank and the like). At the same time it was laid bare it is impossible to make use of the existing traditional instruments for the restoration of the business cycle, while the focus of a considerable part of the discussion related to crisis is held on two areas of topic.

The first area represents the development of theoretical view of the issue that we have overcome the crisis and the present crisis is a regular, cyclic, development crisis, one, similar to other crises, e.g. in the years 1982, 1989, 1992, 2000, or 2003.

The second area is based on the assumption that we have not arrived yet at the essence, namely that individual isolated factors, such as indebtedness of population, states, banking sector or the indebtedness of business structures do not operate in isolation and at different times; the main phenomenon of the present crisis is a fact that these negative factors operate simultaneously, within the same time span while their impacts are multiplicatory. However, we need to point to

one fact: when evaluating the development after the year 2000, we can state that this development was characteristic of partial crises either in terms of individual territories where these crises broke out, or from the aspect of particular material areas, where they broke out: in the year 2000 it was a collapse of technology markets, founded on Internet and computer firms; in the year 2003 it was the collapse of Argentine and some Asian countries; in the year 2005 there appeared problems in financial and banking sectors, and gradually each threat started to converge into a joint flow, which culminated in autumn 2007, but it fully opened the floodgates to the economic crisis in autumn 2008. That is to say it was not a mere failure of some English and American banks that called forth the economic crisis: that was no more than a real-life picture of virtual reality, which occurred from the aspect of the financial sector development. Nowadays we can state that it was the virtualisation of the financial sector that was one of the most important factors that triggered off the economic crisis. The latter was connected with the fact that while the regular real-life economy was developing in tenths of percent, the virtual financial world was growing in hundreds of percent of annual growth. This kind of result, not covered by real products, goods, services, real production, but also by real life had to be inevitably manifested as an accumulation of virtual assets.

No one speaks about liabilities. The outcome of this development was the reaching of a critical mass of assets understood in this way, and its logical result was a final burst of the bubble. Let us not speak only about the mortgage bubble: it is also a credit bubble that has affected in essence all the economies and companies on the Earth. Simultaneously, one of significant phenomena which essentially influenced the societal development was the fact it was for the first time in history that a discrepancy appeared: while the value of the financial assets owned by the so-called developing countries (today we should refer to them as BRIC countries) exceeds 4 mld. USD, advanced countries – the European Union, United States of America, Japan – nowadays have at their disposal only nominal, virtual assets.

This development has resulted not only in the shift of power characteristic of a distinct growth of deficit of foreign trade balance of the United States. The fact is that while in the seventies the USA was the world's creditor, at present it is the biggest debtor with the amount of debt exceeding 61 mld. USD, but also that the power and technological positions throughout the planet of Earth have re-shuffled.

We can state as early as today that a prevailing majority of dynamic impulses to restoration of equilibrium is not expected from advanced countries, but mainly from China, India and some countries of Latin America. The knowledge of and admitting this fact is the first qualitative shift. The second one is a fact that while originally after the year 2000 one of the key tasks in the financial sector was played by the so-called hedge funds, that is re-insurance funds, whose capital reached the value of 4.1 mld. USD, gradually the financial power has been shifted into the so-called sovereign funds of selected countries, while at present they represent the financial power amounting to 4.7 mld. USD. This essential

re-directing of the actual financial power but also of real disposable resources means one of key consequences for further development of the global world.

It is not only that these countries have at their disposal financial reserves that may be significantly affected by the future inflation, as long as it appeared in relation to the US dollar, but of key importance is a combination of this financial power with a new geopolitical strategy of governments of these countries. We can even speak about a certain restoration of state-monopolistic capitalism, where private firms from the Republic of China expand on the world market and world production capacities, while this expansion is secured by a financial system of Chinese sovereign funds. A similar development can be observed also in Brazil and Russia.

Development of this trend also means that the real financial resources accumulated are becoming an instrument of active economic and geopolitical strategy of governments, which use these resources to support their own steps. This is obvious in the case of China, which not only supports expansion of its key firms, for instance Huawei or Lenovo, but it also makes substantial investments into the purchase of land e.g. in Africa or in south-east Asia and is making fundamental steps to get ready for dealing with the issue of new natural resources producing energy media, foodstuffs and water. This new geopolitical distribution of powers, the importance of which is increasing, is going to permanently affect also firms of the European Union itself. This is not only a proclaimed proposition, according to which unless Europe comes round, it may become a kind of the future world technology and history museum; however, it is in the first place the fact, that Europe is facing a new, crucial challenge. The process of political and economic integration will increase so that an important compatible and in its way monolithic economic block may come into being, and that could become a counterweight to the United States of America but also to China; alternatively, it may keep up the form of discussion club, in which members cannot arrive at an agreement, except basic political issues, on any common economic strategy. We turn attention to this because there are Euro-pessimists as well as Euro-optimists, but the key issue is, how this is going to affect future development of the European Union, its institutions as well as its competences.

As early as today we can state, if there had not been 27 tax systems in EU member countries but only a single tax system, it would have been possible to increase the economic growth of the European Union by 1.5 – 2 %. If technical standard could be solved – there are considerable differences between them in EU member countries – the business turnover would increase by approximately 2%. And if working and tax systems may harmonise in some way, so that, strictly speaking, there would be a single modified form operating under EU conditions, an approximate increase by 3% could be anticipated. These facts are significant because they would not require any change in technological re-equipment, a higher (financial) capitalisation of companies or some other parameters, which are generally understood as pre-requisites of restoring the economic growth. However, there remains a key issue of the change in the structure of income polarisation under EU conditions.

It seems as if the advanced countries were lulled by the high standard of living, measured by GDP volume in purchasing power parity per one inhabitant. Calculated statistics indicate where Liechtenstein, Germany, or France are in this area, and what is the position of new EU member countries, of the USA, and Japan, but they often forget one principal fact. This macroeconomic indicator could operate as a reflection of some rate of consumption, quality of life or level of society, if 70 – 80% of the society formed the middle class as the basis of domestic consumption and at the same time, a stabilising factor of societal development.

However, while in the course of the recent 15 years we can observe a process of decline of the middle class in traditional countries, the rise of a new middle class in developing countries and in BRIC countries, leads not only to the rise of a new consumer market outside the territory of original advanced countries, but most importantly, we can see in it a principal reality namely that middle classes in advanced countries can no longer maintain their status quo typical of the post-word market mechanism.

This knowledge is a principal, fundamental view of the change that is going on. The fact that in China the change has led to 200 million rich Chinese whose average annual income is more than 36 thousand USD is on the one hand a favourable moment. After all, this is very clear also in the contemporary recovery process; the recovery in Germany would not be possible without a distinct rise in exports to China simultaneously connected with the situation when a slow recovery of American market has been, to date, largely replaced mainly by the success of placing products on the Chinese market. However, the problem is what about the middle class in itself? If the middle class in Germany, France, in other European Union countries is getting into significant income problems, it is considerably indebted, and it can no longer maintain its consumption by means of a further growth in indebtedness, there arises a basic issue – what about income polarisation? On the other hand, we can see such a huge gap in wealth and poverty and such an immense absolute poverty, as the one existing in ghettos around American megapolises. That is something that Europe has not experienced. Owing to an operating social model after the last 30 – 40 years there has not developed such an immense income stratification as the one existent in the United States of America. However, it does not mean that established income stratification processes under conditions of the European Union develop in a favourable direction. Let us remember that out of 517 million inhabitants in the present-day EU 18 million inhabitants are unemployed. Unemployment is artificially maintained at 8 – 9%. At the same time there are approximately 6 million homeless people. Approximately 11% of them are facing the risk of poverty, i.e. 51 million inhabitants out of the total 517 million inhabitants of the European Union.

In this sense of the word also efforts for ways-out from the economic crisis by finding markets abroad as if gape up the effort for understanding the fact that the domestic market is equally important, if not more important than the foreign one. As long as we fail to carry out measures for the strengthening of incomes of a prevailing majority of population, the dependence of export from the long-term aspect may be

in destructive in the future.

This understanding also leads to the consequence that governments may try to restore the strategy of support of domestic consumption, but there is a basic difference. While governments in the European Union have their hands considerably tied up in view of an overall budget indebtedness of individual EU member countries, the Chinese government has at its disposal immense financial resources, which enable them in the long term to maintain the domestic consumption so that it maintained own production capacities and at the same time became an important market also for other countries. However, we can observe here a significant rise in the importance of the Chinese government: the requirements of strengthening the share of domestic production of products sold are rising. Therefore we can expect that in terms of subcontracting the Chinese government is going to request the increase in the share of Chinese subcontractors in the production to be sold on the Chinese market.

This may significantly affect not only the automobile sector but also some other sectors. An equally important phenomenon is a fact that specifically China and partly also India have already stopped assuming the positions of producers of weak, technically non-intensive products of textile and shoemaking industries, clothing industry and the like and are becoming an increasingly significant factor in the area of sophisticated products with a higher value-added, for instance electrical engineering and automobile industries, and some technological industrial activities. Therefore we can say from this aspect that the overall structure of the competition between separate regions rather than separate states is being re-directed, that is, strictly speaking between business clusters.

Sources:

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