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A NEW WORLD ECONOMIC ORDER: HISTORY, THEORY AND DIRECTIONS OF DEVELOPMENT

Abstract

The article substantiates an objective need to form a new world economic order. The authors elaborate conceptual foundations and directions of its development. They conclude that the emerging new world economic order means profound restructuring of all economic sectors and offer recommendations regarding the reforms of international financial institutions and restrictions of speculative operations on the financial market. The authors put forth a list of standards on disclosure of financial and economic information for state regulators and potential investors and service consumers that should be included in the system of new economic order. The authors further elaborate the idea of transition to a single global currency.

Key words:

Economic liberalism, single global currency, regulatory function, new world economic order, economic transparency, global financial standards.

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1. Historical Overview

The need to change the existing norms of the world economy's functioning and development is not something brand new. Governments and business representatives have always tried to improve the norms of international economic relations and cooperation. Although not always legislated, these norms, rules and agreements have nevertheless been binding for all agents: otherwise, the offender suffered direct and indirect punishment, incurring reputation losses on the global market.

The current situation is a special one – it is characterized by globalization of all economic processes creating such a world economic space, where economic agents coexist on principles of equality, respect for national sovereignty and harmonization of international interests. In accordance with that, certain organizations are gradually being established, assigned with the task of developing such conditions for international relations in the economic sphere that would assure employment of the achievements of modern civilization. In other words, the matter in question is a new order, which enables nations and individual firms to benefit from scientific advance of mankind and informatization of production based on the historical process of international division of labour.

In recognizing the opportunities and challenges of globalization in recent decades, the need for a new world economic order was put on the global agenda. Already in 1940 in Washington, the report titled «A New World Order» with subtitle «Review of the reasons for regional and world federation, including some plans for the postwar world order» was prepared for the International Carnegie Foundation. Several developing countries have also shown their interest in the matters of establishing the new economic order. In the mid 1970ies they endorsed an initiative to put the question of foreign direct investment onto the UN agenda. In trying to change the existing order, these countries came up with the idea of structural reformation of the global trade and financial system. They rejected the principle of absolute economic liberalism in international economic relations effective under the old economic order. Ultimately, the UN approved several resolutions, including the Declaration (3201, S-VI, 1974) and Program of Action (3202, S-VI, 1974) for a new economic order and the Charter of Economic Rights and Obligations of States (3281, 1974).

Analysis of the above-mentioned texts proves they are urgent today. The «Declaration on a the New International Economic Order» states: «We, the members of the United Nations solemnly declare our common determination to immediately apply efforts to establish a new international economic order based on equity, sovereign equality, interdependence, common interests and cooperation of all States, regardless of their socio-economic systems, which should eliminate inequality and end its existing injustice, and eliminate the growing gap between developed countries and developing countries, and provide more rapid

economic and social development and justice in the world for this and future generations» [5].

It should be noted that at that time the state of the world economy was more or less similar to the present one. The Declaration in particular noted that «the existing international economic order is in direct conflict with the current development of international political and economic relations. Since 1970, the global economy suffered from series of crises that had serious consequences, especially for developing countries, given their greater vulnerability to external economic phenomena» [5]. However, at that time, the question of control over the approved decisions was not properly solved.

In August 1990, G. Bush made a statement about the «possibility of a new world order» at a press conference, and another one on the «historic movement toward a new world order and a long era of peace» at the UN General Assembly [6]. Unfortunately, besides this statement, no decisions or agreements followed. Most probably, the statement of G. Bush remained information for thought.

The historical milestone in the evolution of new world economic order was November 15, 2008. On this day in Washington was the first meeting of G-20 – officials from Argentina, Australia, Great Britain, Brazil, India, Indonesia, Italy, Canada, China, Mexico, South Africa, Republic of Korea, Russian Federation, Saudi Arabia, the USA, Turkey, France, Japan, and the European Union. This gathering was preconditioned by the need to make certain decisions needed to overcome the global financial and economic crisis.

The G20 summit adopted a declaration on financial markets and world economy. It proved that in conditions of globalization, the industrialized countries that have dominated the world economic arena in the past were unable to solve the problem of non-recessionary development by themselves. On the contrary, developing countries have great potential and build up their economic strength, in particular China. The summit has also changed the role of the G8 in terms of distribution of influence and capacities in the global economy. Finally, we can say that the summit laid the foundations for the new economic order in the 21st century.

However, it became clear that the understanding of objectives of the new world economic order varies in different countries. Especially significant is the difference in the positions of developed and developing countries. On December 12, 2008, the Second UN Committee rejects Resolution «Establishment of a New Economic Order». This resolution called «to continue working on a new global economic order based on principles of equity, sovereign equality, interdependence, common interest and cooperation among all States» [18]. Out of total 115 voters, 49 abstained, the USA voted against. Washington's representative said that instead of strengthening multilateral efforts, which were aimed at resolving the financial crisis, the authors of resolution offered spending UN's resources on obstructed goals. However, in Resolution 663/224 «Establishing a New International Economic Order» it was approved that the UN General Assembly «reaffirms the need for continued work on a new economic order based

on principles of equity, sovereign equality, interdependence, common interest, cooperation and solidarity of all countries» [15].

Effective in terms of developing the ideas of the Washington summit, was the Meeting of G20 Finance Ministers in March 2009 in London, who agreed to apply «sustained effort» to draw the world economy out of recession. In practice, it reduced to traditional activities of lending additional finance of the International Monetary Fund to countries in the biggest trouble. Although such methods cannot be entirely rejected, they do not find full support even within the G20 itself.

Special position at the G20 Finance Ministers' Summit in London held the representatives of Germany and France, which has once again shown differences in the standpoints of different countries. They stressed the need to introduce tougher regulatory action in financial relations. The same view holds Robert Zelik, Head of the World Bank, who states that stimulating the economy by means of providing additional money to increase financing of some national economies has only a temporary effect, if problems of the banking system remain unresolved.

In April 2009 in London the second G20 Summit was held on collective action for overcoming global economic crisis. The leaders of the G20 were unanimous that «a global crisis requires global solutions». In the final communiqué of the Summit it was noted that «well-being is indivisible, that only shared growth can be sustainable and our collective recovery plan should focus on satisfying the needs of and providing jobs for workers and their families not only in the developed countries, but also in the countries with emerging markets, as well as the poorest countries, and reflect the interests of not only current, but also future generations» [21].

At the Summit of G20 in London, the forecast of the IMF was approved that global growth in real terms would renew by the end of 2010, provided that at the time its rate would exceed 2%. At that, the world community must achieve greater systemic coherence and cooperation between countries and create a system of internationally agreed high standards required by the financial system.

The members of the meeting approved the plan of global recovery and the reforms necessary to prevent from recurrence of the current crisis. According to British Prime Minister G. Brown at the closing summit, financial institutions that were created after the World War II should be reformed for greater efficiency and accountability. However, he said that the global economy should be revived by the International Monetary Fund. Thus, it is the body that must reform itself first.

The Summit in London significantly progressed in solving the problems of economic regulation, including hedge funds that attract investors with high yields (up to 185%). In Ukraine, they have not been created yet because of the lack of favourable conditions, especially the laws that regulate derivatives market, small size of stock market, psychological unwillingness of entrepreneurs to risk, and lack of qualified professionals. More important in terms of Ukrainian reality is the

publication by the OECD of the list of territories that provide conditions for tax avoidance. Leaders of the G20 agreed to impose sanctions against them in the future. At the same time, in the final communiqué it is noted that the decision of the Summit would not solve the crisis, but would initiate the process that would contribute to its resolution [21].

In July 2009, the leaders of G8 held a meeting in Italy. They discussed mainly the environmental aspects and a (new) initiative on assisting poor countries with supplies of food products (according to the UN, there are 1 billion hungry people on the planet). The initiative stipulated for a requirement that the financial resources granted by the rich countries to the poor ones should be directed to development of farming, so that poor countries could feed themselves. But despite the fact that the G8 is no longer the undisputable leading forum for discussion of global problems, the world community in the conditions of crisis expected them to make decisions on at least world trade liberalization, as it is urgent for the new world economic order. In this context, analysts suggested that the leaders of G8 retreated from liberal theories of free market in the process of finding solutions to the crisis. In these conditions, there is only one way to resolve the problem – focusing on the methods of state regulation and financial control. In fact, another way is more likely – enhancing of both the market and the regulatory functions.

2. The Evolving Concept of the New World Economic Order

The problem of forming new world economic order requires elaboration of a proper conceptual base: it will allow transiting from axiomatic individual standpoints – which is very typical of the current political, economic and scientific literature – to a scientific system of searching for solutions. The lack of scientific approach is the only reason for the fact that large states, aside from being aware of the problem, were not able to consider it systematically.

The term «new world economic order» can be defined as *establishment of common, internationally recognized norms, rules and laws, primary with the aim of preventing and removing the causes of global economic crises, which are typical of the 21st century*. Such an approach calls for development and enactment of legislative acts in the system of international law, on one hand, and for elaboration of observance mechanisms, on the other.

The target of legal framework of the new world economic order at the present stage of economic development is to remove major causes of global crises. Most of these causes were identified at the G20 summit in Washington. The factors that contribute to global crises were said to include the weak norms on guarantees; imperfect risk management techniques; the growing complexity and

non-transparency of financial products; and excessive use of credits in stock trading.

These factors are to be held accountable for vulnerabilities in the economic system. Moreover, these effects are triggered by favourable environment created by politicians, regulative and supervisory bodies of the developed countries, which do not adequately manage current risks. Even more exposed are developing countries, the governments of which have neither the adequately skilled state bodies nor sufficient financial resources to influence business.

There are sufficient grounds to argue that the decisions of national legislative and executive bodies during a crisis period did not correspond with the needs of financial innovations regulation. The reason for unstable macroeconomic results was the inconsistent and uncoordinated macroeconomic policy and inadequate structural reforms. The combination of the above-mentioned circumstances entailed excesses and finally led to deep shocks at the market.

The forming of the new world economic order means radical restructuring of all economic segments. In the first place, it is necessary to challenge the concept of economic liberalism, which is built on the ideas of «open market». Thus, V. Andrianov writes: «Global financial crisis put an end to the protracted argument between «Keynesianism» and «monetarism» about the role of the state in economic regulation. The crisis proved groundlessness of monetarism, which postulates that markets are competitive a priori and the market system is automatically capable of reaching macroeconomic equilibrium. At the peak of financial crisis, almost all leading developed countries were forced to use «manual» regulation of economy» [1].

We have an impression so far that the G20 prefers methods of government control and international financial control. In assessing the results of G20 summit, V. Kuchin says: «The majority of countries have developed recently according to principles of liberal capitalism. Its basic principle is market's self-regulation. The leaders of the G20 came to the conclusion that this model did not justify itself. By the way, the idea of automatic self-regulation of market economy was criticized back in the mid-19th century, and then it was resolutely cast aside by J. M. Keynes. Thus, the summit participants recognized the need to substantially enhance the regulative role of the state. They suggested putting all significant financial operations and trade contracts under serious analysis and checking, in particular at the international level» [6: 18–19].

The analogical statements are numerous nowadays, especially in the Russian press. However, they treat the issue one-sidedly. We cannot agree with interpreting such state activities as re-privatization, nationalization, providing liquidity or recapitalization as «manual» regulation. Here, the state applies market methods and appears as an economic agent. Besides, in this regard, the Declaration on financial markets and world economy of the G20 admits: «We acknowledge that reforms will be successful only if they are based on principles of market freedom, including supremacy of law, respect for private property, openness to trade and investments, market competition, and presence of effective

and well-managed financial systems. These principles are important for economic growth and prosperity; they have already helped millions of people to get out of impoverishment and increase the standard of living in the whole world. Acknowledging the need to improve the regulation of the financial sector, we are committed to avoid over-regulation, which would slow down economic growth and reduce capital flows, including those to developing countries, even more» [20].

While solving the problems of global economic development in the 21st century, one should be aware that the future global organization entails a search for and determination of new political, economic, social, infrastructural, and institutional parameters. D. Lukyanenko admits that «all national economies are transitional in view of the evolving contours of future economic system» [7: 68]. It means that today, the traditional approaches to national economic development, where the entire strategy reduces to searching for ways to achieve the level of rich countries, is not sufficient. *The world enters the phase where the problems of global sustainable development and poverty will finally be solved on conditions of mankind's change of conduct on planetary scale*.

Currently, favourable conditions are being formed for solution of the permanent problem – uneven economic development. Realizing the impossibility of absolute, especially economic, equality, it is necessary to create the rules to be followed by all in a single «premier-league». The socio-economic unevenness of development should be solved by proliferating global mechanisms and instruments of world economic functioning and regulation. The so-called problem of «uneven development», when the gap between the leading and the lagging countries increases, will be resolved. It will remain for separate competitive companies rather than national economies. At the same time, the fate of laggards will be decided by the leaders through mergers and acquisitions or by the market through bankruptcy, readjustment, and other mechanisms.

3. Developing New Rules and Standards for the World Market

The process of establishing new world economic order should ensure equal opportunities on the free market not only for the developed countries, but for the developing countries as well. We should also take into account the specifics of the modern world market, which is a rigid hierarchical system that focuses mostly on preserving the dominance of the leaders, i.e. the advantages achieved by the developed countries by means of manipulating financial markets, artificially overpricing innovation products, etc. This deprives developing economies of a chance to break free from their debt burden and come out as full-fledged competitors to developed countries. Institutional structures, the functions of which consist in regulating the world market (IMF, WTO, EBRR, etc) can

both effectively support this status quo and, if needed, change the rules of the game in short time (by changing exchange rates, introducing new customs rules and restrictions). The developing economies end up playing the role of losers.

The problems of radical changes on the global financial market – foreign exchange, banking, credit, stock markets – are especially acute. At that, all international financial institutions created after the World War II need to be fundamentally reformed, including the International Monetary Fund (IMF), the World Bank (International Bank for Reconstruction and Development and International Development Association), the World Trade Organization (WTO), the Organization of the Petroleum Exporting Countries (OPEC), the Gas Exporting Countries Forum (GECF), international trade organizations and associations, the International Labour Organization (ILO), the International Organization of Securities Commissions (IOSCO), and others. The new image of these institutions can be designed on the condition of solving if not the most important problem of the regulation sphere – settling the conflict between the supranational nature of instruments and institutions of global financial market and the national nature of regulation to the benefit of global financial market.

The urgent problem of supranational regulation revived the discussion of the Earth Charter, which should incorporate the rules and restrictions for all global market players. No matter which direction this discussion takes, its basic principle should be that international financial organizations should be granted such rights that would give them real power to revive global economy. This statement concerns the IMF in the fist place, the task of which should be to ensure global financial governance. This can be realized if such an international environment is created where there will be no reason to doubt the objectivity, unbiased and independent position of the IMF in at least three aspects: its control over economic systems and financial sectors; assessment of the effects of policy of separate countries, especially the developed ones, on other countries and the world economy as a whole; and global risk assessment.

Quite understandably, this direction of development can be effective if the mechanisms of assuring considerable reliability of the world financial system are created. This is a complicated question, since it touches upon the sovereign rights of nation states, since an increase in the rights of supranational organization means limitation of the rights of national governments[1]. Since such redistribution of functions cannot be avoided, it is legitimate to pose a question about improvement or rather modernization of international law. There is a possibility

[1] Here, it is feasible to cite the Resolution Draft III of the 63rd UN General Assembly of December 12, 2008, which says that today «the space for national economic policy, that is to say the scope for domestic policies, especially in the areas of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations, that it is for each Government to evaluate the trade-off between the benefits of accepting international rules and commitments and the constraints posed by the loss of policy space…» [10].

that in due time the IMF will grow into a specialized international financial institution, the main task of which will be global governance.

When considering the functions of the state as an economic regulator, we should take into account the fundamentally new paradigm it has come across. The positions of the state in many traditional spheres has considerably ceded to supranational regulators. The interest rate of national banks, exchange rate of national currency, import barriers, export subsidies, taxation, social policy, education, professional preparation are gradually moving from under the authority of the state to that of external regulators. As D. Lukyanenko and T. Kalchenko note, it is the first time in history that state sovereignty is losing on its own territory its full control over economy and other spheres of social life… It is already at the early stages of economic internationalization that nation states had to enter contractual relations and assume various obligations, which unavoidably limited the freedom of action of national governments in one or another way, i.e. limited state sovereignty. The more the economic, political, scientific and technological, and cultural interactions of different countries intensify and diversify, the more broadens the gap between state sovereignty de jure and state sovereignty de facto» [8: 11]. Even more rigid was D. Lukyanenko in his monograph titled «Global economic integration»: «All national economies are transition economies in view of the shaping contours of future global economic system» [7: 68].

Among the bravest proposals concerning the expansion of supranational forms of economic governance, it is worth to single out the idea of introducing a global financial tax, proposed by Gordon Brown, Prime Minister of Great Britain, at the G20 Finance Ministers' Summit in Scotland on November 6, 2009. He supported it with the statement that the «benefits of success in this [i. e. financial – trans.] sector are reaped by the few, but the costs of its failure are borne by all of us» [2]. The essence of the new tax consists in that is should be global in nature, be an element of the new global economic agreement, and compensate for banking failures. Therefore, if previously banks in the case of bankruptcies or pre-bankruptcies were saved by means of tax collections received from bank clients (innocent party), the Brownian concept transfers the source of covering banking failures to their special tax payments.

It is understandable that this concept is not appreciated by the banks. Thus, Angela Knight, Chief of British Bankers' Association, expressed her doubts, stating that such taxes will not work out as they require perfect implementation globally [2]. The complexity of implementation cannot be denied, but if a well thought-out system of collection, accumulation and allocation of global tax is elaborated, this would provide an opportunity to quietly overcome crises and lower the psychosis covering the whole financial and banking systems in the period of crisis.

Global economic crisis has revealed the absence of high standards of global financial market functioning. In order to create them, it is necessary to define principles and criteria, according to which the new face of global economy will be formed. In view of the causes and consequences of economic crises,

which have happened on the verge of 20th and 21st centuries, especially the last one, it is necessary to develop the system of restrictions on speculative deals and operations on the financial market. Special attention should be paid to short-selling and other unsecured and marginal operations. Along with that, it is necessary to take into account the specifics of different financial markets and find the optimal debt/equity ratios for operations with financial instruments.

The realization of effective control and regulation on the supranational level is hampered by the availability of considerable national differences in accounting and financial reporting, which as a rule is preconditioned by historical factors, rather than real development of the economic sector and global practice. Assets, active market, amortization, investment amortization value, associated company, balance value of an asset, bad debt expense, affiliates, currency risk, deferred tax asset, equity, guaranteed liquidation value, goodwill, economic benefit, merger, hedging instrument, liquidity risk – these and other standards need both the unification within the frames of international economic law and clear definition of deviation margins on the national level.

All activities on creation of the system of standards for global financial system should be oriented at the removal of information asymmetry. According to numerous experts, the key reason for modern financial crises is lack of transparency in the activities of companies operating on financial markets [23]. This manifests itself in many ways in practice. There are numerous cases when rating agencies provide investors with inadequate information, or when big companies misrepresent their reporting data on purpose.

We cannot but acknowledge another aspect of the problem of information asymmetry – it infrequently arises due to objective reasons. J. Stiglitz pays attention to this problem, stating that increasing the transparency of financial companies will not improve the situation, since the cause of the problem is not the lack of information, but on the contrary, the surplus of information: derivatives complicate the modern financial system to such an extent that investors cannot assess the risks [22].

Agreeing with the statement about the complexity of modern financial system, it is worth noting that this is not the reason to drop transparency and information disclosure off the agenda. We should take into account that transparency is necessary for the «sighted ones». On the market, someone who is «sighted» – is the one who is competent. It is exactly the increase in the general financial literacy of all market participants that can decrease information asymmetry and reduce it if not absolutely then to the optimal level. On the other hand, even given full information symmetry, the market can be uncertain if its participants are not trained to use information flows, cannot independently decide on their trust in rating agencies, reports, information messages, etc.

Finally, the system of standards has to serve the aim of assuring greater accountability, enhanced control over investment hedge funds and territories that create favourable environments for tax avoidance. At the same time, it should not slow down the processes of managerial decision-making and reduce

their quality. On the contrary, the elaboration of the new international system of standards should reach two goals simultaneously: support and improve the activity of regulators, and improve the effectiveness of governance.

At that, it should be taken into account that thanks to development of telecommunication systems and software, the information about changes on financial and other markets disseminates almost with lightning speed. As a result, the decisions concerning movement of capital, sales and purchases of foreign currencies, securities and debt obligations are made in real time almost reflectorily and often intuitively. Besides, global financial markets free themselves from the jurisdiction of separate, even the largest, countries. This creates a system, where mergers and acquisitions of transnational companies lead to emergence of new powerful actors in the world economy.

Generalization of the causes of economic and financial crises of last decades gives us grounds to define a list of standards on information disclosure for both public regulators and potential investors and consumers of services. We suggest discussing the following international standards:

1. Standards on the nature of financial instruments and operation of market institutions: financial reporting; information of large operations, mergers and acquisitions; data on corporate managers, their professionalism, work experience and bonuses; information of affluent owners and other persons influencing the decision-making process;

2. Standards on unregulated off-the-book OTC operations (credit default swaps, CDS);

3. Disclosure of information about persons who make decisions about stock, bonds issuance, etc.;

4. Standards on public information about unfair managers and corporate owners in the financial and real sectors of economy, whose actions resulted in bankruptcies or breaches of contract;

5. Standards on international operative exchange of information between regulators about operations of financial and industrial groups and emerging (and accumulating) risks;

6. Standards on enhanced supervision over hedge funds concerning disclosure of information about transactions and interaction with banks;

7. Standards on regulators' transparency, especially concerning the questions of appointing officials and regulatory decision-making;

8. Standards on disclosure of information on bonuses awarded to top-managers of joint-stock companies;

9. Standards on energy resources pricing transparency;

10. Standards of top-management responsibility for information inadequacy.

4. Transition to Single Global Currency

The stumbling-stone of the crisis period was the problem of single global currency. In fact, it has sharpened in response to blaming nearly all misfortunes on the dollar. In particular, it is vastly believed that the US dollar dictates US interests on the markets of different countries, especially the developing ones. The experts, who consider unlimited emission and enormous surplus of the dollar among major reasons behind the modern crisis, also believe that it can be analogically used as a means of crisis overcoming.

In 1974, the UN General Assembly in the «Program of action on the establishment of a new international economic order» reaffirmed its commitment to use all effort to conduct reform of the international monetary system. The primary objective is to remove its volatility, «especially the volatility of exchange rates because it negatively affects trade in raw materials; to maintain the real value of developing countries' currency reserves, by preventing them from erosion due to inflation and devaluation of key reserve currencies» [12].

Today we need to reconsider our past and use our experience to solve current problems. Besides, in view of the need to strengthen the role of supranational institutions and expand the system of international financial standards, we logically come to a question of single global currency, which would be able to serve both national and global needs of economic development. World economy is no longer a collection of national economies; it grew into an integrated megasystem, which requires its own functioning mechanisms, the main of them being probably the introduction of a single currency.

Nowadays, there are numerous suggestions on creation of single currency. Discussion of them has especially activated due to a crisis. However, the issue of discussion is mostly reserve currency. Dominique Stross-Kan, Managing Director of the IMF, believes that this statement has its right to exist, but it will take many months to make a decision on it [3]. Chzhou Sjaochuan, Head of National bank of China, declared that China suggested finding another reserve currency in place of the dollar. It was articulated as a need «create supranational reserve currency which would not be tied to separate countries and would remain stable in the long term» [3]. The official position of the Russian Federation consists in creation of a «supranational currency, emission of which will be carried out by international financial institutions» [11]. It should become element of a stable, predictable international monetary and financial system, which will function according to generally-known rules.

The contrary position is held by the USA, as represented by the President Barack Obama, the FRS Chairman Ben Bernanke, and Finance Minister Timothy Geythner. They believe that positions of the dollar are «very strong» and there is no need in single global reserve currency. Thus, the American leader states: «The dollar is very strong because investors acknowledge the USA as a country with the strongest economy and most stable political system in the

world. I see no need in a new world currency» [3]. Professor of Berkeley University B. Eichengreen considers «the only thing that could result in death of the dollar is maladministration of the US economy. One of popular scenarios is chronic inflation. But it is impossible. When the episode with zero interest rates is over, the US FRS will confirm its commitment to price stability... Another scenario is loss of control over budget deficit. The prophecies of total default are far-fetched. However, large debt will mean high taxes» [19]. B. Eichengreen concludes the article with the words of Mark Twain: «The rumours about his death are greatly exaggerated».

The idea of single global currency is also the subject of research among Russian economists, whose positions do not agree as well. Thus, D. Panarin, Professor of the Diplomatic Academy of Russian Ministry of Foreign Affairs develops his idea of a «new global currency»; he named it «ACURE». Three currencies should become its base: the rubble, the Euro and the Asian currency «ACU», which yet needs to be created on the basis of the Chinese Yuan [10]. The contrary point of view is that the «emergence of new universal symbolic (as opposed to material gold) currency will result in subsequent virtualization of the financial market, whereas we need to move in the opposite direction» [7].

Therefore, the creation of supranational currency is a topical question. The question is whether there should be only one single currency, whether it should function as a reserve currency in parallel with national and common currencies. As for the second part of the question, this might not necessarily be the case. The function of reserve currency is carried out by Special Drawing Rights (SDR) of the International Monetary Fund. In the aspect of forming a new world economic order, it is important to solve the problem of creating a single supranational currency, a global currency, – such a monetary item that will circulate in both international settlements and nationally in cash and cashless forms. It means that the new currency should be recognized by each country of the world as national currency. The benefits of its introduction should receive both the countries of economic centre and the countries of economic periphery.

Development of the single global currency can be based on the theory and practice of introducing regional currencies. The most successful among them is the Euro which functions as an alternative to the dollar, fully replacing national currencies in 16 countries. In connection to this, we need to look at the theories used for development and functioning of collective currencies: their value indisputably goes beyond the scope of separate groups of countries. We should remind ourselves that in the early 1960s, when the Nobel Prize winner R. Mundell came forward with the theory of optimum currency areas, the existence of national currencies was considered as axiom. The very hypothesis of R. Mundell about the feasibility of giving up monetary sovereignty in favour of common currency for a certain number of regions seemed to only be of academic interest.

The creation of currency areas during the last decades of the 20th century has confirmed economic benefits of a single currency arising from «lower trans-

action costs of trade and less vagueness in relative prices» [24]. At that, what concerns attainment of full employment, labour markets often exhibit cases when a change in demand or another «asymmetric shock» requires that real wages in a specific region be reduced. In view of these situations, R. Mundell limited the currency zone to a region, where the propensity of labour force to migration is high enough to provide full employment in case of asymmetric shock occurring in one of regions. The new conditions, inherent in the world economy of the 21st century, provide for global movement of labour that can be limited only by restrictions implemented by national governments. If this obstacle is removed, the entire world economy can be regarded as one region, which can function according to the model of a currency area, which provides grounds for the development of single global currency.

Obviously, introduction of single global currency requires fulfilling of other terms. First of all, it is necessary to create environment for expansion of capital movement and to elaborate principles for adjustment of international and national fiscal systems, subsidies and assistance. The effects of moving to single global currency will show themselves in the revival of international trade, equalization of factors prices, and finally, evening out economic development.

Additional problems connected with introduction of single global currency include large differences in economic development indicators, willingness of all national governments to follow the terms of monetary stability. First of all, it will be necessary to overcome the opposition of the USA, which believes in the satisfactory state of its economy and remains largely interested in preserving the dollar's position as international reserve currency. Contrary to the US position, it is necessary to «persuade» global business community, which in the times of global chaos and instability demonstrates readiness for radical changes, to support the implementation of global independent single currency.

Two to three years ago, the introduction of single global currency has been considered economic romanticism. However, the world economic and financial crisis forces nations and their governments to search for new, more effective ways of development. That is why current conditions make such changes more realistic than before. The psychological readiness for practical work on introduction of single currency is also growing, especially in developing countries. Let us refer to G. Fetisov, member-correspondent of the Russian Academy of Sciences, who suggests using SDR for international settlements on trade and investment operations, turning it into full-fledged currency. The current SDR basket should be expanded for the account of the G20 countries. The mechanism of using SDR as a currency should include a Central bank with the Federal Reserve System's functions of monetary emission. Central banks of the G20 should have the role of regional banks [16].

Unfortunately, these suggestions are only half-measures, because this model does not define the role of other currencies used in international settlements. «Hardly will the USA or the countries of the Euro-area agree to immediately give up the dollar and Euro's role of the means of international settlements

and the leading reserve currencies», admits G. Fetisov. «That is why the introduction of SDR currency should be voluntary, on the principles of equality of all IMF members, and by fully securing SDR with liquid assets. Transition economies, petroleum-exporting countries and other countries that suffer largest losses from exchange rate volatility, are the ones having the major interest» [16: 41].

Evidently, in spite of the global scale of the issue, the real attempts to replace existent currencies in international settlements do not go beyond suggestions of creating yet another currency (on the basis of the few existing ones) that in fact will circulate in parallel to key leading currencies. These suggestions are not backed by persuasive arguments in favour of fundamental changes in the system of international monetary and financial relations. However, if the objective is to achieve radical changes in the world economy, the monetary system needs to be fundamentally reformed as well. In order for this to be realized, the creation of the new currency should be recognized as one of major preconditions for the new international financial architecture, and only after that, the mechanism of transition to this single currency in all international settlements should be elaborated.

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Macroeconomics

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THE CONCEPTUAL FRAMEWORKS OF MANAGEMENT OF UKRAINE'S LONG-TERM DEVELOPMENT: GLOBAL CHALLENGES AND NATIONAL MODEL

Abstract

The scientific imperatives of doctrine elaboration of the long-term development of national economy are certained. The strategic vectors of management of the long-term development of national economy with account of the global environment are justified. The necessity of strengthening the institutional capability in the elaboration and usage of macromodels in order to provide the sustainable development of national economy in prospect is proved.

Key words:

Development of national economy, national model, innovational-active neospherical development.

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The status and long-term development of national economy as organized entire system, its cooperation with the environment depends on the mechanisms, which stipulate its social-economic development and are based on the domestic and external economic interests of the country. At that, the state interference into the perspective lines of national economy's development is introduced on the new quality level. The mentioned interference is based on the complementary theories and conceptions, one of which is dominant. Their effectiveness is confirmed or contradicted by the results of the macroeconomic activity.

In this context, the applied interest to the instrument of the state management increases by virtue of the long-term development of national economy, the usage of which settles the point of the deficit of natural resources and ecological problems, taking into consideration the globalization and rationalization processes in the world economy, the overcoming of crisis phenomena, connected with the transformation processes, providing the national security in consideration of formation processes of the new global economic order and solution of the cyclical changes problem.

We should mention the experience of France, Germany, Japan, China, where the strategic management and market self-regulation coexists, the high synchronization of the instrument of mega-, macro-, and micro- regulation of the long-term development of economy also takes place.

Indeed, the General Commissariat of Planning in France, which was established in 1946, worked out the national strategy of French social-economic development for the period of 2010–2020. The attention is paid to the positioning of France in the world economy along with the pecularities of the social stability of the French society and modernization of the state policy's instrument in the social and economic sphere.

Economic Planning Agency under the jurisdiction of Japanese Economic Council in virtue of General work plan (long-term programme) estimates five strategic vectors of the structural transformation of national economy: the improvement of living standards, the country's discharge of commitments in the world community, the implementation of administrative and financial reforms, the supporting of the programs of scientific and technical development, which are referred to the building of society with the «zero waste».

State Planning Committee of China performs the macroeconomic strategic and political planning subject to such strategic vectors of economic reforms as: the development of transitional model of economic growth, the supporting of economy's urbanization, the solution of the social questions, and the increase of economic openness. Management of economy in China is marked by the high quality of long-term strategies, where not only the competition of technologies but also the competition of cultural values is well combined. Due to this, the consolidation of society in reaching the fixed strategic aims is facilitated. The Rus-

sian economy is also in process of establishing of a new macroeconomic model with such dominant characteristics as the centralization of management, the usage of perspective nano-developments on the back of the strategic analysis of trends and processes, the strengthening of research and technology bases of economic progress.

Nowadays, we may say for sure about the creation of so called supranational managerial system of long-term development of national economy. The leading role in this system belongs to:

- The United Nation Organization within the frameworks of the UN global plan of development cooperates with the 166 countries of the world, particularly with Ukraine[1] in order to join the national and global efforts while solving the problems of improvement of living standards and provision of democratic governance and development safety. Within the frameworks of the Global sustainable development strategy for 2003–2015, adopted in Johannesburg in 2002, the UN promotes the equalization of social and economic levels in the development on the global regional and sub regional levels. That is why the vector of the sustainable development was depicted in the Sustainable development strategy and structural adjustment of Ukraine for the years 2004–2015, which is not legislated up today. By virtue of the accepted system of national accounting, the sustainable monitoring of social and economic phenomena was conducted, the macroeconomic models broken down by planning and forecasting of economic development were worked out in the UN member countries and their specialized institutions;
- The North Atlantic Treaty Organization (NATO), which uses the external mechanisms of crisis management, stipulated by the Charter on a Distinctive Partnership between Ukraine and NATO, Plan of Action Ukraine-NATO, Partnership for Peace;
- OSCE Parliamentary Assembly, court and arbitration, which use the real mechanisms of early warning crisis, operative expert support, stipulated by the OSCE Strategy of security, threat and stability counteraction in XXI century, through the European Security Charter, OSCE Strategy in the sphere of economic and ecological dimension;
- The European Bank for Reconstruction and Development, which is one of the biggest investors in Ukraine, realizes the medium-term strategy of production base diversification, general improvement of state competitiveness, local capital market development, reforming of power-generating sector and improvement of corporate governance.

[1]The standard basic cooperation agreement was signed in June 18, 1993. In 2005, the Assistance Framework for Ukraine in the sphere of the introduction of institutional reforms was signed.

Under the conditions of national economy, the leading scholars namely O. O. Bakaev, V. M. Heyts, M. V. Myhalevych, B. Ye. Paton, B. Ya. Panasyuk, O. H. Ivahnenko, B. D. Havrylyshyn, I. V. Serhiyenko, L. F. Hulyanytskyy, I. V. Kryuchkova, V. F. Besedin, V. P. Naumenko, Ya. A. Zhalilo, M. I. Skrypnychenko and others studied the particular aspects of management of the long-term development of national economy on macro- and meso- levels. In justice to the works of mentioned scholars, we should take a note that the entire scientific conception of management of the long-term development of national economy is not formed up to now. The mutual approaches of effective management of the long-term development of national economy are absent. Besides, it is necessary to develop suspended scientific approaches in order to overcome the negative factors of public sector development: corruption, administrative shock, low quality of administrative services, which promote the development of national economy and don't give the possibility to be positioned in the world economy. The research imperative is strengthened by means of the need to forecast the crisis phenomena and provide the capitalization of competitive advantages on the world market, indeed Ukraine takes a firm line in the nanoeconomic development (research infrastructure, technological ideas, education, etc).

In fact, the determination of objective preconditions and tasks, concerning managerial state influence on the economic development of national economy in conditions of modern transformation development is of scientific and practical interest. Therefore, it is expected, within the frameworks of the given scientific article, to prove the conceptual frameworks of management of the long-term development of national economy which could be depicted in the corresponding doctrine of the long-term development of national economy.

The subject of the long-term management is the economic development of the national economy, which is considered as a process of functioning and evolution of the economic system in the long-term period. From an evolutionary perspective, the etymological research of the economic system development distinguishes the social theory, the theory of economic circular movement, the theory of structural changes, the theory of open economy, humanistic theory.

The definition of the long-term development should be discussed as an evolutionary process of accumulation and realization of economic strength for the purpose of changes in structural, organizational and technical, organizational and economic, social, resource and economic mechanisms of functioning of national economy for the long-term period. At that, the evolutionary process takes a form of growth, natural selection, accelerated development, unsustainable development (bifurcation), main evolution and competitive development. It is mentioned that a number of scholars believe that the world economy is developed around so called «bifurcation core» [1], and the main propulsive forces of the long-term development are man's intellectual and material values, which are formed and developed under the influence of needs and contradictions of economic system.

The necessity of elaboration of the long-term economic development doctrine was raised by V. M. Heyts and B. Ye. Kvasnyuk in the «Economy of

Ukraine: the strategy and policy of the long-term development». The mentioned scholars believe that the tendency to the post-industrial socialized society with the high quality level of living standards, the formation of new technological structure and social-oriented market economy by means of the leading role of the state in its transformation and regulation through the strategic development, providing the fulfillment of the long-term priorities, the formation and extension of the social base and economic development greening on the basis of society humanization and democratization as well as faster growth while maximum use of own resources and increasing of the competition of national economy is underlined in this doctrine [2: 94–95].

Analyzing the macrohistorical trends of the world economy development of postmodernism, V. P. Semynozhenko pays a special attention to the necessity of development of society's knowledge, in order to support the available social optimism by means of the living standards and social well-being improvement [3: 50].

Describing the ideological postulates of the state management of economy, B. Ya. Panasyuk emphasizes on the working out of the ideal forecast development model with the priorities of further social problems solving and providing the structural transformations. The mentioned development model could be depicted in the forecasting planning and programming elements [4].

The given approaches draw attention to the milestones of the management of long-term development of national economy and loose the opportunity of optimal combination of the regulative instrument while getting the desired results.

The modern paradigm of management of the long-term development is effectually highlighted in the works of Ya. A. Zhalilo, A. I. Semchenko. They think that the strategic management is a mean for prevention, neutralization, liquidation, or minimization of deconstructive and disturbing factors of the national economy development. For this purpose, the system of strategic management has to use all the complex of political, economic, diplomatic, information, institutional mechanisms of state management, which primarily should provide the economic security of the country in the modern globalized world [5, 6]. Actually, under the modern conditions, all governments should not only take care of the internal state of the national economy but also to elaborate the strategy of the long-term economic security, which will take into account the changes in the world economy.

We think that each of the above mentioned approaches distinguishes only single instruments of management of the long-term development, which should guarantee the security and stabilization of the national economy, but they don't have the system-based scientific approaches to the disclosure of the essence of management of the long-term development likewise the organizational and economic mechanism of its realization.

In this context, it is appropriate to have a look on the author's definition concerning the management of the long-term development of national economy

which says that it is the complex of methods, means, instruments of providing the effective realization of the long-term development goals of the national economy in order to guarantee the adaptation in the world economic architectonic along with the national security and growth in the living standards. At that, the process of management of the long-term development of national economy should be considered as:

1) management on the base of changes and future trends stipulation along with the dangers and emergencies, which can influence on the state development and elaboration of the corresponding strategies (strategic planning). The content of the strategic planning is opened by means of its: forecasting (forecasts), programming (programs), and planning (plans). In such a case :

- the strategy of any country defines the transformation of priorities and mechanisms of state interference into the economy in order to realize the strategic goals through the system of the strategic planning and characterize the action tendency of the country and the principles of their realization for the long-term period. The strategic planning stipulates the uninterrupted process of organization and correction of goals, functions and forms of state bodies managerial activity, concerning intended new problem solutions, subject to management state, processes, which are developed in the social life of Ukraine and needed to be comprehended, taking into account the national specific character and objective preconditions, which are formed on the basis of mutually civilizational process;
- programme – defines the main areas of activity in the particular sphere and the mutually connected actions, aimed at solution of the particular problems;
- forecast – promotes to show and prove the results of fair presentation concerning prospects, probable state of the economy in future and the alternative development;
- plan – stipulates the range of specific measures within the frameworks of clearly defined document of planning, aimed at performing the specific targets.

2) management on the basis of trend extrapolation and scientific prediction. In that case, we may say about the prediction, based on the previous trends, which, as a rule, are extrapolated optimistically. Nowadays, the theory of scientific prediction is successfully supplemented by the elements of planology (the scientific prediction of the alternative development), ecotopia (the global designing of future aimed at human survival), technotopiya (prediction of future by means of practical application of knowledge, skills and experience); practopiya (the formation of the social reforms system, focused on the construction of the better world), eschatology (learning of the threats of modern civilization, and the probable ways of solution of available technological social and political problems), alternativistics (research of the different trends and problems of so called alternative civilization:

seeking of thrifty power economy, permanent development, saving of environment, possibilities for universal comprehensive disarmament, education and culture humanization, family retaining upgrading of the healthcare);

3) management on the basis of the flexible technologies, which stipulate the strategic managerial decision making in response to unpredictable changes in macro- and mega- environment. In that case, the question is about the usage of innovative instruments of strategic management (for example strategic controlling);

4) management on the basis of control of performance targets and strategic controlling, which will be an effective mechanism in order to define the macroeconomic risks in the development of forecasting documents and implement the procedure of macroeconomic forecast correction.

Generally, the system of management of the long-term development of the national economy can be introduced as a complex of priorities (vectors), targets, tasks, principles, models, subjects, objects, mechanisms, which provide the adjustment of interests, forms, methods, and instruments of managerial influence. At that, the management of the long-term development should include:

1) feasible definition of the long-range objectives of national economy, which will consolidate the society and political forces around the idea of development;

2) the definition of the streamline, that is the general requirements to the perspective society, rules and restrictions for the alternative methods of the gradual solution of the pressing problems;

3) the algorithm (technology) elaboration to realize the chosen method of the long-term development in order to have a possibility for evaluation and control on the stage of realization;

4) the possibility of improvement of the effectiveness in all economic entities by virtue of introduction of the state warranted rules of conduct, the displacement of political debates, concerning objectives and development trends from mottos and declarations into the cavity of comparison of the alternative methods of realization of the intended objectives.

The conceptualization result of the management of the long-term development is a doctrine which is based on the principles of state integration at the strategic authority level – in reference to other countries, polities, which from the one hand essentially influence on the political and economic processes in the world economy and from the other hand, promote in dealing a problem, concerning national identity for the long-term period as well as global leadership of the country. Those principles are:

- The principle of scientific feasibility, according to which the management of the long-term development will be effective only if it has an outgoing system of scientific prediction of social and economic processes at its core;

- The principle of consistency, which stipulates the availability of complicated ramified system of management of the long-term development, likewise the elaboration and implementation of the long-term strategies, forecasts, programs, plans;
- The principle of target-oriented compatibility, whereby the management of the long-term development should be conformed and supplemented at the different levels of development of national economy: macroeconomic, mesoeconomic, microeconomic, megaeconomic, macrostructural;
- The principle of flexibility and sequence, which enables the authority to respond on the any changes in the management of the long-term development and provide the national security;
- The principle of approximation and measurability, which resolve into the necessity of maintaining the equilibrium, providing the general effectiveness of its functioning, using the innovative instruments in the management of the long-term development under the conditions of transformation development in order to adapt, implement reforms in appliance with the challenges of internal and external environment.;
- The principle of adequacy, according to which the instrument of the management of the long-term development should stipulate a kind of state interference to promote the economic activity;
- The principle of conformity to plan, which enables to use the potential of different forecasting, programming and planning approaches and to elaborate the development scenario under the conditions of uncertainty in the management of the long-term development;
- The principle of commensurability and dynamism which stipulates the necessity of providing the program-planned documents equation as a conditions of proportional development of the economy, planning of the most important economic proportions, promoting the structural transformations, economic growth and competition.

The combination of the given principles together with the chosen strategic vectors of long-term development identifies the certain macroeconomic model, which can be taken as a basis of the instrument of the management of the long-term development. According to the chosen strategic vectors, such macroeconomic models can be taken as a basis of the management of the long-term development:

1) limited producing ability of different production factors in order to maximize the limited producing ability of different production factors and the rates of economic growth;

2) the optimization of economic structural ratios (structural approach) for the purpose of economic structural adjustment, the determination of priority pro-

duction, the extension of the investment activity, the determination of scientifically broad exportable and highly technological branches, state assistance, concerning institutional changes, strengthening of the enterprises financial standing, maximization of the consumer's expenses, state budget revenue increase and stabilization of trade balance. The efficiency criterion of such model is the increased competition of domestic production;

3) sustainable economic development where the area of economic development is limited by the institutional conditions, where the balance between the development and sustaining power is observed and conditioned by the straight state interference into the economy;

4) economic growth, based on the ideology of neoclassical analysis, neo-Keynesian models.

Due to the given situation, you may ask about the model, which is needed to be the leading (benchmark) while the development and realization of managerial doctrine in the long-term period of national economy. We suppose that it should consider:

- the modern trends of the development of economic science, furthermore, it is effectually to use those economic theories which would correspond to the objective possibilities of Ukraine and provide its economic recovery in the short run. Here belongs: institutional and sociological trend, theory of economic changes, development of synergic economy, mesosimulation, theory of supranational development;
- the challenges of the globalized development of the world economy: corporatocracy development as one of the forms of institutional mega traps; the formation of the new environment of macrosocial and macroeconomic relations that gives rise to the new models of the national modernization; the problems of economical ecological and cultural security; the emergence of political economical and social shocks, neocolonialism and neoimperialism phenomena; the development of multinational corporations, which together with the global aristocracy, international organizations and countries-globalisers subordinate the nation states; solution of the problem, concerning adaptation of the development strategies, being assumed on the supranational level, to the local public purposes; the improvement of the world telecommunication system, that leads to the creation of the artificial integration megasystem – global society;
- the experience of the developed countries and new industrial countries. Foremost, we should say about the sustainable development strategies with the help of which the countries try to solve their problems. Developing countries want to achieve the economic growth, to overpass the poverty, to invite foreign investments. Ecological problems and problems concerning economic security emerge before the developed countries. The necessity of realization of the sustainable development strategy in Ukraine is caused by the number of objectives: international (Ukraine's

official accession to the UN Framework Document «Agenda for the XXI century»), ecological (excessive natural and development pressure), resource (natural resources pressure), social-demographic and public (low living standards, increasing of the infectious diseases, massive labour migration overseas), economical (low productiveness of the production factors, low level of the nanotechnologies implementation).

- socially oriented (human) vector should be on the basis and improve the level of social and economic development of economic system on the basis of increasing of the living standards, material welfare and diversification of its citizens.
- to consider the influence of regionalization processes at least in two areas – geopolitical and economic from a perspective of formation of potential advantages and threats. Thus from the geopolitical point of view, the additional competitive advantages for the national economy are: the possibility of setting itself up as a regional leader and equal partner of one of the geopolitical blocks, which are able to control the global processes; the possibility of national economy globalization through the reintegration processes and cross-border cooperation; adaptation and synchronization of national legislation with the developed countries legislation. The negative effects are the formation of the quasipublic structures.

The models of modernized competitive development have a special place in the long-term management of the dynamic system of XXI century. The scientific backgrounds for such models can be found in Adam Smith's rational market conception; F. Edgeworth, A. Cournot, J. Robinson, E. Chemberlin's structural conceptions; A. Brandenburger (Harvard university) and B. J. Neyblaff (Yale university) conceptions of mutual competition; M. Porter's conception of state competitive advantage (Harvard Bussiness School); innovative conceptions of thought leadership (G. Hamel, (London Bussiness School) and K. K. Prahalad (Michigan university); humanitarian conceptions (M. Granovetter, M. Castel, R. Svedberg, A. Sen, A. Tren, R. Hollingsvort, F. Shmitter and others).

Therefore, the doctrine of state management as a socially oriented, neo-spherical innovative economic system must:

- consider the supranational vector while the elaboration of national legislation of management of the long-term development of national economy;
- use the economy of knowledge potential, which provide the long-term effect in the national economy's management and form the competitive advantages in perspective;
- be based on the long-term strategy of the sustainable development and at the same time use the instrument of structural corrections in support of chosen priority areas, innovative sectors development, temporary support of the branch-locomotive (in conditions of crisis in Ukraine, ma-

chinery-producing industry and metallurgy industry are outcompeted, likewise the real possibilities of economic growth recovery are in the sphere of transport, building and agro-industrial complex);

- envisage the improvement of qualitative characteristics of state management sector as a main entity of management of the long-term development of national economy and strengthen its potential in the long-term economic growth.

The consideration of the given propositions will certainly harmonize the managerial system of the long-term development of national economy, strengthen its positions in the world architectonics and provide the positive dynamics in perspective.

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THE HISTORICAL ECONOMIC AND SOCIAL DIMENSION OF CORPORATE SOCIAL RESPONSIBILITY (THE CASE OF THE FURS SECTOR)

Abstract

Kastoria and Siatista two of the most historical regions of Western Macedonia with rich cultural, commercial and craft-based activity, are the only regions in Europe that managed to survive the whirlwind of globalisation and still maintain fur manufacturing alive even though significantly smaller. Based on the facts that we have available up to date, fur manufacture and trade in these regions are dated from the 15th century, and both activities have brought forth many achieved tradesmen with rich offer as benefactors and sponsors not only in their mother country, but also in their places of residence. Of course back then the term corporate social responsibility was unknown but the love for ones country, patriotism, benefaction, and any other act of social contribution and pure patriotism, were itself another form of expression, that resembled more that of «the social corporate responsibility» instead of the corporate social responsibility. These therefore, the economic, social and charitable acts of people from another time we will be discussing in order to prove that, the current activities of enterprises

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on environmental issues, social sensitivity, culture, training etc, did not emerge out of nowhere, but in reality pre-existed from the older years. They were simply presented and characterized differently, as different were the needs of each time. Beyond this however, we will also be referring on the necessity for the craft-based sector of fur manufacturing, to organise a network in order to both continue with the tradition of their predecessors and also further develop this value adding activity as much for the whole industry but also for the end-product itself.

Key words:

Furs and leather processing, Western Macedonia, corporate responsibility.

JEL: L67.

1. Kastoria and the manufacture of furs-leather

Kastoria and Siatista are two of the few remaining regions, not only in Greece, but also in the entire Europe where the processing of fur and skin is still alive. As it is reported in the «*DICTIONARY of FUR*» Kastoria who is the capital of the prefecture of Kastoria, is also the most beautiful fur-making city in the world. The history of furs and leather treatment technique seems to have started when some citizens from Kastoria transferred the related know-how from Constantinople (Istanbul) during the 15th century. The broader region around the lake is inhabited since 5.500 B. C., but the foundation of Kastoria itself is dated in 840 B. C. Although the art of furs and leather treatment may have started with imported knowledge from Istanbul, the specialized treatment of furs clippings, like legs, heads and tails is a technique developed especially in the region by the kastorian craftsmen.

2. The economic crises in the sector of fur

Historically it has been proven that, there were economic crises in the sector of fur from the older years. Such crises emerge from various reasons and factors, such as new discoveries, changing fashion trends, wars, social agitations, international competition, production surplus, ecological movements, hot winters etc. The first crisis was reported already in the Neolithic era, where men

learned to cultivate, raise animals, etc. As a result, both the linen and wool dominated and the costume of fur-making went into recession.

For another crisis that is owed in the change of fashion, we are informed by Skarlatos Byzantios between 1825 and 1850.

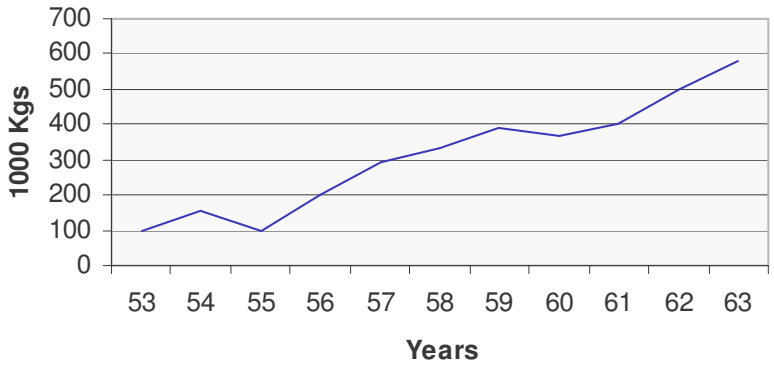
After that, a «blossom» in the economy can explain the heavy construction of many mansions between 1860–1880, followed by a period of decline and the immigration of kastorians in northern America and mainly in N. Yorк. Another crisis followed the fall of the Ottoman Empire, during the First World War and the Asia Minor destruction, which influenced the manufactures of Thessalonica, Giannena, Filippoupoli, Andrianoupoli, Chios, Kozani etc because they did not have commercial relations with countries outside of the Ottoman sovereignty, unlike Kastoria and Siatista.

Other economic crises, called circular were present in the decade of 1960s. At the decade of '50s because of the reconstruction of Western Europe and more generally the western world following the 2nd World War there was a rapid growth without important fluctuations as it is shown in fig. 1. During the 60's however, we have two important fluctuations, in 1963 and in 1967 and one smaller in 1970, as it is shown in fig 2.

These figures show imports of raw material of furs the corresponding periods, which coincides with the circular fluctuations of the economic crises in the western societies of this time.

Figure 1.

Imports of raw material (Chordas) from 1952 to 1963 in Kastoria
(in 1.000 Kg.)



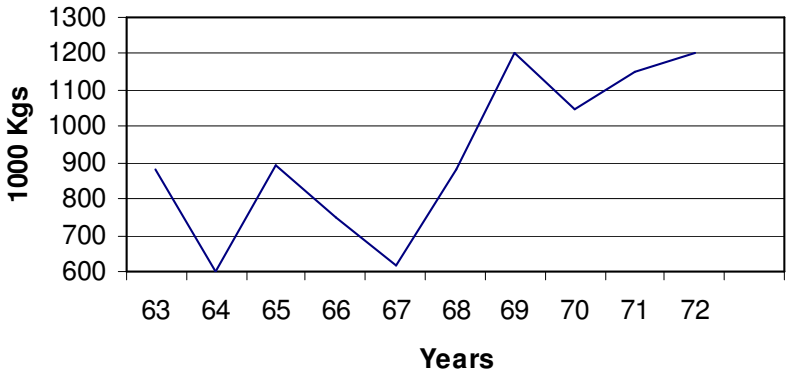
Source: L. Pouliopoulos, pg. 80.

A big extended crisis existed after 1987 up to 1992 roughly, which for Kastoria and Siatista, was overcome provisionally with the opening of the market of the Eastern countries and mainly Russia. Another big crisis that influenced fur-making was in 1998, with the depreciation of rouble in Russia, which was overcome much faster compared to that of 1987. Another crisis was observed (in Greece) in 2006–7, where the sales declined because of the high temperatures during that winter and the prices of fur skins were found for a little time in a free fall, mainly in the auctions of winter and the beginning of spring. Afterwards the prices of fur skins (raw material) began to increase dramatically alongside oil prices, because of the big demand from Chinese businessmen. As fur itself is considered to be a luxury product (at least in countries that do not have heavy winters), it was inevitably affected by the big financial crisis of 2008. This financial crisis that began from the USA, was already present earlier in 2007 through the minor originally «falls» of Stock Exchange indicators which climaxed on 18/10/2008, when we had not only the rapid fall of all Stock Exchange indicators, but also the collapse of banks and other companies.

Naturally during this crisis the fur industry was highly affected despite the fact that its major consumer is no longer the USA and Western Europe but rather Russia. The first reaction from consumers was to cancel all orders and from the suppliers to admit liability in financing their obligations. All of the above forced a lot of enterprises to reduced production and personnel downsizing.

Figure 2.

Imports of raw material from 1963 to 1972 in 1.000 Kg.



Source: Spanos M. (Kastorian CCI) L. Pouliopoulos, p. 81/

3. What is the CSR?

The corporate social responsibility is substantially a means by which the companies decide willingly to contribute for a better society and a cleaner environment. Most definitions describe the CSR as a means according to which the companies incorporate voluntarily, social and environmental concerns in their enterprising activities and their contacts with other interested parts.

The Greek Network for the CSR reports that, it is the willing engagement of the enterprises to integrate in their enterprising practices social and environmental actions, that are beyond and above those imposed by the legislation and have direct relation with all parties influenced by them: workers – shareholders – collaborators – suppliers – investors – consumers – communities in which they activate and more.

The CSR Europe, the network for the CSR in Europe reports that the CSR refers to the way by which an enterprise manages and improves its social and environmental repercussions, so that it adds value as much in the shareholders, and to all interested parties, through strategic, organizational and operational innovations.

The world council on the sustainable growth reports: CSR is the commitment of enterprises to contribute in the viable growth via the collaboration with their personnel, the local societies and the society in general so that they improve the quality of life for everybody.

The last decades mainly in the developed countries, the interest for the social and ecological obligations of enterprises has increased; a fact that is owed partly in the action of ecological movements and organisations of consumers and to the requirements generated by our socio-political system itself. The allegations that the enterprises should allocate a part of their economic resources in activities of social content have not always been easily accepted. The writers that dealt with the particular subject disagreed, as per the ability or the purpose of the companies dealing with any social act or if that should be an obligation only of the state.

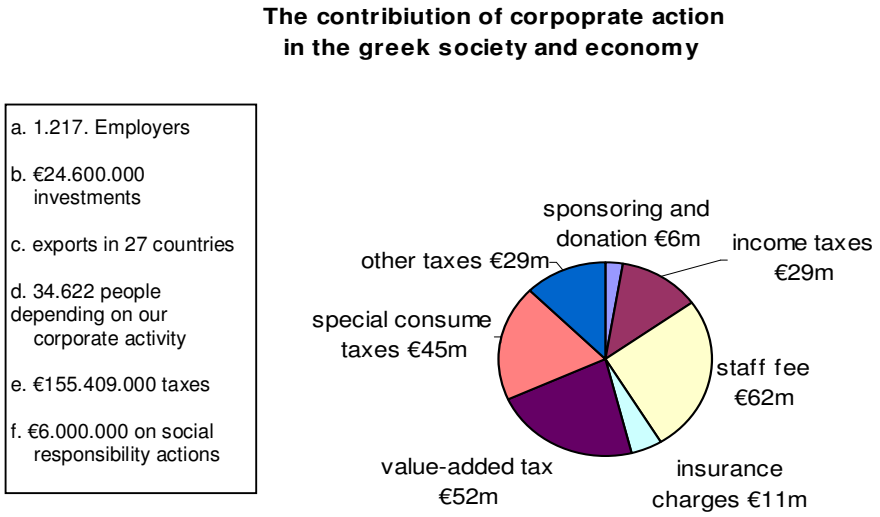
This conflict had lasted a lot of years and it has been crystallized in the work and in the thoughts of two important writers, honoured with reward Nobel Milton Friedman and professor of University of Arizona Keith Davis, who separated the CSR in three levels, i.e. that of social obligation, of social responsibility and of the social response. In this point we clarify that, various statistical tables that are published in various newspapers or other forms as the one that we mention below, concern first degree SR that is the social obligation. Therefore, the whole dimension of CSR is not considered complete but even is partial execution or operation, is a first step for a future complete application.

In the following figure 3, we can see a distribution of resources and activities of a medium big enterprise, mainly in this first degree of social responsibility

that is characterized as social obligation. This degree of course cannot be included entirely in what is called CSR because in the bigger part it includes operations or obligations that are not voluntary but obligatory as egg the yields in direct and indirect taxes etc What however we observe is that the action of social responsibility amount in the sum of € 6 millions, which is big, if it is really used only in voluntary hence not obligatory action S. R.

Figure 3.

Informative type of a company related to the CSR



In order for someone to imagine how much the perception, the mentality or the psychology of our society ha changed toward the subject of SR. I will report an example from the Greek reality. When singer Markos Bambakaris died in 1972, his family was borrowed 30 thousands drachmas (then 1.000 dollars USA), in order to cope with the expenses of his funeral, expressing her disappointment for the indifference of the state and the private sector. Today of course many companies of the entertainment industry line-up in order to undertake such an obligation of even much bigger scope.

The average distrustful citizen today, would say that, they make these (the social work) the enterprises, so that they gain more either because of tax exemptions, or for certain other reasons. But is it so, or could this be an exaggeration? Of course a lot of researching has been made in this direction and today

we know a lot of things, about what the citizens know, or which opinion they have for the CSR and a lot of other facts.

In other countries that have great tradition in the social state another question arises. If that is to say instead of corporate social responsibility, should we speak perhaps of social corporate responsibility. (GUV) (Gesellschaftliche Unternehmensverantwortung). We here cannot enter in such details but only underline and stress that, the CSR as an operation in an enterprise is essential, socially imposed, it creates surplus value in the enterprise and alas in those enterprises, that will see and face it as a public relation element, in order to generate only short-term profits.

All researches and the studies have proved that, if CSR is dialled with as an act of social responsibility, in the mission and in the strategic planning of an enterprise, then so much the shareholders and the entire society, including also consumers, will appreciate and reward with their trust and their preference in the products or their services. Moreover is not accidental that big enterprises in Greece, not only adopted CSR, but also advertise it via the press. As an example I report one from the thousands cases, a company of mobile telephony, which committed, for each point of the basketball player and our fellow-citizen Dimitri Diamantidi, to attribute 100 Euros in the Prefectoral Association of People with special needs of Kastoria.

4. The CSR in the branch of Fur

Questions that should be answered here are the following: Can this operation be used in the branch of fur? Are the enterprises of fur so big and robust to invest in an activity where the profits won't be immediately visible? The answer is of course YES, because CSR it can be included in each enterprise, depending on the size and can begin from the simple sponsoring and the organisation of athletic events, up to the training, the prevention, the education and a pile other environmental and social activities. However as mentioning before, can the enterprises of fur function under one institution, or one existing, as the already existing network CSR or create a new institution or even the already existing institutions as the SGK(Furmaker Association) assuming they include in their statement of mission, the CSR as strategic henceforth planning in their objectives. The CSR in the branch of fur should be applied for all reasons that are in effect for the other enterprises plus one additional, that we will explain afterwards.

4.1. Greek benefaction

The sponsorships, the benefactions, the charities and other actions of social sensitivity, are not a modern phenomenon. In Greece the institution of sponsoring, benefaction and other social actions in favour of the society are known from the ancient years. The Olympic Games that were carried out in Greece by 7th century B. C. were organised with the help of sponsors. Consequently CSR as we know it in its current form, passed a lot of stages of development, in order to reach thus its present state today.

Greek benefaction constitutes a phenomenon with a particular place in the Modern Greek history. The operation of benefactors was historically progressive and decisive, for the constitution of government owned institutions and the predominance of the amounting working class. In the new conditions that imposed the social transformation, the benefactors undertake, via the big fortune that they had, social undertakings with terms of individual work. From this corner, the idea of benefaction represents a leading event social, national and cross-cultural conscience, which by bypassing in many cases the weakness of the government concern, proved the strategic supremacy of anthropocentric dimension of social life.

The difficult economic, political, demographic and living conditions as well as the big pressure from the Turkish conquerors led the Greeks at the last quarter of the 17th, 18th and to the beginning of 19th century to emigrations. The hope for a better life abroad, the trade and the thirst for learning were the more important reasons of immigrations. The trade constituted the most important factor in the foundation of new Greek communities. The growth of economic relations between east and west offered the possibility to the Macedonians, Epirotes and remaining Greeks of migrating and with their hard work to acquire big fortunes. The regions that assembled a lot of Greeks were mainly central Europe, northern Balkan and Russia.

Is characteristic the report of Emil Brass in a book of 1925 where he is reporting the activity of Greek fur traders in Leipzig at the 18th and 19th century and among many he writes the following:

... as long as it concerns Germany, the center of fur that time, was Leipzig. Certainly Greeks were not absent from there not to mention the western Macedonians, kastorians etc, who with their graphic costumes revived the streets of Leipzig mainly at the duration of the Fur Fair, since from the total 300 tradesmen, the 100 were Greeks.

The Greek emigrants, despite the unfavourable conditions acquired big economic surface and power and thus they could help their countries which were under the Turkish domination and benefit their homeland, as Nikolaos [Doumpas] from Vlasti, who was born in Vienna and rescued from the dissemi-

nation the bigger part of Franz Schubert compositions and gave them away to the Municipality of Vienna.

Equally decisive was his contribution, in the materialisation of the magnificent hall of «Friends of Music», the famous «Musikverein». For all this the Municipality of Vienna gave in this street his name, Dumbastrasse. He was close friend of Richarnt Wagner, Jochan Strauss, Jochanes Brahms. He played a leading part in the construction of statues of big personalities of Vienna (Beethoven, Rantetski, Mozart, Schubert, Siler, Brams). His contribution in building construction was also major in Vienna but also in Athens.

The economic activity of benefactors was a common phenomenon in the Greek and more generally in European reality, because it was part of a new urban class, which gave them power and «wealth» of new perceptions, which they brought with them when they returned to their mother country together with, revolutionary ideas and wealth.

4.2. The social sensitivity of furmakers in the passage of centuries

In the sector of fur there were, still are and will continue to be too many entrepreneurs and companies, who made great social work as benefactors, which undoubtedly falls within the CSR.

Manolakis the Kastorian or Manolakis George Manos, referred to the Dictionary of Fur as a fur merchant and supplier to the palace of Mehmet D in 17th century. He had the title of «the first furmaker» and spent huge sums for the rebirth of the Greek nation. The Co-op of the furmakers of Istanbul which Manolakis attended on 19th century maintained the great school of the nation otherwise known as traditional patriarchal academy. Manolakis and The Co-op of fur in Istanbul finance and undertake the payroll of the Holy School in Kastoria in 1715. Manolakis financed the construction of the famous school of Patmos, the school of Victor in Chios (1660) and the School of Arta (1669). Also under the protection of fur Co-op was the school of district (Istanbul) of Palinou .Moreover it is no coincidence that the Co-op(tradeunion) of furs mentioned even today in the Patriarchate of Constantinople.

Other benefactors of that time were acknowledged kastorians Kastriotis George and Kyritsis George. Kastriotis (who probably is not related to the famous George Kastriotis or Skentermpei) in 1705 as the official ruler of Constantine Oungrovlachias Basarampa Bragkovanou, founded a school in Kastoria, for the maintenance of which he made a money deposit in Venetian Tsekos. Deposits amounted to about 14,000 Duke from the interest of which, amounting to 370 Duke a year, he would pay 20 Duke to the Commissioners of St. George (the linear) of Venice (for the management of interest and the remaining

350 Duke would be sent to the school in Kastoria. Out of these, 80 Duke go to the first teacher, 40 to the second teacher and the remaining 30 are allocated to the 10 students minus 10 to be saved for various repairs and renovations. Also the letter stated that the the commitment of most interest to commence on 1 June 1708 and payment by 19 January 1709, because by then he had prepaid all the expenses of the School.

A few years after the founding of the school of Kastriotis, another wealthy kastorian merchant named Kyritsis., son of kastorian Lord Demetrius Kyritsis reinforced the economic foundation of the «Greek School», realising therefore the decision taken by the kastorians on August 1711. This school was to be maintained by interest funds, he had deposited in Venice and would be managed by the Christians of his homeland. Dimitrios Kyritsis, father of George, with a will made on March 3, 1697,to the public notario of Corfu Spyros Asimakopoulos, left to his son George 8000 realia for charity. 6000 Duke of those submitted on September 28 1700 in Venice with a 3.75% interest per annum. George Kyritsi's will appointed commissioners for the collection of interest and selecting a tutor, who will seek to establish in Kastoria a school, where 24 students would be attending. In a second will drawn up on January 11, 1716 G. Kyritsis has donated substantial sums to the Mount Athos monastery in Sinai, for the prisoners, the poor and the churches of Kastoria.

It is important to mention here that the donor or benefactor dictated details and procedures for choosing the Commissioners who will be collecting the interest from Venice and how the will, will be managed. Of the 225 Duke of annual interest, the teacher will be paid at 150 per year to teach 24 students and reward the best of them «to the best in mind and knowledge», with the sum of 18 silver Duke each year for 7 years. The remaining balances of interest ordered to be used to repair the building and for any emergency. The last clause of this will dictates, as case kastorians show any disrespect, school must remain closed for two years and interest on deposits is to be received by the clergy of the church St. Athanasius Mitropoleos in Ioannina ... .. for the school and the teachers of the city: January 15,1715.

Of course beyond the known and officially recorded beneficence, sponsorships, etc. there were many other acts of social sensitivity that had more relationship with the homeland and the nation because times were different back then and acts of solidarity of social sensitivity and responsibility were focused on the homeland and the fellow citizens of the benefactor. We can not know all the hidden and informal perhaps patriotic acts, of national and social responsibility and sensitivity, because of the Ottoman sovereignty. But we are mentioning one of them, which is the case of furtrader Kostaki Pouliopoulou, who during the Macedonian Struggle (1900-1912) he would hide boots and other articles intended for the needs of Macedonian fighters, in parcels of raw material fur (strings), which were sent from London in Kastoria, put. [1].

Naturally back then, beneficence was done more for patriotic or national reasons but it was of significance as, some things were tolerated by the Otto-

mans and considered legal or acceptable, but there were acts which could be misunderstood by them and endanger the benefactor. So, there were acts of social sensitivity, which could endanger the «donor», to the point of having to pay with his own life.

For the history, the information we have is from the testimony of the daughter of Kostakis Pouliopoulos Mrs Kalliopi Dai, who was born in 1904 and remembers that at their home in Ntoltso there were secret meetings, which are said to have been involved and Germanos Karavangelis [1].

This means that a moral act, may not have been legitimate and could jeopardize the «donor-benefit» which means that social sensitivity and social responsibility in different conditions and seasons had a different meaninig and value than in the current time which may involve communicative or other purposes. But it must be stressed that CSR was existing since ancient times, was just under different circumstances and ways because there were different needs on each era.

Today of course there are too many donors and benefactors of small and large scale known and unknown named and anonymous. Among many and varied acts and actions of social responsibility and sensitivity we can distinguish that one of the brothers Papageorgiou from Siatista (the second fur-city after Kastoria in Greece). The international standing and reputation furtraders from western Macedonia, who trade mainly active in Germany and manufactured in their hometown Siatista, winning a lot of money from this activity, that all furmen inherited from their ancestors, built the Papageorgiou Hospital in Thessaloniki, engaging 20 years ago the amount of 6 billion drachmas, or 18 million euro.

5. Practical applications

The implementation of CSR can be done at many levels. The most usual of course is sponsorship which does not require any organizational structure. Another act that could happen is the non-use of printed advertising material, together with clear communication on how many trees are saved and do not harm the environment. Another very important activity that creates high added value of social capital for an institution or company, is organizing sports events, attracting sponsors and co, as local sports organisations, etc.

The areas in which a body such as S. G. K. could then be engaged in are:

- Mere occasional or permanent sponsorship.
- Organized sports tournaments and other events.
- Reduced papers for no charge and protect the environment.
- Cooperation with NGOs for adoption or other charitable acts.

- Additional environmental and social activities.
- Commitment that a percentage of the selling price of a product will be attributed to vulnerable groups, etc.

5.1. The reasons for the acceptance and operation of the CSR

The reasons for which CSR is essential to the operations of the fur industry is the same as those applied to other industries or other industrial or craft or service. But there is an additional reason why the industry should implement CSR which of course we will explain. We all know that the fur industry for many years has received many reactions, or even <War> from various environmental organizations, which do not accept the fur of animals, whose skin is used for the clothing of humans. Many enterprises from the sector in the past and present , used and use the squirrel or beaver as a mark of their business as if companies had fur animals. Fortunately, some companies understood it even later and they don't use them as their mark anymore.

Craft fur should separate their activities from the farmers of fur animals, because they are not farmers, and secondly because it does not coincide with the farmers. There are currently too many furmakers dedicated to leather goods, which means that their products come from animals raised for food while their skin is used for clothing. This raises a question. Perhaps the industry should be classified as a processing industry furskin and then left only of the skins to separate themselves entirely from the fur skins, which are primarily kept for their fur, not for their meat? This as a reflection and not as position.

Of course as far as the fur of animals and the killing, the circumstances and the methods used have no relation to the past, since the law was very strict and the countries that are suppliers, are a role model in ecological sensitivity and they are civilized people, who have nothing to do with a few isolated incidents that everybody publicly condemn. So then why should the industry show more social and ecological sensitivity, through the adoption of CSR, there should be neither communicative reasons nor reasons of guilt. Instead it should be a holistic approach to life and the environment and through this activity to show that although an unfortunate fact led us to exercise a profession considered by some today anti-ecologic, the furmen not adhere it but show their perception in corporate and environmental responsibility to offer and to inform the world, both for the truth about their partners or participating, and their philosophy towards life and the ecosystem. So taking the function of social corporate responsibility and not just CSR will be consolidated and will be realized as a different vision for the sector, which will not be as vulnerable to the opponents of the industry since

social and ecological sensitivities of the furmen will be such that at least mitigate the reactions of most of the people.

5.2. Implications and future developments

It is true that CSR today is a function which evolves increasingly and it is being adopted by most enterprises, while the EU has established rules, directives, declarations, etc. (egg Green Paper).Also they have created networks of CSR mainly from large companies in most countries in Europe and discussions both in business and academic level converge to provide a more organized and systematic implementation of CSR. What does this mean? It means that in schools and universities there should be a new direction, perhaps comparable to T.Q.M. or even marketing, but which can create value for each entity. How to create this value depends on many factors, both internal and external.

But it is important for businesses and society, not only for the company to be accepted, because of CSR, by the society, and therefore consumers, but that there could be institutionalized rules for assessing CSR, on which companies would receive favorable financing arrangements, etc.

What then can be the benefits that can accrue to the company in the future if the EU accepts some statutory incentives? Some of these could be:

- Incentives to implement a CSR system (egg as happened with the ISO).
- Assessment of the CSR for financing.
- Incentives in any type of organizations of middle size companies that promote and implement CSR in accordance with a framework of principles and rules.

Other benefits of a voluntary and non-institutionalized CSR could also be the following:

- Improved market value and reputation.
- Positive image in its relations with key stakeholders and others.
- Positive image to all investors and relations with trust with the shareholders.
- Possible inclusion in specific securities and banking assessment indices.
- Great visibility in society and sustainable development.
- Better working conditions.
- Employee satisfaction, willingness to work for this company.

- Good relations with government and local communities.

In addition, risks hamper CSR strengthen the company and certainly contribute to profitability. In particular:

- Infringement and trademark reputation
- The loss of consumers
- The probability of the firm to lose opportunities
- The loss of staff
- The loss of investors and funds
- Involvement in court cases and legal problems

The existence of foreign stock indices like the (FTSE 4 Good) in Britain (Domini 400) in America and many <green> funds in Europe and America support the belief that CSR and financial performance go hand in hand.

Beyond the general benefits that apply for each firm specifically in the fur industry the operation of CSR can be useful in the following possible approaches.

- Community support to a cottage industry threatened by extinction
- Engaging into the craft of leather goods under certain social historical and geographical circumstances.
- The region of Western. Macedonia, the last production center in Europe.
- A tradition of 500 years created by knowledge and skills that constitute social capital for local residents.
- Linking crafts – industry by using knowledge of the academic community will enhance the product and the availability and visibility.

6. Conclusions and recommendations

In conclusion, as many companies seek to be competitive and profitable in the long term, they should include in their strategy practices of CSR, not only for the company but also for man and society, and as it is an activity affecting everyone. Summarizing we note that CSR:

- Offers Opportunities.
- Restrain threats.
- Is linked to the profitability of the company.
- Opens new horizons and prospects for the institution or enterprise,

But the question for our case is, whether the fur companies and organizations, can implement and in what extent, CSR. The answer is that they can but not to the extent of a large enterprise. But what can be done with success, is to create a network of CSR, which will express the whole industry, both firms and institutions. The proposal is for the stakeholders to proceed in the creation of an independent network of CSR to have as many as possible operators to participate for the reasons mentioned above.

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International Economy

Mario TIBERI

SOME NOTES ON THE INTERNATIONAL ECONOMIC CRISIS

Abstract

The paper investigates practical aspects of international economic crisis. How it does began, what was the s first signs of it in USA. Also this paper investigates reasons and lessons of Great Crash in 1929. Author tries to analyze World economic output and to find ways out from the crisis situation in international economy.

Key words:

Economic crisis, globalization, new economy, rate of interest, commercial banks, Federal Reserve, derivatives, world output.

JEL: G10.

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1. The happy years of globalization

It is not so important to fix the precise moment at which the crisis started. Even in the happy years of the *New Economy* in the United States and the good performance of the world economy, here and there, many observers had pointed out the weak aspects of what people liked to call «gobalization». For some decades the world economy has been governed by the rules of the *Washington Consensus*, meaning the consonant attitude of the International Monetary Fund (IMF), the World Bank (WB) and the United States Treasure Ministry.

The «rules of the game» inspired by them have been a reassertion of free trade mechanisms, overshadowed by the Keynesian interventionism along many years after the World War II. The main messages coming from this neoliberal stream can be summarised under the headings of: deregulation, internal and external liberalisation for capital and goods (not so much for labour), very cautious monetary policy, zero-budget policy coupled with regressive fiscal policies, floating of exchange rates, limited international coordination, weakening of Trade Unions' presence, underestimation of global public goods and so on.

An eloquent synthesis of this attitude has been the idea to activate a *trickling down* mechanism; its proponents claimed that it will promote new investment and economic growth, thereby benefiting not just those well-placed in the market but also other people. More specifically it is expected that the *trickling down* mechanism can lead to a great increase in the income produced, most of which will certainly go to those who hold a powerful position in the market, but it will also spill over to the poorer classes.

Growth will certainly give these classes a chance to be better off, even to escape from poverty, although it does not necessarily lead to greater interpersonal equity in the system. On the other hand, the mechanism should not be obstructed by measures for redistribution which are intended to reach greater equity, but can actually undermine the objective of efficiency: in the end, efficiency and equity are, from this point of view, opposite objectives to some extent.

In fact, the empirical evidence has really shown a world economy, growing rather steadily for many years, driven by the large economies of the incumbent United States and of some «newcomers», above all China and India. At the same time, however, the results, in terms of equity, have not been so positive: the absolute poverty, as such, has been sensibly declining in many countries, but the data on relative poverty have been the clear testimony of a disappointing outcome in terms of equity.

This topic has been dealt with in a paper of mine, recently published[1], where the contradictory aspects of the recent process of globalization have been considered, relying on the extent of the literature producing a critical vision of that process. This paper contained, for instance, a list of significant «failures» emerging behind the screen of the optimistic image, traced by the convinced supporters of the globalization; it can been worth while to recall them briefly, because they can be a useful background to the discussion of the present crisis[2]:

1. numerous financial crises: Mexico (1994–95); various Asian countries (1997–98); Russia (1998); Brazil and Turkey (1999–2001); Argentina (2001); United States (2007);
2. United States economic policy that has been characterised for many years, in full Keynesian tradition, by a very high budget deficit, financed by other countries, including China;
3. asymmetrical liberalization of the movement of goods, as expressed by the conflict between developed and developing countries;
4. limped liberalization: trend towards free movement of goods and capital, accompanied by restrictive policies on the movement of people;
5. inadequacy of the quantity and forms of aid;
6. an enormous amount of Foreign direct investment (Fdi), making some economies too dependent on the policies of multinational corporations;
7. scandalous episodes of illegal and/or greedy behaviour by either owners and/or managers of some of big corporations, which have forced governments to rethink the rules of corporate governance;
8. greater attention given to the so-called Global Public Goods (environment, health, and so on), asking for more coordinated strategies, run by governments rather than by the market forces;
9. persistence of, and in some cases, increase in inequality between countries and within countries.

Among the signs of this inequality a specific mention was given to the spreading of the *working poor* in the United States and elsewhere. It is the case of a large amount of unskilled workers, experiencing an absolute and relative decline of their standard of living, within the contest of a growing international integration. A decline, on the other side which has been going along with an increase in the emoluments of skilled workers, particularly impressive in the case of managers.

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[1] See Tiberi M., *Poverty and inequality in the age of globalization*, «Journal of European Economy», December 2007.
[2] *Ibidem*, pp. 375-6.

The above mentioned aspects, and some others could be added, were not ignored by the neoliberals, who were led to consider them as minor disturbances with respect a successful path followed by the world economy; then some underestimation, in the 2007 Summer, of the first signs of a financial crisis in the United States is not surprising.

At the same time, some shifts in the attitude of some scholars and representatives of important international institutions took place; general and specific messages recipes had been produced as indicated in the already quoted paper of mine[3]. As an example of that shift it is possible to remember the *Millennium Declaration* of the General Assembly of the United Nations in September 2000, containing the idea of introducing some corrections to the current course of events in order to achieve some important social and economic targets (*Millennium Development Goals*), explicitly mentioned, and this has been an appreciable change of method, in quantitative terms[4].

To some extent, however, it has been more significant of this innovation in the cultural orientation of the main international organisations, a passage of a *Report* of the WB, saying that: «... a broad sharing of economic and political opportunities is also instrumental for economic growth and development. This is for economic reasons, because greater equity can lead to a fuller and more efficient use of a nation's resources»[5].

Furthermore, the paper mentioned a large number of suggestions of different importance put forward by the «interventionists» in order to redress the behaviour of the economic systems, both at international and national level. This implied, in fact, the deep belief that the undoubtable widening of the internationalization of many economic activities, concerning goods, services, short- and long-term portfolio investments, foreign direct investments has not reduced the importance of an economic policy, implemented within the national boundaries. It is the case of, for instance: income policy, structure of the fiscal system, education policy, composition of social expenditure, research and development incentives, and so on.

As to the possible changes in the network of international institutions the emphasis has been directed towards a more democratic and transparent set up of the most important of them: Imf, WB, Wto and Ilo. This approach can be compatible with whatever will be the evolution of the world economic system, which is witnessing a visible dualism between regionalism and globalism[6].

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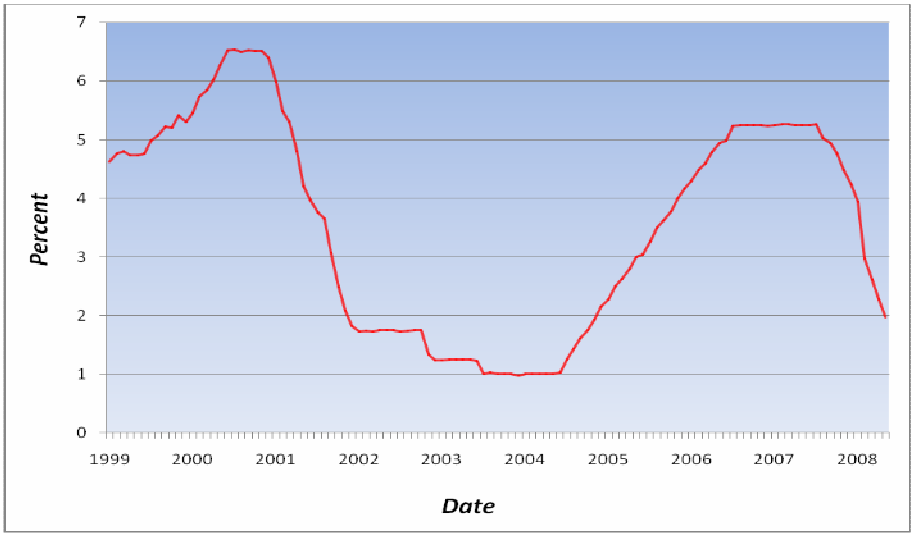
[3] *Ibidem*, 5.
[4] See http://www.un.org/millennium/declaration/ares552e.htm.
[5] See World Bank, *World development report 2006. Equity and development*, Washington, 2005, p. xi.
[6] See Tiberi M., *Poverty and inequality...*, pp. 368–9; 378–80.

2. The signs of crisis in the United States

We have previously mentioned the presence of weaknesses within a rather positive behaviour of the world economy before and after the end of the twentieth century; and some of them have to do with the the United States, the leading country of the recent strong tendency towards the internationalization of the national economies. Already at the beginning of the year 2001 a number of worrying elements were coming to light, undermining the solid image of the successful years of the *New Economy*[7] in that country. There were a stagnant production with a fall in prices; increase in unemployment; a large restructuring in firms of all dimensions; a sensible deflation of the «financial bubble» and so on. Then the political shock, produced by the terrorist attack of September, distorted the whole internal life and the proper meaning of any economic data.

Graph 1.

The behaviour of the rate of interest of the Federal Reserve



Source: our elaboration of Federal Reserve data (see *Web sites*).

[7] Rather than proposing a definition of the *New Economy*, one can say that it was characterised by the diffusion of information technology in many productive sectors, on one side, and the achievement of good results in terms of growth without inflation; see, among many other sources: Atkinson R. D., *Myths of the New Economy. Getting the parameters of change right*, «New Economy», vol. 7 (1), March 2000; Norton R. D., *Creating the New Economy. The entrepreneur and the US resurgence,* Cheltenham, Elgar, 2001.

However, after a short period, most of the relevant economic forces, operating since many years in the country were able to find a way to come back; a crucial role has been played to support this effort, according to many observers, by the «cheap money» policy conducted by the Federal Reserve (Fed), especially in the years 2002–04 (*see Graph 1*).

This choice, which must be considered in the light of the institutional mission legally assigned to the Fed, posing, at the same level, the two final targets of price stability and full employment, has certainly given the tune of «no liquidity problem» to the main operators in the economy. In this contest it must be remembered the importance of the housing sector, even in the most advanced economic system: in real terms, it employs a large amount of labour force but, apart from that, housing prices are essential in guiding, through the «wealth effect», the level of aggregate consumption[8]. Furthermore, a lot of financial activity is linked in terms, first of all, of mortgage loans, and also of all kinds of «derivatives»[9], that have been originated by them. It would be incorrect to treat this kind of assets as the «bad guys» of the markets, since there are good arguments to support their presence, at the same time it must be noticed the disturbing expansion of their quantities in the first years of this century (*see Graph 2).*

It has happened, therefore, that growing prices in houses and in many financial assets have been nourishing a remarkable expansion of the relative presence of the finance sector with respect to other variables of the economic system. The right attempt to spread the different size of risks connected with the loan process, the intermediation in the exchange markets and in the stock exchanges, has stimulated the innovative capacity of people employed in the financial institutions, among which many have become transnational companies. The unconditional trust in market adjustments have produced a rather general neglect of the proper amount of caution and control that must balance the extension of risky operations; the strong message of *deregulation* was extended to financial markets, lowering the barriers for institutional and self-managed rules. The marking of Credit Rating Agencies (Cra) played its part, issuing a large number of positive verdicts[10].

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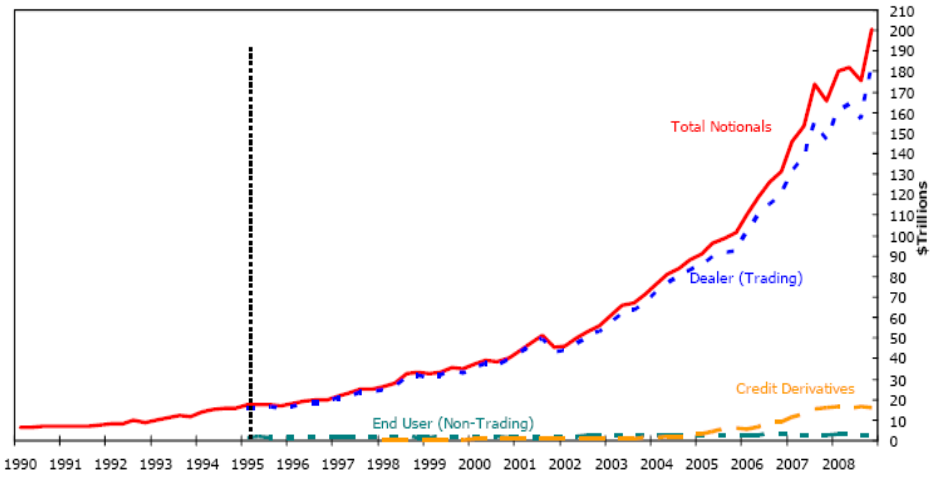
[8] On this point an original point of view can be found in Buiter W. H., *Housing wealth isn't wealth*, Nebr Working Paper No. W14204., July 2008.

[9] A definition, useful to our ends can call «derivatives…those products, the value of which **derives** from the course of the value of any asset or from the taking place of an objectively observable event»; that asset or that event is known as the **underlying**. Hedging, speculation and arbitrage are generally at the origin of derivatives. See http://www.consob.it/main/trasversale/risparmiatori/investor/prodotti_derivati/cosasono_prodottiderivati.html.

[10] «Blondinian» is a term that Caffè used many years ago, to describe the «present international financial order», making reference to an expression that D. H. Robertson used in his *Essays in monetary theory* (King & Son, London, 1940). See Caffè F., *L'economia contemporanea. I protagonisti e altri saggi,* Studium, Roma, 1984, p. 111. Robertson writes in a footnote (p. 144) that: «It appears somewhat to my surprise, to be necessary …to explain that Blondin was a famous tight-rope walker of the latter part of the nine-

Graph 2.

Derivatives Notionals by type of user. Insured commercial banks



Source: *OCC's Quarterly Report on Bank Trading and Derivatives Activities Fourth Quarter 2008*, Graph 1; http://www.occ.treas.gov/ftp/release/2009-34a.pdf.

Cheap money, easy access to credit, the limited amount of bankruptcies could be complementary to the positive behaviour of the real economy of the United States, entitled also to proceed with an uninterrupted series of current account deficits in the balance of payments thank to the financial support, above all, of oil-producer countries and China. Then banks and most financial institutions felt encouraged to push to the limit their credit activity, technically expressed by the «leverage ratio»[11]; «it was the most benign risk environment we had seen in 20 years»[12].

A specific aspect of this financial euphoria has been the large increase in the area of sub-prime mortgage loans, involving people, obviously wishing a house but with very weak credentials[13]. In fact the classification of potential

teenth century». It is our intention, of course, to recall this idea as applicable to the contemporary financial markets.

[11] The leverage ratio can be defined as the firm's total liabilities divided by shareholders'equity: D/E, where D represents liabilities and E the equity; it is clear that the larger is the ratio the riskier is the position of the agent being considered.

[12] *Confessions of a risk manager*, «Economist», August 9th 2008, p. 68.

[13] Although the housing market is the most relevant, it should not be neglected that the subprime people, employed in the weakest segments of the labour market and devoid of any patrimonial assets, have received loans to buy a car, a computer or other electronic devices, and so on.

debtors includes those indicated as prime, midprime and subprime; the last ones have been largely obtaining loans, charged, of course, by very high rates of interest. The level of risk deriving from this kind of operation has fuelled to a large extent the market for derivatives, through which all creditor institutions have tried to spread the risks to other financial operators (banks, insurance companies, hedge funds, pension funds, and so on) and also to the individual savers[14].

In spite of a number of financial crises already happened in the past, the huge amount of financial assets and liabilities has been considered as compatible with the functioning of market mechanisms by many scholars and persons covering prominent positions in private and public organizations. The «free banking» perspective, as declared by a supporter of this point of view, can be summarized as follows: «While most economists have long believed that government intervention is necessary to safeguard the banking system, he argues that such intervention is not only unnecessary, but positively counterproductive. Financial *laissez-faire* would be safe and stable… and government intervention actually undermines the market forces that make it so»[15]. Similar quotations can be found in many most recent bibliographical sources, because, as it has been noticed, the almost unconditional reliance on the interplay of demand and supply has inspired the «rules of the game» in the last thirty years.

It is also true that a more problematic approach has been emerging more recently elsewhere[16], and it is particularly worth noticing the case of some influential institutions, such as the Bank of Italy, whose Governor Draghi, had written, with regard to *derivatives*: «They can however become a cause for instability if they are utilised by intermediaries not to cover the existing risks, but to increase the risks to be taken. The *derivatives* can also affect the *modus operandi* of banks that make use of them; if those who gives a loan transfers partially the risk to others, the incentive to select debtors' quality can diminish; a signal comes from the increase in defaults in the mortgage market in the United States, where risk's transfers is widespread»[17]. It cannot be ignored, finally, that the pro-

[14] Just as a sign of the importance acquired by this part of the economy in the United States, we can quote from a document prepared by one of the most authoritative international organizations: «High house prices and household debt burdens were identified as major sources of risk to future growth prospects, even as evidence emerged that the US housing market was cooling off. An important question for the Federal Reserve was whether such developments required a more restrictive monetary policy response than in the past, given that houses might have become significantly overvalued». See Bank for International Settlements (Bis), *76th Annual Report 1April 2005–31 March 2006*, Basle, 26 June 2006, p. 61. This phrase is helpful to understand the Fed's shift towards higher rates of interest since the end of the year 2004 (see *Graph 1*).

[15] This supporter is K. Dowd; see his *The case for financial* Laissez-faire, «Economic Journal», vol. 106, no. 436, May 1996, p. 677.

[16] Kose M. A. and others, *Financial globalization: a reappraisal*, Centre for Economic and Policy Research, Discussion Paper no. 5842, September 2006.

[17] See Banca d'Italia, *Considerazioni finali all'Assemblea Generale dei Partecipanti*, Roma, 31 maggio 2007, p. 6 (*our translation)*. Mario Draghi was then also Chairman of the Financial Stability Forum (FSF), which was convened by G7 countries in April 1999 to

tagonists of this *securitization* of the contemporary economic system have been a large amount of clever people, very well paid, who have formed, together with the top managers of many companies, a consistent area of privilege in many advanced economies.

And it is not by chance that the traditional document delivered by the Bis in the same period, after an allusive argument on the previous main financial crisis in economic history, stated: «Against this background neither central banks nor the markets are likely to be infallible in their judgments. This has important implications. The implications for markets are that they must continue to do their own independent thinking. Simply looking into the mirror of the central banks' convictions could well prove a dangerous strategy. The implication for policymakers is that they should continue to work on improving the resilence of the system to inevitable but unexpected shocks»[18].

It is quite normal that in a market economy some microeconomic failures take place and their repercussions can be limited, adjusted by the market mechanisms themselves with the help, sometimes, of state intervention. However, when these failures become more intense and touch agents, which have a big size and in a crucial sector of the economy, as it is the case in the financial one, their spreading throughout the system can become inevitable. The sequence of bad events since June 2007 was so relevant that, in spite of some uncertainties at the beginning, it appeared clearly how the world was going to face a historical crisis.

An extraordinary machine, extending its activity in a large part of the international economy, used to work almost freely and at a high speed, felt obliged to activate its unused brakes to stay on track decently: initially, high losses are registered by two hedge funds managed by Bear Stearns, an American global investment banking, due to unpaid quotas of subprime mortgage loans. Something similar takes place in Germany, where IKB, a bank specialised in long-term financing, is also affected by the crisis as well as in France, with BNP Paribas, a leading transnational bank.

Two important Cras, Standard & Poor and Moody's, become aware of the situation and start a deep revision of their classification, which implicates many typical assets, Asset Backed Securities (Abs) and Collateralized Debt Obligation (Cdo), created by the market in a large amount. Some insurance companies, which have been attracted by the covering of high-risky financial assets of the type produced by subprime loans, are also hurt: well-known transnational companies such as Ambac and Fgic face a downgrading by the Cras. Furthermore, the stock exchanges, firstly suffering from the fall in the quotations of the shares of financial companies, see a similar behaviour in many other assets as the cri-

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promote international financial stability; special attention must be given to the temptation of *moral hazard* for people responsible of granting credits, mentioned by the Governor of the Bank of Italy.

[18] See Bank for International Settlements, *77th Annual Report 1 April 2006-31 March 2007*, Basle, 24 June 2007, p. 140.

sis reaches the real sector of the economy and a tide of pessimism determines a huge amount of sales of securities.

The list, especially if it is extended to the years 2008 and 2009, could be enlarged with many other items concerning all kinds of financial operators, mainly located in the United States but also in other countries, and it is difficult to select the topic moment, which can become the symbol of this global crisis[19]. By the way, we like to mention three episodes out of many, just to give the sign of the breakdown of the American financial system and also of the contradictory decisions taken by the American authorities, under the leadership of George B. Bush, a convinced advocate of a market economy.

The first refers to two companies, Fannie Mae and Freddie Mac, privately owned but with a government sponsorship, operating a large activity in support of mortgage loans; being dragged on into big losses by the collapse of that area of credit, they receive a huge help from the Treasury, which becomes an important shareholders of the companies: a type of intervention unexpected from a Republican Administration. In fact the Bush Administration appears more in line with its liberal standing, when, very shortly, Lehman Brothers, first of all a transnational investment bank, is abandoned to its failure, considered by some the most important one in world history, whereas, after an interval of a few days, the Administration comes back to interventionism, through a consistent purchase of shares, in the case of a big insurance company, the American International Group (AIG): evidently the failure of a company, exercising its extensive activity in the field of financial operations, raised doubts on concrete repercussions not only in the United States but also in financial international markets.

What can be expected in this situation is a «credit crunch»[20] which displays its effects in all directions, under the sign of a general tendency to «deleverage»: flows of credit from all kinds of financial institutions, both to firms and private consumers, come almost to a halt; inter-bank credit is also heavily subjects to tensions; to raise money through the stock exchanges becomes very difficult; healthy portfolios of individual savers and many financial intermediaries are suddenly affected by «toxic assets».

The other side of the story is represented by all sorts of attempts produced by the coming back of an interventionism reasserted by policymakers, once by conviction and an other by despair: the need to prevent a freightening rush to the bank from depositors, opening the way to a deeper systemic collapse and the attempt to limit the negative effects on real growth and employment are behind a long series of provisions taken at national, regional and international level (see 4).

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[19] Actually somebody has advanced his proposal: «The outbreak of the current financial crisis can be officially fixed as August 2007. That was when the central banks had to intervene to provide liquidity to the banking system». See Soros G., *The new paradigm for financial markets. The credit crisis of 2008 and what it means*, Public Affairs Ltd., London, 2008, p. xiii.

[20] See «Economist», August 9th 2008, pp. 63 ff.

3. What can be learnt from the 1929's Great Crash

3.1. From the crisis to the New Deal

It is not difficult in the case of 1929 crisis to recall it with the classical heading of the «black Tuesday», remembering the day, October 29, when more than sixteen millions of shares were sold and their value dropped of other ten billions of dollars[21]. Apart from this symbolic day, the Great Depression also had been preceded by a long period of success for the economy of the United States, which was called to be the world leader substituting for Great Britain, exhausted by the huge effort demanded by the World War II.

Of course quantities and qualities were strictly connected with the working of the economic institutions of the time; however it is possible to detect the signs of a misconduct in the behaviour of many operators: banks and financial institutions, not clearly distinguished in their functioning[22]; individual savers; regulators, and so on. Then those years saw a speculative boom, nourished by an easy access to money for people attracted by the chance to earn a lot of money through speculation in the stock exchange, Wall Street, which had become the most important market of the world. On the other side, in that phase, it does not seem possible to identify the extremely dangerous situation represented, in the recent crisis, by the subprime mortgage loans. At the same time, once again the housing market played a significant role in producing an economic bubble, embodying a high risk to blow up: after a series of ups and downs, at the end of October 1929, a decisive fall in stock prices opened the way to many years of depression in the United States and elsewhere[23].

It is not necessary to dwell on the amount of data that can inform on the relevant fall in the main macroeconomic indicators of the real performance of an economic system, while prices were driven down by a deflationary process,

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[21] Actually a «black week» started from the previous Thursday, October 24. The given amounts can differ from one source to another, but certainly the losses were immense. Among the rich bibliography devoted to the *Great Crash*, it is worth mentioning the works produced by the incumbent Chairman of the Fed: Bernanke B., *Essays on the Great Depression*, Princeton University Press, 2005.

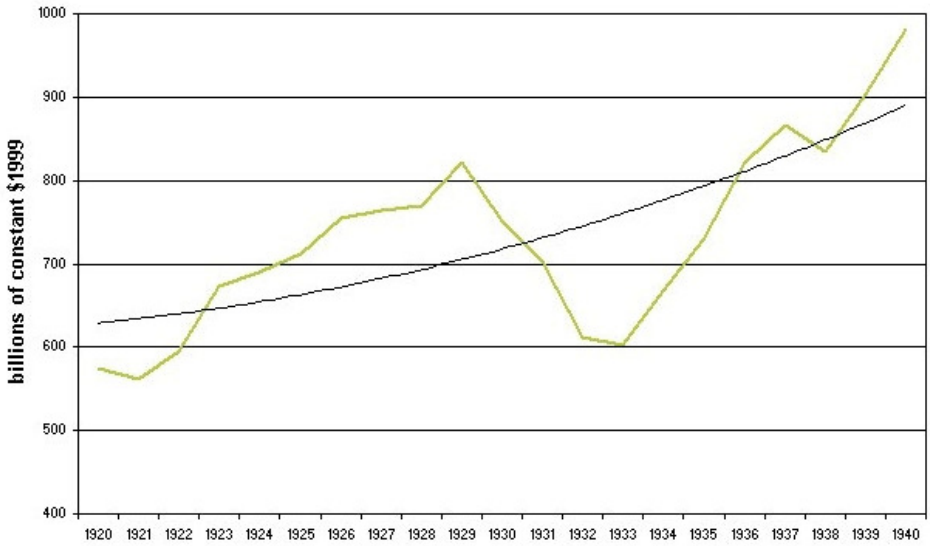
[22] Thousands of financial institutions, mainly banks failed in the period of the Great Depression.

[23] As it can be expected many works have tried to tell the story of the Great Depression; a necessarily limited quotation can mention: Brooks J., *Once in Golconda. A true drama of Wall Street 1920-1938,* Harper & Row, New York, 1969; Galbraith J. K., *The Great Crash 1929*, Penguin Books, Harmondsworth, 1961 (1954); Klingaman W. K., *1929: The year of the Great Crash*, Harper & Row, New York, 1989.

shown by a negative percentage rate of change in price level for all the years 1929-32, with a peak of -15,3% in 1931. At the same time, 13 millions of people lost their jobs, Gdp fell around 30% between 1929 and 1933; almost in the same period the industrial production fell by nearly 45%, whereas homebuilding registered the negative peak of 80%[24].

Graph 3.

GDP annual pattern and long-term trend, 1920–40, in billions of constant dollars



Source: based on data in Susan Carter (ed.), Historical Statistics of the US, (2006), Series Ca9.

Only at the end of the decade the Gdp of the United States could go back to the level that the country had achieved before the crisis, as it can shown in *Graph 3.*; and just with reference to this result it has been possible to read in an

[24] Data on the Great Depression can be found in many sources such as: Chandler L. V., *America's greatest depression*, Harper & Row, New York, 1970; Mitchell B., *Depression decade: from new era through New Deal, 1929-1941*, Rinehart, New York, 1947. It should not also forgotten the amount of suicides, which were committed in that period; different numbers and opinions have been shown on this argument; see Galbraith J. K., *The Great Crash* …, cit., 148–52 and http://fathersforlife.org/suicides/US_suicide_deaths.htm.

article, published by the «Economist», the following mixed evaluation of the *New Deal*: «If the criterion be Utopian, the achievements of the *New Deal* appear to be small….If the *New Deal* be compared not with the absolute standard of Utopia, but with the achievements of other Governments, the former adverse judgement must be modified. If it be compared with either the performance or the promise of its rivals, it comes out well. If its achievements be compared with the situation which confronted it in March, 1933, it is a striking success»[25].

It is interesting to devote some considerations to the behaviour of policy-makers, who were called to face a quite unexpected negative event. We should not forget that the prevailing mood was strongly in favour of market forces, without any tradition for a macroeconomic policy defined in terms of targets and intruments. Within this contest a contradiction has already been going on, because most countries, United States included, were ready to betray the principle of freetrade applying protectionist measures, when they thought it was necessary to defend both their balance of payments and home production.

It happened, then, that the Smoot-Hawley Tariff Act went through the Congress in June 1930, reinforcing the already existing barriers against competitive exports, especially coming from the European firms. This protectionist drive was followed by other countries, producing a remarkable fall in world trade for many years, reinforced by the wave of beggar-my-neighbour policy through competitive devaluations.

Actually, turning to the exchange rate was initially out of question for a country, whose currency was one of the pillars of the *gold exchange standard*; only after the devaluation of the pound in 1931, the amount of pressures on the dollar opened the way to the devaluation of the American currency in 1933[26].

Therefore the only macroeconomic instrument available to the country was monetary policy; however, by restricting the money supply when the crisis started, the Fed gave up the role of *last resort lender*, which would have rather called for an injection of liquidity in a system affected by a fall of confidence and this choice can largely be considered as an important factor for the deflationary turning of the economy, with falling prices by more than 20% in a few years. The cautious choice made by the Fed seemed to be determined by the influence exercised by the narrow views of the members of the banks, located in other decentralised states and sitting around the same table of the *Open Market Investment Committee* with the member of the Federal Reserve Bank of New York. When this *Committee* had the opportunity to increase the liquidity in the system, the precautionary feeling of those members inspired the final decision, consisting in the injection of *high powered money*, in a quantity considered inadequate

[25] See *The New Deal. An analysis and appraisal*, «Economist», 1937, p. 147.
[26] See Eichengreen B. *The gold standard and the Great Depression, 1919–1939*, Oxford University Press, Oxford, 1996.

by experts of the level of Friedman and Schwartz[27]. And the asserted capacity of market mechanisms to reverse the situation did not show itself for some years until Franklin Delano Roosevelt was brought to power in 1933 and originated the *New Deal*, an interventionist approach, clearly based on lack of confidence in that capacity.

The expression was introduced in the first speech delivered by Roosevelt[28], when he swore as President and it can be considered a political program around which to gather the large majority of the nation in order to recover from the deep economic and social crisis. Actually Roosevelt managed to involve a number of prestigious intellectuals, mainly recruited in the best universities of the country and attracted by that reformist program. An essential feature of it was an interventionist approach, which reversed the preceding *laissez faire* attitude[29], chosen particularly by Roosevelt's predecessor, Herbert Clarke Hoover. Given that, it is impossible to determine the extent of the influence exercised by Keynes's ideas, which were certainly known in the United States but they have not reached the more systematic definition presented in his *General theory* only in 1936[30].

It has been written that the political thought, which inspired Roosevelt, can be labelled as «militant liberalism»[31] because it was explicitly asserted the intention to reshuffle the American society, giving more voice and income to many people previously marginalized; at the same time, the ambition was to reform a society, already governed by capitalistic principles, with the consent of most of the ruling class.

From this point of view a very meaningful measure was the national *Labor Relations Act*, also known as *Wagner Act* from the name of Democrat Senator proposing it; the Act was intended to give workers more powers with respect to the employers, through the reinforcement of Trade Unions, the introduction of more rights in the labor legislation, the institution of the National Labor Relations Board to supervise the behaviour of all parts potentially engaged in social conflicts. The Act was passed in 1935 and could not rely on the expected positive answer from the employers, who conducted a strong opposition against it weak-

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[27] See Friedman M. and Schwartz, *A monetary history of the United States, 1867–1960*, Princeton University Press, Princeton, 1963, ch. vii. On this point, see also Ciocca P., *L'instabilità dell'economia, Prospettive di analisi storica*, Einaudi, Torino, 1987, pp.174-5.

[28] «I pledged myself to a **new deal** for the American people. This is more than a political campaign. It is a call to arms». See *The Roosevelt week*, «Time», July 11, 1932.

[29] It has just been remarked, however, the contradiction with this attitude, represented by the Smoot-Hawley Tariff Act, clearly in contrast with the principles of free trade.

[30] See Keynes J. M., *The general theory of employment, interest and money*, Macmillan, London, 1936.

[31] See Besussi A., *La società migliore. Principi e politiche del new deal*, Mondadori, Milano, 1992; the book includes an extended bibliography, where the literature, written in English, clearly prevails. In fact, all kinds of liberalism had some roots in the American cultural tradition, which, on the contrary, had not seen the emergence of a significant influence of the socialist thought.

ening the attempt to introduce more symmetry in the industrial relations. Employers' line implied also a legal battle through appeals to the Supreme Court Council, which sentenced to their favour in some cases.

However the first interventions after assuming power in 1933, the *Emergency Banking Act*, had to do with the monetary and financial sectors, where there was the need to restore confidence to reactivate the main flows among all operators. After a short period of Moratorium of banking activities, a controversial selection of banks, with failures and rescues, was put in place, new behavioural criteria were defined, a *Federal Insurance* on deposits was introduced, and the Fed was encouraged to function actively as *lender of last resort*[32].

The devaluation of the dollar was another part of the general reassessment of the national economy, in this case with inevitable repercussions in many other countries, for the influence on the amount of international liquidity and the relative prices of tradable goods, since the American currency had abundantly replaced the pound as the main means of payment. There was then a fall in the volume of foreign trade for about a decade, some restrictions in the movements of people through countries and a strong diminution in the amount of outflows of the United States; many financial institutions were completely or partially ruined. So the crisis, which had the deepest negative aspects in the United States, moved abroad touching many other countries and the most affected ones were those with the highest income per head[33].

The fiscal policy is an interesting chapter of the *New Deal*, because it cannot be ignored that there was an almost bipartisan tradition in the United States calling for a zero-budget deficit; Roosevelt himself was initially reluctant in removing this tradition in spite of his radical interventionist approach. Therefore, in the first years of his mandate the fiscal policy was considered rather an instrument for social justice than for anticyclical purposes: a clear sign of this point of view was the *Wealth Tax Act*, approved by Congress in 1935 and deliberately intentioned to smooth at least the peaks of the richest people in the country. There was also a general political support for all attempts from the Administration to reduce the level of evasion, which deprived the Treasury of a relevant amount of income[34].

An anticipation of the role of the Federal State in implementing the Keynesian «socialization of investments» was, in May 1933, the institution of the *Tennessee Valley Authority*, a new legal creation which tried to combine the use of a public good such as water, located in a specific region particularly hurt by the crisis, looking at the general interest of the country and relying on some degree of flexibility in the governance.

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[32] See Nussbaum A., *Storia del dollaro*, Sansoni, Firenze, 1961, pp. 193 ff. Other important information concerning the American currency in the *New Deal* period can be found in this book.
[33] See Ciocca P., *L'instabilità …*, *cit.*, pp. 172 ff., which includes some considerations concerning Italy.
[34] See Besussi A., *cit.*, pp.154 ff.

Later on, there was a main shift in the use of this fundamental tool of macroeconomic policy as a part of what has been the guidelines lines followed by Roosevelt, having in his view the electoral battle to win a second mandate. In this phase, it has been recognized the influence exercised by Keynes's support to a policy of *deficit spending*, in fact already in place before, but not with the explicit mission to reduce unemployment at national level.

Other legislative and administrative decisions, which were adopted in that period, can be considered the pillars of a *Welfare State* that was not typical of the progressive culture in the United States. Three main provisions can be named as a result of this wave in the years 1935-6: the *Works Progress Administration* to employ millions of people; the *Social Security Act* to create a federal retirement pension system and the *Soil Conservation and Domestic Allotment Act* to help farmers[35]. Together with them other measures gave rise to a number of public bodies identifiable through their acronysms such as the *Federal Deposit Insurance Corporation (Fdic)*, the *Federal Crop Insurance Corporation (Fcic)*, the *Federal Housing Administration (Fha)* and so on.

3.2. The interpretations of the crisis

The chronology of events could induce an explanation of the depression based on a causal direction moving from financial variables towards real ones, but if one deals with the extensive literature, not only economic, arisen from the *Great Crash*, is bound to find a number of different interpretations of the chain of causality, as well as of the sign, positive or negative, of the impact determined by Roosevelt's interventionist policy. In fact if one accepts the idea of «Black Tuesday» (29th October 1929) as the point of departure of the crisis he must admit that, at first sight, it is not appropriate to talk of stock prices simply as financial variables, since, whatever is the profile of the market, stock prices should reflect, to some extent, the movements of the real values in the economy.

Although it could appear a simplifying approach to such literature, we think that it is possible to distinguish among the scholars, who have been dealing with the *Great Depression*, those who, moving from a free trade framework, have tried to reduce it to an unhappy episode, unable to destroy the substantial belief in the adequate functioning of market mechanisms; in this case, but not only in this case, it is possible to register also a sceptical view on the real impact of Roosevelt's *New Deal*.

On the other side, there has been different explanations put forward by the interventionist family, who, apart from producing a positive image of the *New Deal*, have singled out some elements of weakness in the normal operating of

[35] The *minimum wage* to defend the weakest workers in the market is worth reminding as part of these measures.

the American capitalism, requiring, therefore, a more or less dose of interventionism to put it on a more stable track[36].

Schumpeter can be certainly considered as an economist strongly convinced of the capacity of a capitalistic market to regain the tendency to grow, although it is characterized by an immanent cyclical path[37]. Then the eruption of such a big event as the *Great Depression* can essentially be explained through the presence of a number of exogenous events able to produce *shocks* well above the physiological ups and downs of a capitalistic system.

Schumpeter had the idea to assimilate the *Great Depression* to other cyclical experiences, in 1825 and 1873, which had been overcome without any relevant intervention from the state; of course there could be different causal factors and Schumpeter listed a number of them, divided unconvincingly in endogeneous and exogeneous[38].

The former can be traced essentially in the underlying Schumpeterian view of growth within a capitalistic system, where the erratic role of innovation is decisive in determining both the acceleration and deceleration of the economy.

Among the latter, in fact he includes some as the easiness in banking management, the diffused speculative mania, the excess in indebteness throughout the economy, which is difficult to classify simply as exogenous. It is the same for other aspects, emerging from the international contest: the agrarian crisis, the unwise assessment given to war reparations, the enlarged presence of destabilising capital movements, the growing rigidity in wages and prices.

A major emphasis is given by Schumpeter to the dimension of public expenditure in the United States, devoted to public works at all levels in the preceding expansionary phase, although his assertion is not clearly supported by evidence. At the same time, Schumpeter underestimated the effects of monetary policy in the worsening of the depression, because it has not been, in his opinion, so restrictive as it has been largely considered (see p. 9).

According to Schumpeter, therefore cycles, being connaturated to the dynamics of a capitalistic system, cannot be considered signs of illness requiring some corrections from the state; the endogenous forces of the economy are in condition to regain a positive trend after a temporary decline. A counterfactual experiment cannot be put in place, as the economists would like to do and, therefore, there is some margin to believe, on the same wave-length as Schumpeter, that a more traditional liberal approach could be adequate to overcome

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[36] And to raise doubts on the main national experience of capitalism, it has meant, for many, of course, to raise doubts on capitalism itself.

[37] It is useful to remember that Joseph Alois Schumpeter has given an important contribution to trade cycle theory; see, for instance, his *Business cycles. A theoretical historical and statistical analysis of the capitalist process*, 2 voll., McGraw Hill, New York, 1939.

[38] The treatment of Schumpeterian view is largely based on Franzini M., *Le teorie economiche e la grande depressione*, Kappa, Roma, 1984, ch. 1.

the *great crash*, as it has happened in the other mentioned cases many decades before.

Apart from this inevitable point of view, which represents one of the main stream in the endless quarrel among economists, there is the sense of some inconsistency in the *reduction ad unum*, operated by Schumpeter, for all cycles; as we have seen before, he himself had signalled the presence of many factors of crisis, internal and external, in the 1929 case, so that his own analyisis can give some support to different explanations, as we'll see.

However, just regarding the choices done by monetary authorities, we have mentioned (see p. 9) the position expressed by Friedman and Schwartz, who not only attributed the restrictionist label to the decisions adopted by the Fed in the crucial years close to the outbreak of the «Black Tuesday», but considered that behaviour as the main determinant of the *Great Depression*. So we can remark how, in spite of the same belief in the soundness of a market economy, the causal interpretation can be deeply different: with Schumpeter, on one side, trying to outline a complex entanglement of explanatory factors and Friedman and Schwartz, from the other, trying to isolate the discretionary monetary variables as the mainly exogenous and destabilizing element[39].

It is interesting to note that Keynes himself, writing at the time[40], puts his finger against the Fed's policy, which determined a rise in the rates of interest, considered particularly unwise by Keynes. However, this point, although relevant is part of an analytical approach quite different from the one followed by the authors previously mentioned.

Actually Keynes intervened when, especially with his *Treatise*, he was still in search of a more advanced and complete macroeconomic theory, which came to light with his *General theory* in 1936 (see n. 30). At the same time he was already convinced of the structural limits of a market economy, necessarily in need to be removed by proper interventions of policy makers; being Keynes free from the idea of a deterministic state of nature governing the evolution of the economy it has been possible to write that: «Keynes's lesson leads in fact not to the listing of insoluble contradictions or the anticipation of catastrophies, but to

[39] It must be said that Friedman and Schwartz produced an impressive empirical evidence to support their position in the book already cited (see n. 27) and also that, before them, a similar point of view concerning the Fed's policy in those years had been taken by other scholars; see Currie L., *The supply and control of money in the United States*, Harvard University Press, Cambridge, 1934 and Warburton C., *Monetary theory, full production and the Great Depression*, «Econometrica» (1945). A convergent point of view was expressed afterwards in: Lundberg E., *Instability and economic growth*, Yale University Press, New Haven, 1968.

[40] First of all, see Keynes J. M., *A treatise on money,* reprinted as voll. v and vi in Moggridge D. (ed.), *The collected writings of J. M. Keynes*, MacMillan, London, 1979 (1930) ; other writings on the same topic can be found in this monumental work edited by Moggridge. On Keynes's intellectual evolution from the *Treatise* to the *General theory*, see Moggridge D., *From the Treatise to the General theory: an exercise in chronology*, «History of Political Economy», 1973.

the research of ways able to the implementation of possible social improvements»[41].

Then in the background of his critical analysis there is the deflationary bias imposed on the economy through the hasty return to the Gold Standard in the Twenties, the constraints on international capital flows deriving from the War Reparations, the creeping attempts to reduce money wages; after that, the higher monetary rates of interest produced by the Fed's caution on money supply, are bound to depress even more the *animal spirits* of the entrepreneurs emerging from what Keynes saw, reasoning along Wicksellian lines[42], as a fall in the natural rate of interest, that is the equilibrium point between saving and investment.

The emphasis given to what Keynes considered the mistakes in the monetary policy was accompanied, in fact, by an attention given to the misbehaviour also of the financial institutions and to the weaknesses of the real economy, affected by the weakening of the preceding wave of innovations and capital accumulation[43]. The picture of the *Great Depression*, outlined in Keynes's writings, represented actually a specific interpretation of that event.

It is certainly possible to include Minsky's analysis of the *Great Depression* among those starting from Keynes's idea of an intrinsic instability of capitalism; at the same time, it is also true that Minsky has carried on his work along original lines[44], which erected the financial system at the core of that instability.

It is undoubtly in line with the needs of an economy intended to grow the expansion of the financial institutions and of all kinds of assets and liabilities to face the changing requests of savers and investors; at the same time, it is easy to understand the enormous and increasing amount of decisions that people and

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[41] See Caffe' F., *L'economia keynesiana e la politica economica*, «Rassegna Economica», 1975, p. 853 (*our translation*).

[42] Wicksell was used to argue in terms of «monetary» and «natural» rate of interest. Keynes had not come yet to assert his own idea of the equilibrium between saving and investment obtained through variations in income.

[43] According to Franzini, on the other side, Keynes neglected, when dealing with the *Great Depression*, the contribution to the fall in production due to a fall in real consumption; then it can be that Keynes himself has not accurately defined the role of consumption as a more stable component of effective demand. See Franzini M., *Le teorie economiche …*, cit., pp. 67–9.

[44] In effect Minsky has mentioned Keynes together with Simons, Clark, Hart e Fisher as the group of economists who had inspired his research. Minsky, who can be classified as a post-Keynesian economist, has devoted many works to our topic; see, among them, Minsky H. P., *The financial instability hypothesis: capitalist processes and the behavior of the economy*, in Kindleberger C. P. and Laffargue P. J. (eds.), *Financial crisis, theory, history, and policy*, Cambridge University Press, Cambridge, 1978; id. id., "*Finance and profits, the changing nature of business cycles*», The Business Cycle and Public Policy, 1929–1980, Joint Economic Committee, Congress of the United States, United States Government Printing Office, Washington D.C. 1980; reprinted in id. id., *Can «it» happen again?*, Sharpe, Armonk , 1982.

institutions operating in the financial market have to take. And these people and institutions can differ in their expectations for the future, in their attitude to risk and uncertainty, in being creditors or debtors, who can register gains and losses on capital account.

This complex network of agents should be possibly work under the market rules, the rules provided by the policymakers and the more or less accurate supervision of public institutions; all that could be, on the other side, exposed to partial crises here and there, always potentially inclined to become general or systemic. According to Minsky, in the United States, the years of prosperity in the Twenties had also seen a large increase in private debts, both of individuals and firms, which became more burdensome because of the deflationary turning-point taking place in the country.

Under these circumstances, it is possible for a liquidity crisis to occur, in the sense that many economic units were in need to reshuffle their financial situation, when a pervasive negative «wealth effect», due to the fall in share prices, was also working in a depressive sense. Of course the mechanisms through which the crisis spreads within the financial sector and, then, out of it, in the real activities must be explained and that has been Minsky's research, whatever it is the judgment on it; furthermore, it should be recalled that the implicit and explicit message, coming from his works, was in support of some effective rules preventing and correcting the wrongdoings of the financial markets[45].

Galbraith, on his side, is well-known as an economist aware of the changes that can be discovered in the institutions and functioning of the capitalistic system, which has been dominant in the last centuries[46]; he has paid particular attention to the evolution from a

Smithian-Paretian model of capitalism based on a myriad of small firms, run by very active entrepreneurs, facing a labour market of isolated workers to a model of *big business*, governed by a group of managers, on one side, and *big labour*, that is workers organized by their Trade Unions, on the other[47].

A capitalism, then, where the essential role, traditionally played by flexible market prices (wages included) in maintaining a substantial stability for the system, has been reduced by the operation of the new *big actors*, who have produced rigidities in price mechanism, giving rise to adjustments processes relying more on variations in quantities rather than in prices: a new scenario that Keynes has tried to interpret with his *General theory*.

It is not surprising, therefore, that Galbraith has written a monograph on the American experience, which has largely questioned the ability of a market,

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[45] See Caffè F., *L'eredità intellettuale keynesiana e gli odierni problemi mondiali*, in id. id., *In difesa del «welfare state»*, Rosenberg & Sellier, Torino, 1986, pp.102 ff.
[46] See Galbraith J. K., *The affluent society*, Hamilton, London, 1958 and *The new industrial state*, Hamilton, London, 1967.
[47] In *The new industrial state*, the technological factor plays a fundamental role in this expansion of the so-called «technostructures» (*ibidem,* ch. vi).

ruled by supplies and demands, to prevent a deep crisis[48]. However, when faced with the ambition to put forward his own view on the causal factors of the depression, Galbraith has considered a number of them, which have to do with the behaviour of many institutions, public and private.

This will appear going through his classification between *internal* and *external* factors, although Galbraith thought that, in the end, the *internal* factors were more important to explain what he viewed essentially as a structural break in the American capitalism of the first decade after the World War I. And in producing his list there is no surprise in remarking the presence of elements, already put into evidence by other scholars: it is the case, of course, of the alleged excess of speculation connected with a general attitude of individuals, banks and firms to take high risks. From this point of view it is possible for Galbraith to talk of: bad management of industrial and financial firms; inefficiencies in the banking system; too many speculative loans.

Moreover, Galbraith does not ignore the negative aspect of the unfair distribution of income that is typical of any capitalistic system, also in periods of prosperity when a growing national income can offer the opportunity for the increase in personal income of many people, what is, at the same time, compatible with a more unequal income distribution in any country.

This can be a social problem, of course, since it can affect the social cohesion, but it can be considered also an economic problem, because an unfair income distribution can alter the virtuous monetary circle between firms and households, with a consequent decline in real production[49].

Among those factors that he considered *internal*, Galbraith does not neglect the inadequacies of economic policy, suggested by the dominant economic culture of the time, rather cautious in terms of supply of monetary base and, on the fiscal policy side, full of respect for the idea of zero budget deficits (see 3.1).

Finally Galbraith recalls our attention on the *external* factors: one is linked to the Keynes's pioneer work, where he has challenged the economic wisdom of the Treaty on War Reparations, because of the distortions that it could create to a smooth functioning of the balance of payments between creditor and debtor countries[50]. In fact the American economy had been called to contribute systematically to the financing of France and Germany, which had deficits in their balance of payment and that structural disequilibrium had become a point of weakness in the system of international payments.

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[48] See Galbraith J. K., *The great crash …*, cit.

[49] As it will be seen in a moment, income distribution plays a fundamental role in the reasoning of the underconsumistic scholars. In this case, as it was in Galbraith, we are making reference to income distribution among social classes (functional income distribution); any set up in this field is obviously connected with personal income distribution, measured through some indexes such as Gini coefficient.

[50] See Keynes J. M., *The economic consequences of the Peace*, Harcourt Brace, New York, 1920.

At the same time, and here is the second *external* factor according to Galbraith, the United States had not assumed the role of the leading country in that system, which was still trying to find a new assessment after the London-driven *gold standard*'s fall, because of the World War I, and the confused attempt to built a *gold-exchange standard* after the War.

Galbraith's work can be lacking of a convincing organic picture of the *Great Crash*, explaining the links among all his critical factors but, on the other side, it is rich in ideas and insights, although evasive in giving suggestions and recipes for the future.

In a larger view of what can be still regarded as problems of income distribution, it is worth mentioning the emphasis put by Lewis on the decline of agriculture, in terms of relative prices with the other sectors, during the positive years before the depression in the United States; and again on regional differentiation within the country, in the same period, following the works of Arndt, Lewis and Kindleberger[51]. Furthermore, from the same authors, there is attention at the international contest, which had shown enlarging gaps in Gdp growth among countries, creeping protectionist attitudes, tensions deriving from the lacking alternation of positive and negative positions in the balance of payments of the main countries; from this point of view, especially Kindleberger shared Galbraith's view on the missing role of an international leader, substantially abandoned by Great Britain and not taken over adequately by the United States, rather reluctant to operate as *last resort lender*.

Finally we must take into account that part of the literature, nourished by the wish to put the «big questions» on the table, which has essentially meant a discussion on the nature of capitalism. In fact, this intellectual challenge has been accepted by many scholars, which, following different approaches, have looked at capitalism as an economic system intrinsically exposed to periodical crisis of all dimensions, including the catastrophic years of the *Great Crash*. It can be said that this line of economic thought has come to a cultural and practical vindication in face of the *Great Depression*, which gave ground to less apologetic visions of capitalism.

The old roots can be found in the contribution of past economists (Malthus, Sismondi, I. A. Hobson and others)[52], who have put into evidence the existence of a realization problem, that is of conversion into cash of the whole production of firms, and also found an echo in the Keynesian tradition[53]. In their opinion, within a capitalistic economy, this is mainly due to the limited resources available to workers, who are inclined to spend more of their income on con-

[51] See Arndt H. W., *The economic lessons of the Nineteenth Thirties*, Oxford University Press, Oxford, 1943; Lewis W. A., *Economic survey, 1919-39*, Allen & Unwin, London, 1949; Kindleberger C. P., *The world in depression, 1929-39*, University of California Press, Berkeley, 1973. On this, much is due to Ciocca P., *L'instabilità ...*, cit., pp. 176–8.
[52] See Schumpeter J. A., *History of economic analysis*, Allen & Unwin, London, 1963, pp. 738 ff. and *passim.*
[53] In Keynesian terms one could talk of lack in effective demand.

sumption goods in comparison to other classes. If there exists a way out of this chronic tendency, it can be found: in Malthus, through the presence of privileged people, enjoying unearned income as the rents for the landowners; in Hobson, through the search of market outlets abroad, introducing one of the theories of economic imperialism; in others, more linked to Keynes's message, through the active role of the state.

The assessment of the last approach to the *Great Depression*, which we want to deal with, can be more controversial; we are making reference to the followers of the «'stagnation thesis' associated particularly with the name of Alvin Hansen»[54] and combined with Keynes himself. In their case, it is private investment more than private consumption, in a logical scheme, which can be briefly expressed as: «the level of output and employment as a whole depends on the amount of investment» ... «because it is usual in a complex system to regard as the *causa causans* that factor which is most prone to sudden and wide fluctuation»[55]. Actually the flag of this thesis, departing from the Keynes-Hansen line, has been especially hoisted by a group of economists: Kalecki, Dobb, Steindl, Baran and Sweezy, among the others, influenced by Marx's stagnationist vision of capitalism[56].

It is interesting to remark that, even in the analysis worked out by them, an essential role is attributed to the activity of big firms as it has been done by Galbraith (see pp. 14–5); however, in their case, the growing oligopolistic structure, achieved by capitalism in the United States, is part of analytical models, where the «degree of monopoly»[57] is a major determinant in producing some excess capacity, a sort of malaise of modern capitalism, as it has been largely shown by the *Great Depression*.

Just keeping in mind our purpose, a difference can be noticed between the research done by Steindl[58], on one side, and by Baran and Sweezy[59], on the other: Steindl is specifically committed to propose his theoretical view of the stagnation, which affected United States' economy in the decade 1930-39, but considering a temporal interval going back for many decades. This view is based on a model of the accumulation of capital, supported by some empirical evi-

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[54] See Dobb M. , *Full employment and capitalism*, in id. id., *On economic theory and socialism. Collected papers*, Routledge and Kegan Paul, London, 1965 (1955), p. 217.

[55] See Harris S. E. (ed.), *The new economics: Keynes' influence on theory and public policy*, Dobson, London, 1960, p.191.

[56] A quick reference to this large cultural course reminds the effects of the tendency of the rate of profit to fall or of the wrong proportions among productive sectors. Ciocca's book (see n. 27) is again very useful; pp. 77–81 and pp. 178–9.

[57] This is one of the major analytical contribution to be recognized to M. Kalecki; see his *Essays in the theory of economic fluctuations*, Allen & Unwin, London, 1939 and *Theory of economic dynamics*, Unwin, London, 1965 (1954).

[58] See Steindl J., *Maturity and stagnation in the American capitalism*, Blackwell, Oxford, 1952.

[59] See Baran Paul A. and Sweezy P. M., *Monopoly capital. An essay on the American economic and social order*, Monthly Review Press, New York, 1966.

dence, which takes the presence of the *New Deal* as an event of minor relevance for the evolution of American capitalism, having his main causes in the peculiarities of its investment through time. The essence of Steindl's argument lies in the outline of an economic system, conducted by its internal dynamics to determine excess capacity.

Baran and Sweezy, on their side, have updated the stagnation thesis, emerging from previous Marxian writers, to the period after the World War II, when the capitalistic markets, to begin with that of the United States, were progressively assuming a profile far and far away from the ideal model of perfect competition. That is why, after having paid tribute to Kalecki and Steindl as their inspirers[60], they introduce a new concept, «economic surplus»[61], to be utilised for the analysis of a world dominated by the presence of large corporations.

This capitalism is able to produce a growing amount of this surplus, both in absolute quantity and as a share of national production, but the intrinsic contradiction lies in the incapacity to express, spontaneously, an equal amount of demand to absorb it. According to the two authors, apart from the efforts done by the private firms to induce demand for «unnecessary goods» from the market, the only way to solve this contradiction is public expenditure and the military one seems to be, from a political point of view, the most compatible type of it, in spite of the existence of many social needs that could be faced alternatively.

In this contest the experience of the *New Deal* comes in to their support, since Baran and Sweezy express their approval for the attempts done to increase the level of social public expenditure in those years but, as they try to give evidence, the resistance opposed by the coalition of vested interests of all kinds succeeded in keeping that level well below what was necessary[62]. Only the immanent danger of a new war was able, on the contrary, to determine a quick uprising of public expenditure for military targets, conducive to a significant drop in unemployment; and that, the authors say, went in accordance with ther view.

It has been remarked, in a review article of the book, the presence of some pessimistic determinism in this view[63]; more than that, however, it must be add that the disappointing exits, which the experience of the countries of real

[60] «And anyone familiar with the work of Kalecki and Steindl will readily recognize that the authors of the present work owe a great deal to them». *Ibidem*, p. 56.
[61] Departing from the Marxian orthodoxy, they write: «The economic surplus, in the briefest possibile definition, is the difference between what a society produces and the costs of producing it». *Ibidem*, p. 9.
[62] «Not that we wish to call in question the welfare goals which the New Deal increases in government spending were intended to serve»; anyway: «Regarded as a salvage operation for the United States economy as a whole, the New Deal was thus a clear failure». *Ibidem*, p.160.
[63] See Caffè F., Capitalismo monopolistico, Nuovo Stato industriale *ed effettiva realtà economica*, in id. id., *Teorie e problemi di politica sociale,* Laterza, Bari, 1970; reprinted in Amari G. and Rocchi N. (eds.), *Federico Caffè. Un economista per il nostro tempo*, Ediesse, Roma, 2009.

socialism, with their planned economies, have come to, would perhaps encourage Baran and Sweezy to pursue new ways to absorb the surplus, produced by capitalistic firms rather than express their confidence in a radical overturning of the rules governing the economic system[64].

4. What we have really learnt from the 1929's Great Crash

At this moment the financial breakdown seems to have come to a halt, but here and there the signs of distress still persist, with the credit flows still insufficient to sustain a substantial recovery and many operators (banks and other financial institutions, firms, households), as already mentioned (see 2), engaged in a process of «deleverage»[65].

Unfortunately some difficulties are not completely solved in the United States; in the recent publication of IMF, the authors say that the country «is grappling with the financial core of the crisis»[66]. More specifically, they say: «...policies must address the problems at the core of the financial system: the growing burden of problem assets and uncertainty about banks' solvency. Balance sheets need to be restore, both by removing bad assets and by injecting new capital in a transparent manner, so as to convince market of these institutions' return to solvency»[67].

It is worth noticing this call for policy intervention, coming from an institution that has been at the core of the *Washington Consensus* (see 1); actually this readiness to intervene, largely shared by national and international institutions, appears to mark one of the difference from the «wait and see» attitude chosen by the Hoover Administration in the first years after the *Great Crash*. In what monetary authorities of the time were concerned, we have also seen that the restrictive direction given to their tools has been thought inappropriate by some outstanding economists (see 3).

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[64] «As the world revolution spreads and the socialist countries show by their example that it is possible to use man's mastery over the forces of nature to build a rational society satisfying the human needs of human beings, more and more Americans are bound to question the necessity of what now they take for granted. And once that happens on a mass scale, the most powerful supports of the present irrational system will crumble and the problem of creating anew will impose itself as a sheer necessity». *Ibidem*, p. 367.

[65] A cautious optimism on international financial markets, including the tendential upward movements in stock markets, emerges from Draghi M., *Considerazioni finali all'Assemblea ordinaria dei partecipanti*, Banca d'Italia, Roma, 29 maggio 2009, pp. 4–5.

[66] See International Monetary Fund, *World economic outlook. Crisis and recovery*, Washington, April 2009, p. 63.

[67] *Ibidem*, p. 65.

We must underline that the relatively quick answer to 2007 crisis, came from a Republican Administration, generally prone to proclaim its adherence to the rules of a free market. It is true that also in the period dominated by the «trickle-down theory» we have seen that, for sake of pragmatism rather than for a return to Keynesianism, a series of yearly budget deficits had characterized the fiscal policy in the United States (see 1).

It seems convinging, anyway, the idea that the same pragmatism have led the Bush Administration and the Fed to rediscover instruments of an active economic policy, put aside by the neo-liberal wave, but well established both in economic history, i. e. the years of the *New Deal*, and in many text-books[68].

Under the frightnening economic scenario of mid 2008, a *cheap money* policy opened the way to consistent liquidity flows, explicitly devoted, to some extent, to the rescue or even the survival of important financial institutions (see 2). It has not been very easy, on the contrary, to propagate the effects of this expansionary monetary policy through the markets, because the channels of transmission have been temporarily obstructed by a growing differential between the declining official rate of interest and the whole structure of interest rates, including inter-bank lending and credit from banks to firms and households.

This interventionist drive has been chosen by policymakers governing many countries and international insitutions, of course with more or less instruments, depending on the specific diagnoses, traditions and constraints[69]. There have been also some attempts to coordinate this activity: on monetary policy, some Central Banks have tried a pre-emptive consultation before implementing their decision on the lowering of the rates of interest and all kind of political summits (bilateral or multilateral, such as G8 and G20) have also tried to avoid unilateral choices on exchange rates and international trade.

Evidently there has been a general concern for the repercussions of the profound financial disturbances in the United States: throughout the other sectors of the economy, there, and throughout all sectors, including the financial one, in other countries. In fact, the financial area has become in itself relevant, in terms of employment and production, almost everywhere and, moreover, it was inevitable the extension of the crisis elsewhere, in a world where the interdependence of national economies had been continuously expanding.

One can see one more difference from the world of the years of the *Great Depression* in this higher degree of internationalization; on the other side, an other difference from those years, the presence of important multilateral organizations (Imf, WB, Wto), should govern this interdependence among the national

[68] We can rightly include, among the inspiring sources, the research on the *Great Depression* due the Chairman of the Fed Bernanke, who was well aware of the risk of propagation of a crisis deriving from a «credit crunch» (see n. 21).

[69] An interesting survey of the provisions taken by many insitutions can be found in International Labour Office,*The financial and economic crisis: a decent work response*, Geneva, 2009, especially ch. 2.

economies. The organization which has tried to exercise a very positive function has been the Imf, very active in support of weak economies with new resources, initially coming from Japan, China, and Ue and, among those economies, some countries of the Commonwealth of Independent States (Armenia, Bielarus, Georgia and Ukraine) have received financial help to cover the deficits in their balance of payments[70].

These new resources have come from the last G20 Summit, held in London in April 2009, where some observers have seen a turning point in the pyramid of world power, with the weakening of the leadership of the United States in favour of a bigger say from other countries (China, Japan, Brazil, India and so on) or regional institutions, such as the European Union.

This meeting was also important because it has registered a slight cultural shift from unilateralism to multilateralism in the economic running of the world economy; this could mean that, following about three decades spent under the domain of «deregulation», we are moving towards: change in the distribution of voting powers within the main international organizations, especially Imf and WB; more attention to the problems of income distribution among and within countries; acknowledgement of an operational, and not only advisory, function to the Financial Stability Board (Fsb), placed «to address vulnerability and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability»[71].

It must be remarked, however, the change in international scenario from the *Great Crash* to nowadays, when the Fsb has to find its way within an international network, which is crowded by national, regional, multilateral institutions, and has to start from the ambiguities, perhaps inevitable, of the final document signed at G20 Summit: «We believe that the only sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions»[72].

For the moment it is a significant signal that the agenda of the first plenary meeting of the Fbs, to be held in Basle in June, will include hedge funds and executive pay: the funds which have been under scrutiny, together with other financial institutions, as protagonist of the recent crisis; the executive pay, since there has been a large convergence of opinions on considering that aspect of income distribution as one of the main distorsions emerging from the empirical evidence on the performance of contemporary markets, characterized by the presence of big corporations.

It must be added that the technical apparatus, necessary to support a more careful action of monitoring and supervising the whole range of financial institutions, has achieved important results; the concept of financial stress, for

[70] See International Monetary Fund, *World …*, cit., p. 84.
[71] This body results from an enlargement and reinforcement of the Financial Stability Forum, also chaired by M. Draghi (see n. 17).
[72] See http://www.londonsummit.gov.uk/en/summit-aims/summit-communique.

instance, has left the world of being a fine metaphor to become the base of «a financial stress index», through which useful empirical analyses and an «effective» regulation can be carried out[73].

On the long way to go before coming to the level of consent necessary to support the idea of a «Bretton Woods II», where the «new rules of the game» for the whole network of international economic relationships could be defined, we can register the presence of some interesting proposals. First, there is the attempt from Italy, which is the host country for the next G8 in July, to come to the definition of a «legal standard», that is a system of binding norms for the correct execution of financial and real international transactions. Second, the International Labour Office, in a recent *Report*[74], has thrown up the idea of a «Global jobs pact» because, in their opinion, «it will not be possible to reactivate the economy in a sustainable manner unless greater emphasis is placed on decent and productive employment for women and men, well-designed social protection and workers' rights».

The unquestionable sound of a compromise, which can be read behind the words «market principles, effective regulation, and strong global institutions», just mentioned, is a warning against any illusion that the crisis has paved the way for an undisputed return to an economic policy, clearly aware of the incidence of «market failures» on efficiency and equity[75]. This does not mean that all kind of interventions recently activated at national and international level could get over the risks of running into some «government failures» on the same fields[76].

Furthermore, it is certainly true that more and more research on the causes of the 2007 crisis will be carried on in the future and we can expect again, as we have seen in the case of the *Great Depression* (see 3.2), a range

[73] See International Monetary Fund, *World...,* ch. 4 and *Global financial stability report. Responding to the financial crisis and measuring systemic risk*, Washington, 2009.

[74] See International Labour Office, *The financial...*, cit., pp. x-xi. We cannot miss the opportunity to put again on the table, very resolutely, the proposal to give the world's workers the same institutional dignity obtained, through Imf, WB and Wto, by the other economic variables operating in the international contest. On this point see Tiberi M., *Poverty...*, cit., p. 379.

[75] An interesting evidence of our worries comes from a recent issue of the prestigious British weekly «Economist». In the editorial *Government and business in America. Piling on*, May 30th 2009, we can read: «Moreover, even the most stalwart defenders of the free market, including this newspaper, admit it has shortcomings that only the government can address. The financial system requires close oversight, or crisis will destabilise it» (p. 13). And afterwards: « But in the meantime they (Mr. Obama's people) are introducing new rules, such as limits on performance-related pay at banks, that could do more harm than good» (*ivi*).

[76] A good treatment of «market» and «government failures» can be found in Acocella N., *Economic policy in the age of globalisation*, Cambridge University Press, Cambridge, 2005, chapters 2-5. We recall again the risks of increasing the level of *moral hazard* , which can be chosen by people responsible for governing financial institutions and getting used to «bailing out» interventions; see n. 17.

of interpretations, where the emphasis on the two types of failures as well as on the role played by financial and real variables will be different from scholar to scholar. On the other side, the data reproduced in the following *Table 1* show the picture of a deep recession in the world economy, particularly relevant in some areas including many developed countries, coupled with hints of a modest non-inflationary recovery in output and trade, to begin next year[77].

Table 1.

Overview of the World Economic Outlook Projections

	Year over Year						Q4 over Q4		
	2007	2008	Projections		Difference from January 2009 WEO Projections		Estimates	Projections	
			2009	2010	2009	2010	2008	2009	2010
World output	5.2	3.2	-1.3	1.9	-1.8	-1.1	0.2	-0.6	2.6
Advanced economies	2.7	0.9	-3.8	0.0	-1.8	-1.1	-1.7	-2.6	1.0
United States	2.0	1.1	-2.8	0.0	-1.2	-1.6	-0.8	-2.2	1.5
Euro area	2.7	0.9	-4.2	-0.4	-2.2	-0.6	-1.4	-3.5	0.6
Japan	2.4	-0.6	-6.2	0.5	-3.6	-0.1	-4.3	-2.7	-0.6
Emerging and developing economies	8.3	6.1	1.6	4.0	-1.7	-1.0	3.3	2.3	5.0
Africa	6.2	5.2	2.0	3.9	-1.4	-1.0	….	….	….
Central and eastern Europe	5.4	2.9	-3.7	0.8	-3.3	-1.7	….	….	….
Commonwealth of Independent States	8.6	5.5	-5.1	1.2	-4.7	-1.0	….	….	….
Developing Asia	10.6	7.7	4.8	6.1	-0.7	-0.8	….	….	….
World trade volume (goods and services)	7.2	3.3	-11.0	0.6	-8.2	-2.6	….	….	….
Imports									
Advanced economies	4.7	0.4	-12.1	0.4	-9.0	-1.5	….	….	….

[77] On the problems faced by economists in their forecasts, see Visco I., *La crisi finanziaria e le previsioni degli economisti*, Lezione svolta all'inaugurazione dell' Anno accademico 2008-9 del Master in Economia pubblica, Sapienza Università di Roma, 4 marzo 2009,
http://www.bancaditalia.it/interventi/intaltri_mdir/visco_040309/Visco_040309.pdf.

Emerging and developing economies	14.0	10.9	–8.8	0.6	-6.6	-5.2	….	….	….
Exports									
Advanced economies	6.1	1.8	-13.5	0.5	-9.8	-1.6	….	….	….
Emerging and developing economies	9.5	6.0	-6.4	1.2	-5.6	-4.2	….	….	….
Consumer prices									
Advanced economies	2.2	3.4	-0.2	0.3	-0.5	-0.5	2.1	-0.1	0.4
Emerging and developing economies	6.4	9.3	5.7	4.7	-0.1	-0.3	7.7	4.4	4.0
London interbank offered rate (percent)									
On U.S. dollar deposits	5.3	3.0	1.5	1.4	0.2	-1.5	….	….	….
On euro deposits	4.3	4.6	1.6	2.0	-0.6	-0.7	….	….	….
On Japanese yen deposits	0.9	1.0	1.0	0.5	0.0	0.1	….	….	….

There is, therefore, a good presumption that the all series of intruments, implemented by so many public institutions, are succeeding in preventing the persistence of the depression, or even worse its transformation into a deflation[78], the consequences of which could be devastating for economies full of financial debtors, to begin with the United States. Apart from that, there is enough comfort from economic history, a good team of past and contemporary economists, ethical values, to go on with a wise interventionism; it is the right time to put the neo-liberalism on the defensive[79].

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[79] And then, there will be as for the *New Deal*, conterfactual arguments to support the idea of a better performance obtainable through a route relying on market adjustments; what can surely be done, at inverted roles, for the periods run by the rules of the free market.

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THE CONSTRUCTION PRINCIPLES AND ARCHHITECHTURE PECULIARITIES OF THE SYSTEM OF EARLY ECONOMIC NOTIFICATION AND REACTING

Abstract

The demands were formulated, the construction principles were suggested, the architecture of the early notification and reacting system was developed, its basic components function was examined and criteria for making the managerial decisions were selected.

Key words:

SENR, criteria of managerial decision making, tools of analytical data processing, intellectual data analysis, modeling of business's operation, forecasting.

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Introduction

The management of a modern industrial enterprise widely uses methods and means based on present-day informational technologies and artificial intelligence technologies. For the effective industrial production management information systems and the means for decision support are used at the all levels of its functioning. The variety of goals, tasks, complexity and time limits in management and potential risks that can affect the enterprise from outside and inside, need the informational support from management process. With the purpose of on time identification of factors, which signal about any tendency in development of the separate indexes of enterprise activity and taking the preventive measures in enterprise management it is reasonable to introduce the information system of early notification and reacting (SENR) [1–14]. Therefore, the development of information SENR is *an urgent task*, which is aimed at manager provision with the modern means of collecting, treatment and information analysis, decisions variants generating, their evaluation and the selection of the best variant.

Task assignment

The industrial enterprise adaptation to the crisis functioning conditions demands the wide use of present-day management methods and informational technologies. To form and make managerial antirecessionary decisions in information SENR the technologies of intellectual data analysis are used [12, 13]. The object of such information technologies study is an on time prediction of both outer (counterparties, competitors, state) and inner risks and threats. Intellectual data analysis provides the hidden rules and regularities finding that can be not found during the common data studying due to the complexity of links and the mass of data. The major component of the intellectual data analysis technology is Data Mining, which provide the new knowledge acquisition by means of complicated mathematical methods [13]. The key point here is that the main users of received information are people without the special mathematical degree. Therefore, received connections between the properties, forecasted characteristics or other features should be presented in a clear for a user way.

The main tasks solved by means of the intellectual data analysis technology include: classification, clustering, regression and prediction, association and consistent model and deviations analysis. The given technology help user to get free from the usage of statistic methods, but requires the understanding of the methods work and algorithms it is based on. Moreover, the technology of regularities search in the Database doesn't answer the unaddressed question. It

doesn't substitute analysts or managers, but gives them modern powerful tool for their work improvement.

Information SENR are mainly aimed at the action outcome identification of any factors, symptoms determination, and causes detection. The main tasks solved in our country are the indicators selection of an early notification and the determination of criteria of their interpretation. The main blocks of indicators of early notification include:

- general economic, which reveal the development tendencies of economic conditions;
- market, which reveal market tendencies, in which the enterprise is engaged;
- technological, which give information about the appearance of new products, methods and processes;
- social, which include the demographic situation in the country, cost of the workforce, level of the minimum salary;
- political, which have political nature, especially tendencies in political legislation;
- home ones, which are calculated on the basis of inner calculations and financial reporting [1–4].

Thus, *the aim of the work* is to set down the requirements, to select the construction principles and the development of architecture of the early notification and reacting system.

Main body

The development of architecture of the early notification and reacting system. We suggest developing informational SENR on the basis of integrated approach that is based on new information technologies and covers informational, organizational, technical, program and mathematical support. Developing informational SENR has to identify and analyze information about the hidden circumstances that can cause the bankruptcy or potential chances loss [3, 4]. To solve such problems informational SENR has to:

- collect, archive and pre-evaluate data;
- carry out electronic documentation;
- study data for its nature, character, relationship of cause and effect peculiarities, source of a restricted number of facts, processes and phenomena;

- analytically define economic process tendencies and their change in time perspectives, and their influence on adjacent spheres;
- solve tasks of economic analysis, modeling and forecasting, as well as different events planning.
- make automatic preparation, control and performing of the decision.

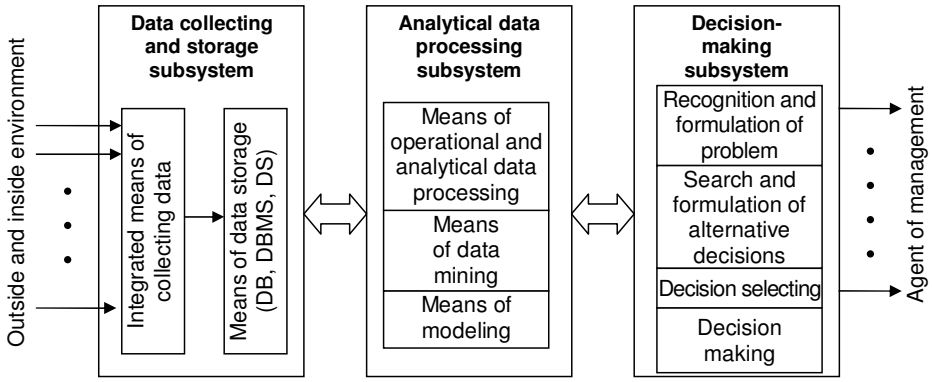
The following principles for the development of informational SENR are suggested [12, 13]:

- systemic – between the components of SENR are created such links, that provide entirety and interrelation with other systems.
- variable equipment content – requires the availability of the core of the SENR and variable program-hardware modules, with the help of which the core adjusts to the specific requirements;
- modularity – components SENR development, in functionally complete modules way, which have an access to the standard interface.
- openness – SENR is created with the possibility to enrich and renew, without its functioning disorders;
- compatibility – includes the use of informational-technological interfaces, due to which it SENR can cooperate with other systems;
- The complex of basic project decisions usage in SENR development.

The structure of suggested SENR in shown in picture 1 where DB – Database, DBMS – Database management system, DS – Data Storage.

Picture 1.

The system of early notification and reacting structure



The main components of informational SENR are the subsystems of: the data collecting and storage, analytical data processing and decision-making.

Data collecting and storage subsystem. The main source of the work is data, which are divided into inner operational and outer. The sources of outer data are: financial bodies, external Database of other organizations, electronic catalogs, press and so on. Inner operations can be divided into: accounting data, analytical data, calculation of the current and planned macro and micro indexes, financial data, regulatory and inquiry information [11, 12].

For the effective work the access of the information from outer and inner sources is required. Data introduction into SENR is conducted with the help of integrated means of data-collecting, which are to provide [11–14]:

- automatic document transformation from paper to electronic form;
- registration, accounting of the whole amount of output, input and inner documents
- initial examination and registration of the documents, data input into the Database of subsystem.
- efficient document search and the document search according to the inquiry by attributes of a document (registration number, date, authors, executors and so on), key words and documents fragments description.
- optimum use and databank classification according to the SENR needs.
- e-mail, file system and web-technology integration and interaction.
- different source of information receiving support.
- Work possibility with modern SDBM.

The constant data accumulation causes its amount growth. To store safely the large amounts of data in SENR means for data storage are used. They consist of 2 main parts: DB and SDBM. The function of the means for data storage in SENR environment is closely connected the solving of unstructured and loosely structured tasks, which require a large amount of data restructuring operations and a large set of functions. Moreover, it is needed to foresee means in DB, with the help of which the user can adapt it to his/her own requirements. This possibility causes the existence of the procedures and commands for the flexible restructuring of a SDBM scheme subset. This subset is a cover that helps to get the DB during tables' structure organization and their filling up [13].

Modern SENR are organized to minimize the time of data entry and correcting. Data used in SENR can be stored in different DB and while its analyzing some problems with format support and its coding can occur. This problem is solved by creating a databank that is subject oriented, integrated and invariable, which supports chronological data entry. The idea of data division forms the ba-

sis of databank conception. It is used for the efficient analysis and for solving its tasks. Thus, databank conception defines the general construction principles of analytical system and, in the first place, is concentrated on the data properties and requirements, but not on the ways of its organization and presenting DB.

Analytical data processing subsystem. For the analytical data processing in SENR the following means are used: efficient analytical processing, analytical analysis and modeling [11–15].

The methods and means of analytical data processing (OLAP – On-Line Analytical Processing) are based on the classical statistic approaches and average indexes on the basis of which the check of beforehand formulated hypothesis is carried out and a rough investigative analysis. The standard static methods deny non-typical observations – so called ups and downs. Such information can create a particular interest for the study, characterizing some important phenomena. Analysis and detailed examination of such observations is useful for the understanding of objects and phenomena under study [13, 16].

On the basis of OLAP conception is multidimensional data presentation by multidimensional tables' construction, which can be accessible for the user's inquiries. Those multidimensional tables will be on the base of input data and are stored in the form of relational and multidimensional database. By using OLAP, the user can make flexible information observation and get different data cut, to carry out analytical operations of particularization, convolution, overall distribution and time comparison. Today the great number of OLAP means is used. They can differ in the way of data storage, location and the preparedness for use.

Data mining (DM). The main tasks solved with DM are: the search of functional and logical regularities in piled data; hidden rules and regularities finding; model and rule construction, which describe the state or forecast the development of particular processes. In general DM is divided in such stages [13]:

- regularities revealing (free search);
- the use of revealed regularities for the unknown meaning forecast (forecasting modeling);
- analysis of exclusions, appointed to the revealing and explanation of abnormalities in found regularities.

According to the work principals with the initial experimental data all methods DM can be divided into 2 large groups [13]:

- those, based on immediate use of experimental data;
- those, based on the use of data received from the primary data and transformed into separate formal construction.

The methods of the first group are used on the stages of the forecasting modeling and the exclusion analysis. This group of methods includes: cluster

analysis, method of a nearby neighbor, method of k-neighbor, analogue thinking. The second group of methods includes: logical methods (genetic algorithms, solution trees, indistinct inquiries and analysis, symbolic rules); visualization methods; cross-tabulation methods (agents, buyers' networks, cross-tables visualization); methods based on an equation (statistic methods and neuro-networks).

Means for enterprise function modeling. Modeling is very important means of task solving, especially in conducting analytical study in enterprise functioning. The model is a simplified representation of a real object, process or phenomenon. Modeling – is the process of object representation with the appropriate model and carrying out experiment with the model to get the information about the object under study. With the help of the models in SENR useful, previously unknown information is revealed. This information is used for decision making. Model can be represented in the form of images, schemes, mathematical formulas and so on [15]. The simplest formal description of the model is provided with the help of the following functional subordination:

$$Y = f(x_1,..., x_n,\ z_1,...,z_m, w_1,...,w_k)\ .$$

Where Y – subordinate variable; $x_1, \ldots, x_n$ – independent variables, which are the inner characteristics of a study object; $z_1, \ldots, z_m$ – independent variables, which are the outer factors that influence a study object; $w_1, \ldots, w_k$ – unconsidered characteristics or factors.

The advantage of model usage for enterprise function study is their simplicity in comparison to the real enterprises. Model allows us to distinguish essential factors from the research's goal point of view. Developed models can have different complexity dependent from methods used and the study object complexity.

Models used in SENR can be classified according to the study object complexity [13, 15]:

- dynamic (objects modified in time) and static;
- determined and undetermined;
- continuous and discrete;
- linear and non-linear;
- statistic, expert, created by Data Mining means;
- forecasting, classifying and descriptive.

Classifying and forecasting models are the most widely used in SENR. Forecasting models allow to select the peculiarities of the enterprise function and to provide forecast on its basis. Let us call models that help to identify object class – classifying.

Models used in SENR are previously tested for reliability (adequacy), which involve the set of experiments. During model testing, sets of different

amount are presented as an input data. Model testing includes the level determination, where it really helps manager to make the decision.

When several models were developed, their selection is made on the basis of their characteristics and rating, and experts' opinion consideration. Main characteristics considered in model selection are precision and algorithm function efficiency. After the stages of testing, evaluation and selection comes application. At this stage, selected model is used in accordance with new data in order to solve the determined tasks.

Decision-making subsystem. Decision-making problem in informational SENR has the following features:

- situation selection uniqueness;
- hard for the evaluation character examined alternatives;
- aftereffect indetermination;
- the set of diverse factors needed to be considered in decision-making;
- presence of a responsible for a decision-making person (or group of people)

Decision-making problems in SENR can be divided into the following 3 classes:

- First – well-structured, formalized and quantitatively formulated problems;
- Second – unstructured, not formalized, and qualitatively represented problems;
- Third – loosely structured or mixed problems with both quantitative and qualitative elements.

Decision-making subsystem in SENR has the following functions [11, 12]:

- helps to evaluate the situation, choose criteria and to evaluate their relative importance;
- generates possible decisions and functioning scenario;
- evaluates and selects the decisions and scenario;
- provides the constant exchange and information sequence about the process and decision-making;
- modeling and analysis of possible outcomes of decision making;
- evaluates made decision realization and on the basis of its results provides further examination.

The subsystem of decision support should have a potential possibility of decision-making procedure automatization, but the excepted decisions have o

be clear for people. For the achieving of the necessary level of managerial decisions, the procedure itself has to be transparent and open for the discussion and analysis. The result of the decision-making subsystem function is the conclusion about the existence of possible bankruptcy risk in a separate enterprise and the improvement of some of its elements. The task on decision–making in indeterminate conditions is usually formulated as a task on best decision search from the set of admissible decisions. The main input information for the solving of those tasks is loss function, which depends on 2 arguments: solution and situation. The solving of the task of decision-making consists of loss function transformation into the risk function, which reflects the dependency of risk level the enterprise runs. The way such a transformation is carried out is not simple and depend on the risk criterion the enterprise has chosen [12].

To make decision in uncertain conditions input information is formed as a matrix, which lines are possible alternatives, and columns – enterprise condition. Each alternative and condition has a result (outcome) that determines winnings (or loss) in case of this particular alternative and this particular condition selection. Thus, when a_i represents alternative i ($i = 1,\ldots,n$), S_j gives the possible condition ($j = 1,\ldots,m$), $V(a_i, S_j)$ describes proper result. In case of decision-making criteria examination in uncertain conditions, the following matrix is used:

$$\begin{array}{c|ccc} & S_1 & \cdots & S_m \\ \hline a_1 & V(a_1,S_1) & \cdots & V(a_1,S_m) \\ \vdots & \vdots & \vdots & \vdots \\ a_n & V(a_{1n},S_1) & \cdots & V(a_n,S_m) \end{array} \qquad (1)$$

The task of alternative selection is reduced to the selection of a matrix line. For such a task solving different criteria are used. Let us consider the most famous ones:

Laplas's criterion. Laplas criterion is very often used in the conditions of the full uncertainty [12]. Given criterion is based on the use of inadequate grounding, which states that the system states S_1, S_2, …,S_m have equal possibilities. If to consider the previously mentioned statements, the primary task can be examined as a task on decision-making in risk conditions, when the alternative a_i is selected that provides the most expected winning R_1 (when $V(a_i, S_j)$ models the profit), or the least expected loss R_1 (when $V(a_i, S_j)$ models the expenses). So, to find R_1 we need:

$$R_1 = \begin{cases} \max\limits_i \left\{ \dfrac{1}{m} \sum\limits_{j=1}^{m} V(a_i,S_j) \right\}, & \text{if} \quad V(a_i,S_j) - \text{profit} \\ \min\limits_i \left\{ \dfrac{1}{m} \sum\limits_{j=1}^{m} V(a_i,S_j) \right\}, & \text{if} \quad V(a_i,S_j) - \text{expenses} \end{cases} \qquad (2)$$

where $\frac{1}{m}$ – the possibility of S_j state realization. Given criterion is worth using in the cases when the difference between the separate system conditions is big, so the dispersion value is big.

Vald's criterion. In alternative selection among all the worst Wald's criterion is used. It's the most careful and is called minimaxed [12]. When the result $V(a_i, S_j)$ reflects the enterprise losses, the biggest losses for a_i alternative, irrespective of possible S_j state, will be equal $\max_j\{V(a_i,S_j)\}$.. According to the minimaxed criterion the best chosen alternative is a_i that gives $R_2 = \max_i \min_j\{V(a_i,S_j)\}$..

Seviedge's criterion. The content of Sevidge's criterion consists in creating new loss matrix $W(a_i,S_j)$, with the help of following formula [12]:

$$W(a_i,S_j)=\begin{cases}\max_i\{V(a_i,S_j)\}-V(a_i,S_j), & \text{if} \quad V(a_i,S_j)-\text{profit}\\ V(a_i,S_j)-\min_i\{V(a_i,S_j)\}, & \text{if} \quad V(a_i,S_j)-\text{expenses}\end{cases} \tag{3}$$

Received numbers show the risk value m that is why criterion is is called the criterion of minimal risk. To select the optimum alternative with the help of minimal risk criterion becomes:

$$R_i = \min_i \max_j W(a_i,S_j). \tag{4}$$

Hurvits's criterion. Decision-making from the most optimistic to the most pessimistic is conducted with the help of this criterion. In the most optimistic approach you can chose the alternative, which gives $\max_i \max_j\{V(a_i,S_j)\}$,, where $V(a_i, S_j)$ – winning (profit). The similar situation with the most pessimistic approach:

$$\max_i \min_j\{V(a_i,S_j)\}. \tag{5}$$

Hurvits criterion achieves the balance between the most pessimistic and optimistic cases [12], while comparing both alternatives with the help of corresponding factors α, and (α–1), where $0\leq \alpha \leq 1$. If $V(a_i, S_j)$ represents the profit, we choose the alternative as follows:

$$R_i = \max_i\left[\alpha \max_j\{V(a_i,S_j)\} - (1-\alpha)\min_j\{V(a_i,S_j)\}\right] \tag{6}$$

When $V(a_i, S_j)$ represents loss, we choose the alternative as follows:

$$R_i = \min_i\left[\alpha \min_j\{V(a_i,S_j)\} + (1-\alpha)\max_j\{V(a_i,S_j)\}\right] \tag{7}$$

Variable is optimism index (level of certainty), when $\alpha = 1$, criterion is very optimistic; when $\alpha = 0$ – very pessimistic. α $(0 \le \alpha \le 1)$ value can be determined according to the manager character, who makes the decision. The more complicated the situation is and the bigger the uncertainty is, the closer to 0 is α. The use of such criterion becomes more complicated when there is not enough information about the α value, which according to the subjective reasons due to different decisions and in different situations gets not the same value. When $\alpha = 0$, we get:

$$R_i = \max_i \{0 \cdot \max_j V(a_i, S_j) + (1-0) \cdot \min_j V(a_i, S_j)\} = \max_i \min_j \{V(a_i, S_j)\}, \quad (8)$$

when $\alpha = 1$:

$$R_i = \max_i \{1 \cdot \max_j V(a_i, S_j) + (1-1) \cdot \min_j V(a_i, S_j)\} = \max_i \max_j \{V(a_i, S_j)\}. \quad (9)$$

When the compromise is made, the desired decision is selected with the use of:

$$R_1 = \begin{cases} \max_i \left[\dfrac{\max_j \{V(a_i, S_j)\} + \min_j \{V(a_i, S_j)\}}{2} \right], & \text{if} \quad V(a_i, S_j) - \text{profit} \\ \min_i \left[\dfrac{\max_j \{V(a_i, S_j)\} + \min_j \{V(a_i, S_j)\}}{2} \right], & \text{if} \quad V(a_i, S_j) - \text{expenses} \end{cases} \quad (10)$$

Bayes's criterion. This criterion is used when the possibilities distribution of enterprise's states is known [12]. Let us assume that we have the possibilities value $\{p_j,\ j = 1,...,m\}$, the received conditions of enterprise $\{S_j,\ j = 1,...,m\}$,, which are set by the corresponding distribution. The existence of the enterprise condition distribution law allows us to identify the mathematical expectance of the usefulness in each alternative. The alternative is considered optimum that provides the extreme value (min or max) of a given mathematical expectation:

$$R_1 = \begin{cases} \max_i \sum_{j=1}^{m} p_j \cdot \{V(a_i, S_j)\}, & \text{if} \quad V(a_i, S_j) - \text{profit} \\ \min_i \sum_{j=1}^{m} p_j \cdot \{V(a_i, S_j)\}, & \text{if} \quad V(a_i, S_j) - \text{expenses} \end{cases} \quad (11)$$

It is worth mentioning that the criterion selection for making the managerial decisions and its parameters determination belongs to the complicated tasks of the decision-making subsystem. Usually SENR has to deal with not full and concrete information. There exists the set of uncertainty sources, which can be

divided into 2 large categories: not enough knowledge about the subject area and not enough information about the particular situation. Conventionally the possibility-statistical methods were used to solve such problems. Their use is restricted by their demand of versatile, even controversial information and the factors with non-static nature. Those factors neglecting lead to the wrong decisions. Modern mathematical device that allows reducing the uncertainty level of output information in making the managerial decisions is the theory of indistinct sets. One of the methods that can be used in subsystem of decision support is the setting of alternatives' balance a_i (i = 1,…,n), namely receiving the proper matrix value [1].

Conclusions

1. SENR development is worth conducting on the basis of integrated approach, which covers informational technologies, methods and means of analytical data processing, modeling, forecasting and decision-making and is based on the following construction principals: systemic, equipment content variability, modularity, openness, compatibility and use of basic project decisions.

2. For the forecasting and search of not obvious regularities support by the conventional means of operational analytical processing it is reasonable to supplement it with the methods of intellectual data analysis (Data Mining).

3. SENR has to possess variable means set that requires the core and variable modules existence that help the core to adapt to the particular usage and ensures the following functions performance: collecting, evaluation and intellectual data processing, risks classification and the situation development prediction at the enterprise.

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AUDIT OF PROGNOSTICATED FINANCIAL INFORMATION: PROBLEMS AND PERSPECTIVES OF DEVELOPMENT

Abstract

The paper studies theoretical issues and practical application of prognosticated financial information audit. The problems of that audit arrangement are considered, and the advantages of its introduction as well as the perspectives for its development are accentuated.

Key words:

Financial statement, audit of prognosticated financial information, project, forecast, analytical procedures, modelling.

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Introduction

One of the most urgent problems of the development of national enterprises in modern conditions is to ensure their functioning efficiency. Meeting this problem needs the resolution of the series of the principal issues, including the following: attraction of investments into the production process, improvement of competitive capacities of the manufactured products, avoidance of the risks of production and sales activity, provision of sustained functioning of the enterprise, etc. We think, that those issues should be studied not only from the view of management and marketing, but also from the view of audit, that enables to detect and check internal reserves of improvement of financial indices of the economic agents' activities.

At the moment, the audit results do not always meet the needs of enterprises, since they are directed at the research of reliability of financial statement, and mainly they are of retrospective character. At the same time, in order to improve the efficiency of the enterprise's development, the objective comprehensive evaluation of the perspective development of these enterprises is needed, which meets the requirements of the information users, i.e. investors, creditors, shareholders, public bodies, the third persons, etc. It enabled the necessity of auditing the prognosticated financial information, the development of which is rather ignored in national theory and practice at the moment.

Setting the Task

The audit development is the issue of concern of nowadays economic literature. In this respect great contribution has been made by H. Bahiyev, M. Bilukha, L. Budnyk, A. Klementyev, A. Kuzminskiy, K. Radchenko, and other economic scientists, whose researches refer to certain areas of strategic audit, but the checking of the prognosticated financial information is paid rather scarce attention.

Taking into account great interest to the audit of prognosticated financial information, we consider that theoretical and organizational basics and directions of practical application of that kind of audit need further researches and profound study. Therefore, the objective of this paper is to detect the problems of audit arrangement of the prognosticated financial information, and formation of the authors' vision for the perspectives of its development.

Outcomes

The audit arrangement of prognosticated financial information is an important factor of the organization of a planned system of development for business management with the aim of its financial recovery, increase of profitableness, improvement of market attractiveness, attraction of investment projects, etc.

The audit of prognosticated financial information is a comprehensive auditing research for financial and economic activity of an enterprise with respect to continuous search of adequate economic decisions under changes occurring in future both in external and in internal environments of the economic agent.

It is worth noting, that the main principles and recommendations for auditing the prognosticated financial information are depicted in MCA 810 «Check up of Prognosticated Financial Data».

In appliance with MCA 810, the prognosticated financial information is the information on future financial positions, financial results, money flows of the economic agent, either on certain areas of the agent's financial and economic activity, and that information is based on the analysis of the probable events to occur in future.

That information is rather subjective in its essence, since it is designed on the basis of the analysis of the events that could probably arise in future, as well as on the probable steps and actions of the client in case of the occurred events. Therefore, the development of that information requires great practice and skills of an auditor.

The audit of prognosticated financial information is an integral part of the system of business management, while its basis is prognosticated financial information. Following from the above, we suggest that the given kind of audit should be viewed as a system of scientifically substantiated probable speculations on the basic and alternative structural changes occurring in assets and liabilities, conditioned by the effective enterprise's capital utilization in future.

The prognosticated financial information can be represented as a forecast, a project or both in combination. At that, the forecast is the perspective financial information with reference to future actions which, in the client's opinion, could occur, as well as respective actions of managers. The project is the perspective information developed on the basis of hypothetic assessment of future events and measures taken by the client's managers which could occur in future [3, p. 189].

Depending upon the purpose of preparation, the prognosticated financial information can be prepared like certain indices, either like a traditionally made financial statement. At that, the perspective indices could be presented as follows:

- assessment of the volume of required capital investments;

- assessment of a new product introduction;
- assessment of a long-term property rent;
- forecast of purposeful utilization of funds, received from sales of long-term debt liabilities;
- prognosticated budget;
- future volumes of production;
- future volumes of realization.

Typical forms of financial statement containing the prognosticated information could be the following:

- forecast statement of balance;
- forecast statement of financial results;
- forecast statement of money flows;
- forecast statement of owned capital.

The auditor's task that checks up the prognosticated financial information consists in arguing the following:

- the assessment method the client applied was reliable and the best;
- the assertion of hypothetic statement is based on true information;
- financial information of perspective character is properly prepared;
- all essential statements take into account the data of prior financial statement [1: 143].

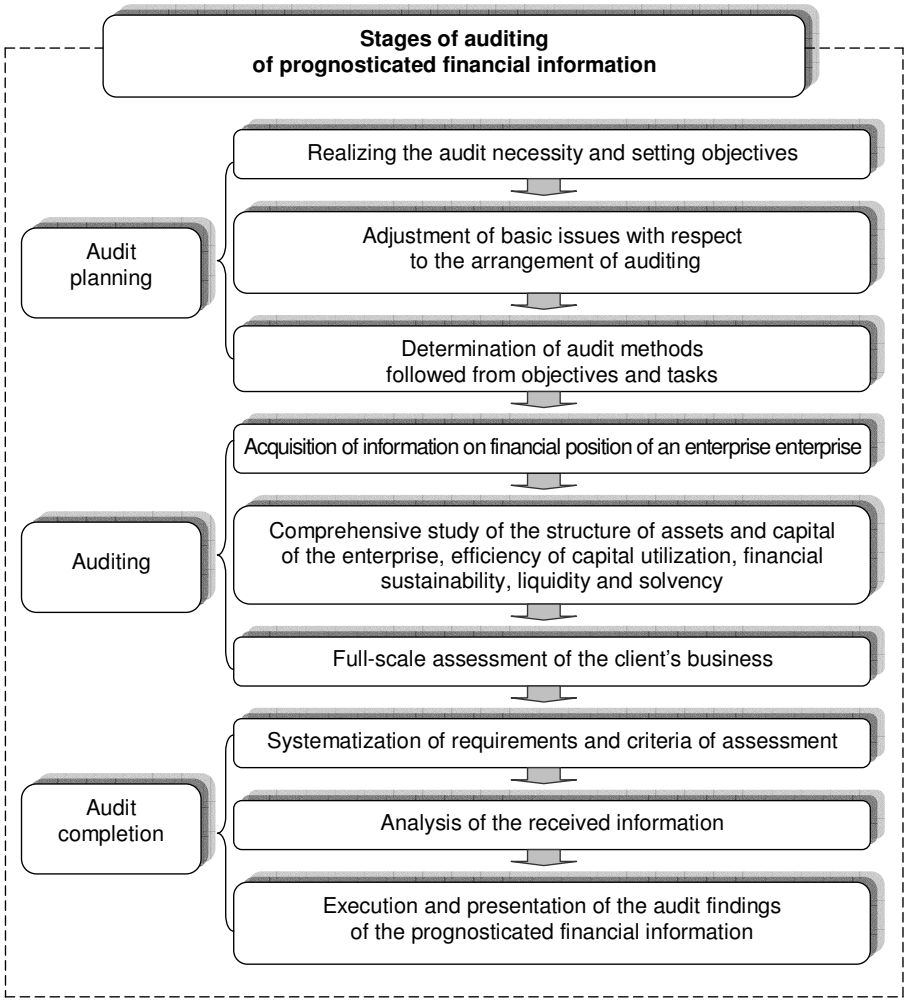
While checking up the prognosticated financial information the auditor should apply the procedures allowed for MCA 530 «Analytical Procedures». The auditor should apply those analytical procedures in the process of auditing the prognosticated financial information to get the perspective assessment of the most significant indices and ratios, to get information on available deviations, to detect the tendencies of financial and economic activity of the enterprise, to provide the scientifically grounded recommendations respectively increase of efficient utilization of its potential.

There are good reasons to audit the prognosticated financial information by means of modelling, since the latter allows showing the perspective financial position depending on unlimited number of factors. So, the audit adequacy of the prognosticated financial information depends on the procedures and logic of making the model of checking, which is useful to combine into stages.

Following from the above, we offer the model of audit succession of the prognosticated financial information consisting of several stages that are shown in fig. 1.

Figure 1.

Model of audit succession of the prognosticated financial information



Labouring the information presented in fig. 1, we will specify the peculiarities of each stage. In particular, in audit planning stage there the necessity of auditing the prognosticated financial information is realized, likewise the principal issues of audit arrangement are agreed. In addition, in this stage the main lines of the prognosticated data are determined.

The second stage provides for a comprehensive analysis of the financial state of an enterprise. That analysis is an integral part of the prognosticated financial information auditing, since it allows to increase the veracity of the prognostication and to detect the major factors of negative effect produced on the prognosticated assessment. The auditing on that stage should be based on the prior study of the client's business. It is worth noting, that the client's business study depending on the branch and individual particular characteristics of the enterprise varies from the viewpoint of its more or less detailed specification. The full-scale auditing of the enterprise, in our opinion, should include the following:

- assessment of business standing on the market and its capacity to adapt to the conditions of economic conjuncture;
- assessment of financial standing of the enterprise;
- assessment of internal production efficiency;
- assessment of investment policy and effectiveness of resources attraction for capital investments.

We will specify the peculiarities of each line of auditing.

The objective of the assessment of business standing on the market and its capacity to adapt to the conditions of economic conjuncture is to check the effectiveness of the enterprise's market strategy, meaning how optimally well the buying and selling policy of the enterprise adapts to changes of external economic environment. With this aim in view the prior computations of the offered managerial action effects produced on financial results are made, and the probable effect of those actions are estimated.

The assessment of financial standing is made to determine the optimal value of financial reserves, which on the one side, are sufficient for the enterprise's solvency, thus minimizing the losses of financial risk, and on the other side, are not overstated, that is, it does not divert the excess turnover means of the enterprise from current economic activity.

The assessment of inter-business efficiency is made for auditing the position and use of the enterprise's resources. The result of the assessment is the development of managerial actions, directed at increasing of the production efficiency, and also the computation of prognosticated effect of those actions implications.

In the process of assessing the investment policy and effectiveness of attracting resources for capital investments, the optimal investment policy of the enterprise, and the effectiveness of financing and utilization of capital investments is analysed, as well as the rationality of means of production distribution between the current activity and capital investment is determined, the financial risks rate and effectiveness of the greatest investment projects is evaluated, also the optimality of the selected strategy of attraction funds for financing the investment activity is substantiated , etc.

The third stage is the final one for auditing the prognosticated financial information. It is the stage when the additional documentation to be submitted to the company (client) is discussed and the auditor's findings are developed. The latter usually expresses the average certainty with respect to the prognosticated financial information, since the received evidences are often of empiric character.

The auditor's findings on the prognosticated financial information should include the auditor's opinion on the following:

- application of assumptions checked by the auditor;
- right preparation of information on the basis of applied assumptions;
- adequacy of provided information;
- possibility for application of prognosticated financial information in the objectives set by the agent;
- recommendations for limited use and dissemination of prognosticated financial information.

If for some reasons the auditor can not carry out the required procedures, he has to refuse from expressing his own opinion in the findings on the results of checking the prognosticated financial information, and give his reasons which had caused the failure in meeting the whole volume of work.

The presented technology for auditing the prognosticated financial information applied according to the determined stages is a significant element of the arrangement of that checking and it serves a basis for determination of possibilities for future sustained functioning of the enterprise.

Conclusions

The substantiation of theoretical aspects and stages of arranging the audit of prognosticated financial information enabled to make certain conclusions, specifically the following:

1. With the development of market economy, and the emerging of businesses of different organisational and legal modes and property forms, the traditional audit has not met the requirements of enterprises since it usually comes down to independent expertise of financial statements and other information on financial and economic activity of an enterprise.

2. Taking into account the increased interest in the problems of the audit development of the prognosticated financial information, we think that the theoretical and organisational principles and directions for practical application of this type of audit needs further researches and profound study.

3. The audit application of prognosticated financial information in Ukrainian enterprises will allow to better meet the needs of the information users, including proprietors, investors, creditors, shareholders, state bodies, third persons, etc., who are interested in the long-term strategic development of the enterprise in order to increase its competitiveness and improve its market attractiveness.

4. The audit of prognosticated financial information is an integral element of the business management system, while its basis is prognosticated financial information. Taking it into account, we suggest that this audit should be viewed as a system of scientifically grounded probable speculations on basic and alternative structural changes in assets and liabilities, conditioned by the efficiency of the enterprise's capital utilization in future.

5. The audit of prognosticated financial information should be based on the application of analytical procedures. The analytical procedures in the course of auditing the prognosticated financial information should be applied for the perspective assessment of the most critical figures and ratios, getting information on current deviations, detecting the trends of financial and economic development of the enterprise, providing of scientifically grounded recommendations as for increase of efficiency of its potential use.

The prognosticated financial information is good to be audited through modelling, since the latter allows reflecting the perspective financial position depending on the unlimited number of factors.

6. The audit faithfulness of the prognosticated financial information depends upon the procedure and logic of the check model design. The audit of the prognosticated financial information should be arranged according to the set technological stages, but at that, the taken by the auditor tasks should be taken into account, as well as the analytical procedures applied in the course of auditing and the specification of the auditor's findings should be regarded. We have offered the succession model of the prognosticated financial information auditing, which provides for the collection of the most critical information on the financial and economic business activity, and also its application for the development of concrete business objectives and strategies, likewise the determination of the opportunities for the sustained functioning of the enterprise in future.

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Review and Bibliography

Anatoliy TYBIN

NOBELOLOGY: TRANSFORMATION OF THE ECONOMIC SCIENCE'S PARADIGM

Teaching in Ukraine disciplines that make up the block «economic theory» is going through difficult phase of its transformation. Soviet Union political economy, based on the dogmatic Karl Marx's perception of capitalism and the numerous ideological postulates of Marxism-Leninism went to the past. At the turn of XX–XXI century's domestic economics has adopted the neoclassical methods of analysis that include the world's university science and education. However, the dynamics of globalization in the economic transformation, the complexity and contradictions of economic processes of recent decades, non-possibility of explanation by orthodox methods of analysis are increasingly attracting attention of scientists to the methodology of economic science, which enables scientists to explain efficiently the formation of objective knowledge of reality.

In October 2009 in Kiev was held the Scientific Conference named «Methodological Problems of Economic Science». Drastic qualitative changes in the principles of the functioning of economic systems in post-socialist countries encourage scientists and academic staff to improve the methodological approaches in research and teaching process. Informed recommendations were adopted. In particular, the problems of the real economy expand the horizons of the theoretical research; stimulate the emergence of schools, movements, and branches of economic science. Economic reality requires new knowledge, without which it is impossible to enter a new orbit of development. At the same time, economic crises are often the most powerful source of progress in science as a factor of economic growth. Under these conditions, the use of the theoretical achievements of Nobel Laureates in the development of theoretical models of

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stabilizing the national economy requires their critical thinking for the development of methodology for Economic Research. There should be organized a special course on these issues for master degree and postgraduate students.

I have recollected the specified above mentioned scientific conference while getting acquainted with the monograph of Doctor of Economic Sciences, Prof. Dovbenko, which was called «Economic Crisis is not a Crisis of Science»[1]; scientific problems discussed on the conference were very consonant with the latter. Moreover, as the continuation of peer recommendations were his thoughts and suggestions for lecturers. However, before talking about them, I have to emphasize the innovative aspect of this publication. It should be mentioned that it differs significantly from the published counterparts in Ukraine. Firstly, the peculiarities of society's development at the turn of the second and third millenniums are revealed there. Secondly, the unusual fundamental understanding of the crisis phenomena in the emergence of scientific knowledge is discussed. There is also a quite logical demonstration of liberal circles of the accumulation of knowledge. Thirdly, based on deep analysis of monographs and innovative papers of Nobel laureates, the problematic field of modern economic science is displayed. It is shown how in economic science over the last several decades (despite the constant change of some of its achievements for others; and available sound disagreements between scientists on many key issues) crucial theoretical knowledge was transforming. Everything is represented in the dynamics, so the reading of this paper is really interesting and exciting.

At the same time, I was encouraged to do more research by that part of the peer-reviewed monograph, which concerns the economic problems of higher education. Do you disagree with Prof. Dovbenko that «Educational content especially, the higher one in particular, does not keep up with rapidly changing technologies and intellectual needs of the new strategy of social development, based on dynamic knowledge and high technology» (p. 253); «Economists must learn how to better promote their achievements and the basic principles of the science to the society. The value of this cannot be overstated now – during the exacerbation of the economic crisis. Such activity is particularly relevant in today's world of instant change» (p. 259); «The distinction between the curricula of bachelor, master and postgraduate courses is needed. For example, the course of economic theory in the master degree programs should be a direct continuation of the bachelor degree program. The contents of postgraduate course should include a large set of new economic ideas and research» (p. 261).

I am convinced that fellow academic staff supports the position of the author in this reviewed monograph, «To meet the challenges, high school should review the content of the disciplines that are studied by the future economists or managers. This applies not only to methods of training of students, because diminishing the effectiveness of economic education only to improved methods of teaching and learning means trying to overcome the problem based on the old subject» (p.

[1] Довбенко М. Криза економіки – не криза науки : монографія / Михайло Довбенко. – К. : ВЦ «Академія», 2009. – 304 с.

259); «In view of this mechanism, based on continuous updating of training programs, there could be the introduction in universities a new fundamental course of economic theory – economic nobelology» (p. 265). Moreover, in some universities a special course with the following topic is already taught. Prepared by M. Dovbenko textbook «Modern Economic Theory» (Economic nobelology) – K.: Publishing Center «Academiya», 2005 and, written in co-authorship with S.Mochernyy, the textbook «History of Economic Doctrines» (Modern Economical Opinion) – Lviv: Novyi Svit – 2000, 2004), and «Economic Theory» – K.: Publishing Center «Academiya», 2004 – is a good basis for this course.

With this in mind, you can say about the emergence of a new paradigm of modern economic science. Dare to point out that this position coincides with the recommendations of the mentioned above scientific conference, where was noted: «The basic principles of a new paradigm of political-economic research should include: the abandonment of the economism, economic determinism, and their ideas; overcoming of the non-subjective analysis of economic processes and events, targeting at the creation of the people-oriented economic mechanism, the ability to perceive the variety and complexity of economic life, socio-economic development, the definition of the principle of methodological pluralism, overcoming of the substantive and methodological autarchy in the study of nature and economic phenomena and processes. This approach emphasizes the importance of changes in educational programs».

I prefer to use the term «emergence» because the new paradigm is not forming instantly. It is a long creative process. Indeed, as Nobel laureate Prof. Krugman writes, «Some argue that our economic problems are structural. That is why quick cure will not be possible to achieve. But I believe that the only important structural obstacles on the way towards the world's prosperity are outdated doctrines that restrict people's thinking»[2]. Considering the fact that formation of the new thinking is a continuous process, we have to start moving towards that goal now.

M. Dovbenko demonstrates this thought through his new and innovative view. Learning the truth goes through disputes, discussions, and creative question. In this search for truth no one is forbidden to teach and more honestly and conscientiously review their position, even if at some point it includes outdated views. Therefore, the claims to those scholars who seek a fresh look at the problems of science, and economic ones in particular, can hardly be justified. Importantly, this approach will greatly strengthen the intellectual foundation for scientific research.

In the new socio-economic conditions it is important to deprive of many old habits. I think that this includes the ignoring of the scientific research on the economic nobelology and its teaching in higher schools. This approach creates a methodology that in principle can be applied to all economic sciences (not only to economic theory). While developing the educational and professional stan-

[2] Кругман П. Возвращение Великой депрессии? Мировой кризис глазами нобелевского лауреата / Пол Кругман; [пер. с англ. В. Н. Егорова, под ред. Л. А. Амелехина]. – М.: Эксмо, 2009. – С. 296.

dards of higher economic education, it would be appropriate to apply the disciplinary matrix of Economic Education, which is based on the principles of methodological unity and which allows rationalizing the structural elements of the educational programs. In particular, these actions include managing of the logical structure of economic sciences, identifying opportunities to introduce new scientific achievements in educational programs, harmonizing of the structure of the categorical apparatus in economic education. The opportunity to formally integrate innovative achievements in the general theoretical structure appears.

Another interesting innovation in M. Dovbenko's monograph is worth mentioning. I mean the historical description of the characteristics of our economic thought and its Nobel prospects. Actually, nowadays it is essential to direct scientific research on solving the key issues of historical and economic science, which is systematizing economic knowledge, overcoming its partial prospective by studying the role and functions of the respective schools, movements, concepts, taking into account the interference of the dialectics of economic history and the history of economic thought. The problem is not even the Nobel prospects (although we need to think about it), but the absence of the image of an Ukrainian scientist-economist formed in global information networks.

Even the manner in which M. Dovbenko represents the issue, is forcing to think about a possible reassessment of the scientific achievements of foreign specialists and underestimation of the fundamental theoretical developments of domestic scientists. That is why one of the functions of historical and economic science should be the creation a positive image of an Ukrainian scientist-economist. Such names as I. Vernadskyy, M. Bunge, M. Tugan-Baranowskyy, E. Slutskyy cannot be replaced with the names of their Western followers. However, in general this part is quite interesting to read. In addition, current thinking and debates deliberately or inadvertently, but rather because of historical traditions, seem to revive them in a new round of history. It also should be mentioned that innovation in this case requires the author's presentation of the facts, which are the characteristics of major researches of modern domestic economists. However, it would require minor editorial amendments, closer and more logical connection with their content analysis of the economic theories, referred to in previous chapters.

Concluding observations about innovations in teaching Economics, I have to note that the most important was and is an independent hard work of students for learning the compulsory subjects, as well as a large number of specialized ones. The monograph by M. Dovbenko has another positive quality: despite the enormous scope of material, it is quite compact, generally well structured; without much revision it could be easily used by students and teachers. Its stylistic coloring is oriented on rationalism, which provides primarily brevity and clarity. That is why this book by a well-known alumnus of Ternopil National Economic University is definitely praiseworthy.

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Review and Bibliography

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GLOBAL ECONOMIC INTEGRATION*

At the beginning of the third millennium the effect produced by globalization, internationalization, and integration processes throughout the world is extremely intensive. The development of world economy has been challenging national economies. Therefore, the leading role belongs to studying the urgent problems of international economic integration and globalization.

The monograph of the Dean of the International Economics and Management Faculty, the Head of the Chair of International Management at Vadym Hetman Kyiv National Economic University, Doctor of Economic Sciences, Professor D. Lukyanenko «Global Economic Integration» is devoted to meeting that task. The author reports in depth a series of items of international economic integration and of leading trends of the world economic development on the verge of the 20th–21st century globalization.

The monograph consists of four sections. The idea of necessity is reflected of traditional methodological approaches to internationalization and creation of global development paradigm in connection with qualitative changes of economic development effected by globalization. The peer-reviewed publication is the result of the author's much year research of international economic integration and globalization problems.

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* Лук'яненко Д. Г. Глобальна економічна інтеграція: Монографія. – К.: ТОВ «Національний підручник», 2008. – 220 с. (Lukyanenko, D.H. Global Economic Integration: Monograph .- K.: Corp. Limited «National Text book», 2008. – 220 p.)

The author shows the multidimensional nature of the «internationalization» notion and its understanding as a structural process leading to the creation of a global economic system. On the basis of the analysis of modern globalization paradigm the conclusion was made that in the nearest future no single paradigm would be developed. However, in these paradigms the attention is ever more accentuated on the regularities of global social development, as well as on nature and self of a man.

The first section of the monograph on the basis of the analysis of factors and structure of modern integration process shows the key role of integration for the effective development of modern enterprises (businesses). The advantages and disadvantages of the horizontal, vertical and combined international micro-integration has been profoundly analyzed, and noted that in the process of its development the bearers of recent decades globalization, i. e. transnational corporations has been emerging. The author allotted a special role to principal forms of international economic regionalism (preferential trade area, custom union, common market, economic and political union), advantages and disadvantages pertaining to those regional creations. In this author's opinion, the economic integration alliances of the countries are of regional specification, in particular, they can be created «bottom up», «top down», and through bilateral and multilateral negotiations, as well as due to the associated participation of certain countries in the functioning integration incorporations. Having supported the author's main conceptual viewpoints on the integration processes throughout the world, we will note, that the questions of polarization by the principle that the countries are integrating by their own wish, or they are forced by understanding of more effective integration format of development in the conditions of global challenges, did not have the unambiguous answer. In particular, it is good to note that the intensification of integration processes corresponds with the level of globalization development, which is corroborated by both the EU evolution, and the evolution of other formalized integration groupings.

The second monograph section is devoted to the imperatives of economic globalism. Accentuated are the key features of global problems which originate global conflicts, as well as underlined is negative and positive role the latter play in the economic development. The author details the main trends of economic globalization, which are the following: global business corporatization and global socio-cultural unification. The definition is corroborated of postindustrial society as one, where services make the leading branch, and investment flows are re-oriented to the development of «human capital». Those notions are substantiated with a series of theories, out of which a comparatively new, especially for Ukrainian economic literature theory of a «new economy» is of specific interest. The author made a detailed analysis of uneven and imbalance development of economic globalization, which greatly enhances the crisis phenomena and processes. Special attention is paid to financial crises producing a major effect on the world economic development. Nevertheless, while accentuating the depth of stresses in the area of global development, it is worth noting that most of them are related to serious errors in macroeconomic policy, as well as to certain non-

adaptive character of modern macroeconomic theory to operate economy and macro-policies in complicated systems of emerging processes. Lack of understanding of endogenous features of modern instability can encourage too irresponsive policy, while exclusive reliance on the factor of global shocks will deprive the institutions making the economic policy their responsibility.

The third section is an important compound of the monograph. It studies the modern criteria and methodological approaches of national competitive capacity that are substantially corrected under conditions of effective open economy and globalization. The evolution of corporation management structure on the global stage of its development is worth paying great attention. Thus, the author specifies such phenomena of business global integration as meta corporations, network corporate structures, and veil corporations. Among the advantages of this section is generalization of available interstate ratings and indices that indicate the development of national potential in the conditions of globalization, thus rating Ukraine against those indicators.

The importance of the problem of competition and competitiveness does not arise any doubt at the moment from the view of the choice of adequate methodological frames of analysis. The mobility of capital, diffusion of Internet and net technologies prove that in the global conditions of information society any system element becomes a subject of competition, while the expansion of the countries with low income rates, and high level of information technologies diffusion creates a new configuration of permanently competitive economy and society. In this light, we think it feasible to draw attention to the problem of institutional competitiveness, which in spite of the fact that it could be studied in the civilization context, but it should be understood as a significant system-wise factor for the research of competition and competitiveness in the global conditions.

The fourth section of the monograph is devoted to the determinants of economic development of Ukraine as a country that asserts itself in the global world. In this context one of the most important aspects is the processes of trans-nationalization of Ukrainian economy, that in addition to privatization is one of the principal factors for attracting big foreign capital. At the same time the role of TNC is shown in the integration into international commodity and especially financial and investment markets. Also, the accent is made on the preconditions of the formation of transnational industrial and financial groups (specifically, Ukrainian-Russian) and possible consequences of their activity. Evident is the problem of capital outflow from the country abroad that actualizes the modification of the control regime over the capital export and currency earnings repatriation. The process of Ukrainian Euro-integration cooperation as the form of global processes has been profoundly highlighted as well. It is accentuated that the required condition of the effective economic development of Ukraine is the efficient relationships with the following international financial organizations: WTO, IMF, World Bank, European Reconstruction and Development Bank, as well as Ukraine's transition from getting immediate financial resources to consultative and political support on their side.

However, the author's viewpoint respectively necessity of mobilization model implementation in Ukraine is disputable. It may be conditioned by the fact, that its essence has not been clearly defined, and what is even more important, no priorities have been set. From our point of view, the tightening of the quantity of priority sectors and their real support could produce greater effect than the general enhancement of governmental intervention into economy, as the traditional mobilization model provides. Also, it is worth accentuating that most of available researches on substantiation of the development priorities do not take into account the acknowledged fact of probability for succeeding of the program of certain sectors and branches support. In particular, for meeting this problem an important thing is to analyze and compare the alternative scenarios of modernization of national economy in a global context.

Finally, it is worth noting that the author's significant result is his forecast of the future technological progress. Without the prognosis the middle-term tendencies of global development in kind of growth of demand in primary resources would conserve the national export pattern and make it inactive towards the improvements in the area of technological level transformations.

Consequently, we recognize that the reviewed monograph is a manifold aspect research of urgent problems of global economic integration, characterized with high scientific level. The book will be useful for scientists, experts, lecturers of higher educational establishments, and students.

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HICP, OTHER PRICES AND COSTS

(annual percentage changes, unless otherwise indicated)

1. HARMONISED INDEX OF CONSUMER PRICES [1]

	Total					Total (s. a., percentage change on previous period)						Memo item: Administered prices [2]	
	Index 2005 = 100	Total		Goods	Services	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy (n. s. a.)	Services	Total HICP excluding administered prices	Administered prices
% of total [3]	100.0	100.0	83.0	58.6	41.4	100.0	11.9	7.5	29.7	9.6	41.4	89.3	10.7
2005	100.0	2.2	1.5	2.1	2.3	-	-	-	-	-	-	2.1	2.5
2006	102.3	2.2	1.5	2.3	2.0	-	-	-	-	-	-	2.1	2.7
2007	104.4	2.1	2.0	1.9	2.5	-	-	-	-	-	-	2.1	2.1
2008	107.8	3.3	2.4	3.8	2.6	-	-	-	-	-	-	3.3	3.0
2008 Q1	106.4	3.4	2.5	3.9	2.6	1.0	2.1	0.6	0.2	3.4	0.8	3.5	2.5
Q2	108.1	3.6	2.5	4.5	2.4	1.1	1.1	1.2	0.2	6.0	0.5	3.7	2.8
Q3	108.4	3.8	2.5	4.7	2.6	0.7	0.8	0.9	0.2	2.1	0.7	3.9	3.3

	Total					Total (s. a., percentage change on previous period)						Memo item: Administered prices [2]	
	Index 2005 = 100	Total		Goods	Services	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy (n. s. a.)	Services	Total HICP excluding administered prices	Administered prices
Q4	108.2	2.3	2.2	2.1	2.6	-0.6	0.2	0.3	0.3	-8.7	0.5	2.1	3.4
2009 Q1	107.4	1.0	1.6	0.1	2.2	-0.3	-0.1	0.4	0.1	-4.9	0.4	0.7	2.9
2008 Dec.	107.9	1.6	2.1	0.9	2.6	-0.4	0.0	0.1	0.0	-4.7	0.2	1.4	3.4
2009 Jan.	107.0	1.1	1.8	0.2	2.4	0.0	0.0	0.1	-0.1	0.0	0.1	0.9	2.9
Feb.	107.4	1.2	1.7	0.3	2.4	0.2	0.0	0.4	0.1	0.5	0.2	1.0	2.9
Mar.	107.8	0.6	1.5	-0.4	1.9	0.0	0.0	-0.2	0.1	-1.2	0.1	0.3	2.9
Apr.	108.2	0.6	1.7	-0.7	2.5	0.1	0.0	-0.4	0.1	0.2	0.2	0.4	1.9
May	108.3	0.0	1.5	-1.4	2.1	0.0	0.0	-0.4	0.0	0.4	0.0	-0.2	1.6

	Goods						Services					
	Food (incl. alcoholic beverages and tobacco)			Industrial goods			Housing		Transport	Communication	Recreation and personal	Miscellaneous
% of total [3]	19.3	11.9	7.5	39.3	29.7	9.6	10.1	6.0	6.3	3.2	14.9	6.8
2005	1.6	2.0	0.8	2.4	0.3	10.1	2.6	2.0	2.7	-2.2	2.3	3.1
2006	2.4	2.1	2.8	2.3	0.6	7.7	2.5	2.1	2.5	-3.3	2.3	2.3
2007	2.8	2.8	3.0	1.4	1.0	2.6	2.7	2.0	2.6	-1.9	2.9	3.2
2008	5.1	6.1	3.5	3.1	0.8	10.3	2.3	1.9	3.9	-2.2	3.2	2.5
2008 Q1	5.2	6.4	3.5	3.2	0.8	10.7	2.5	1.9	3.1	-2.5	3.2	3.2
Q2	5.7	6.9	3.7	3.9	0.8	13.6	2.3	1.9	3.6	-1.8	3.0	2.2
Q3	5.6	6.7	3.9	4.2	0.7	15.1	2.3	1.9	4.4	-2.4	3.4	2.3
Q4	3.8	4.3	3.0	1.2	0.9	2.1	2.2	1.9	4.5	-2.0	3.3	2.2
2009 Q1	2.4	2.1	2.8	-1.1	0.7	-6.1	2.0	1.7	3.6	-1.7	2.7	2.3
2008 Dec.	3.3	3.5	2.8	-0.3	0.8	-3.7	2.2	1.8	4.5	-1.8	3.2	2.2

	Goods						Services					
	Food (incl. alcoholic beverages and tobacco)			Industrial goods			Housing		Trans port	Com-muni-cation	Rec-reation and per-sonal	Mis-cella-neous
2009 Jan.	2.7	2.7	2.6	-1.0	0.5	-5.3	2.0	1.7	3.9	-1.9	3.1	2.1
Feb.	2.5	2.0	3.3	-0.7	0.7	-4.9	2.0	1.8	3.9	-1.4	3.0	2.1
Mar.	1.9	1.6	2.4	-1.5	0.8	-8.1	2.0	1.8	3.1	-1.8	2.2	2.2
Apr.	1.4	1.2	1.6	-1.7	0.8	-8.8	2.0	1.8	3.5	-1.6	3.4	2.1
May	0.9	1.0	0.7	-2.5	0.8	-11.6	2.1	1.8	3.1	-1.0	2.4	2.0

Sources: Eurostat and ECB calculations.

1) Data refer to the changing composition of the euro area. For further information, see the General notes.
2) ECB estimates based on Eurostat data; these experimental statistics can only provide an approximate measure of price administration since changes in administered prices cannot be fully isolated from other influences. Please refer to http://www.ecb.europa.eu/stats/prices/hicp/html/index.en.html for a note explaining the methodology used in the compilation of this indicator.
3) Referring to the index period 2009.
4) Estimate based on provisional national releases usually covering around 95% of the euro area, as well as on early information on energy prices.

2. INDUSTRY, CONSTRUCTION AND RESIDENTIAL PROPERTY PRICES[1]

	Industrial producer prices excluding construction										Construction[2]	Residential Property prices[3]
	Total (index 2005 = 100)	Total		Industry excluding construction and energy						Energy		
							Consumer goods					
			Manufacturing	Total	Intermediate goods	Capital goods	Total	Durable	Non-durable			
% of total[4]	100.0	100.0	83.0	75.8	30.1	21.9	23.7	2.7	21.0	24.2	2.8	7.6
2005	100.0	4.1	3.3	1.8	2.9	1.2	1.1	1.5	0.9	13.9	4.1	6.5
2006	105.0	5.0	3.5	2.8	4.6	1.6	1.7	1.5	1.5	13.3	4.0	4.4
2007	107.9	2.7	3.0	3.2	4.7	2.2	2.3	2.4	2.1	1.3	4.1	1.7
2008	114.2	5.9	4.8	3.5	4.0	2.1	3.9	2.8	4.0	13.7	3.1	-
2008 Q1	111.8	5.3	5.5	3.5	3.9	1.6	4.7	3.1	4.9	11.1	4.0	2.8[5]
Q2	114.8	6.8	6.3	3.7	4.0	2.0	4.8	2.8	5.1	16.8	5.5	–
Q3	117.0	8.2	6.6	4.3	5.5	2.3	4.2	2.7	4.4	21.1	3.9	0.6[5]
Q4	113.5	3.3	0.7	2.4	2.6	2.5	2.0	2.7	1.9	6.3	–	–
2009 Q1	109.9	-1.7	-4.0	-0.9	-2.7	1.8	-0.6	1.9	-1.0	-4.1	–	–
2008 Dec.	113.3	2.9	0.3	2.3	2.4	2.7	1.9	2.6	1.8	4.5	–	–
Nov.	111.6	1.2	-1.6	1.4	1.2	2.1	1.2	2.6	1.0	0.6	–	–
2009 Jan.	110.5	-0.6	-3.0	-0.1	-1.2	2.0	-0.1	2.0	-0.4	-2.1	–	–
Feb.	110.0	-1.6	-3.9	-1.0	-2.9	1.9	-0.6	1.9	-1.0	-3.6	–	–
Mar.	109.3	-2.9	-5.1	-1.7	-4.0	1.6	-1.2	1.8	-1.6	-6.7	–	–
Apr.	108.2	-4.6	-5.8	-2.4	-5.2	1.2	-1.4	1.6	-1.8	-11.0	–	–

3. COMMODITY PRICES AND GROSS DOMESTIC PRODUCT DEFLATORS [1]

	Oil prices [6] (EUR per barrel)	Non-energy commodity prices						GDP deflators							
		Import-weighted [7]			Use-weighted [8]					Domestic demand					
		Total	Food	Non-food	Total	Food	Non-food	Total (s. a. index 2000 = 100)	Total	Total	Private consumption	Government consumption	Gross fixed capital formation	Exports [9]	Imports [9]
% of total %[3]		100.0	35.0	65.0	100.0	44.3	55.7								
2005	44.6	11.9	0.9	17.9	9.0	2.5	14.4	111.6	2.0	2.3	2.1	2.4	2.5	2.4	3.3
2006	52.9	27.5	5.8	37.6	24.4	5.9	38.1	113.8	1.9	2.4	2.2	2.1	2.9	2.7	3.9
2007	52.8	7.5	14.3	5.0	5.1	9.4	2.7	116.4	2.3	2.2	2.2	1.6	2.7	1.7	1.4
2008	65.9	2.0	18.2	-4.3	-1.7	9.7	-8.5	119.1	2.3	2.9	2.9	2.8	2.5	2.5	3.8
2008 Q1	64.2	8.4	36.4	-1.3	7.2	31.6	-5.8	118.0	2.1	2.9	3.0	2.4	2.3	2.4	4.3
Q2	78.5	2.5	32.4	-7.5	-0.3	20.3	-11.1	118.9	2.3	3.2	3.3	3.6	2.5	2.7	4.7
Q3	77.6	6.8	16.1	2.8	0.6	4.3	-1.9	119.4	2.3	3.3	3.5	2.8	3.0	3.5	5.7
Q4	43.5	-10.1	-7.7	-11.2	-14.5	-12.9	-15.8	120.2	2.5	2.1	1.9	2.4	2.1	1.4	0.6
2009 Q1	35.1	-23.5	-14.8	-27.6	-25.0	-17.3	-30.6	119.9	1.7	1.1	0.5	2.8	0.5	-2.9	-4.2
2008 Dec.	32.1	-17.2	-14.3	-18.7	-21.5	-18.6	-23.7	–	–	–	–	–	–	–	–
2009 Jan.	34.3	-21.0	-10.4	-26.0	-22.3	-13.4	-28.7	–	–	–	–	–	–	–	–
Feb.	34.6	24.3	-16.1	-28.2	-26.6	-20.4	-31.4	–	–	–	–	–	–	–	–
Mar.	36.5	-25.0	-17.7	-28.6	25.8	-17.8	-31.7	–	–	–	–	–	–	–	–
Apr.	39.0	-19.8	-11.7	-23.6	-20.1	-10.8	-26.6	–	–	–	–	–	–	–	–
May	42.8	19.0	-8.2	-24.1	-18.4	-6.5	-26.6	–	–	–	–	–	–	–	–

Sources: Eurostat, ECB calculations based on Eurostat data.

1) Data refer to the Euro 16.
2) Input prices for residential buildings.
3) Experimental data based on non-harmonised national sources (see the ECB website for further details).
4) In 2005.

5) The quarterly data for the second (fourth) quarter refer to semi-annual averages of the first (second) half of the year, respectively. Since some national data are only available at annual frequency, the semi-annual estimate is partially derived from annual results; therefore, the accuracy of semi-annual data is lower than the accuracy of annual data.
6) Brent Blend (for one-month forward delivery).
7) Refers to prices expressed in euro. Weighted according to the structure of euro area imports in the period 2004-06.
8) Refers to prices expressed in euro. Weighted according to euro area domestic demand (domestic production plus imports minus exports) in the period 2004-06. Experimental data (see the ECB website for details).
9) Deflators for exports and imports refer to goods and services and include cross-border trade within the euro area.

4. UNIT LABOUR COSTS, COMPENSATION PER EMPLOYEE AND LABOUR PRODUCTIVITY [1]

(seasonally adjusted)

	Total (index 2000 = 100)	Total	By economic activity					
			Agriculture, hunting forestry and fishing	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other service
Unit labour costs[2]								
2005	109.0	1.2	8.7	-1.1	2.9	1.3	2.1	2.0
2006	110.0	1.0	2.8	-0.7	3.6	0.1	2.6	2.2
2007	111.8	1.6	1.8	-0.3	3.9	1.1	2.6	2.1
2008	115.3	3.2	-0.2	3.5	1.9	3.3	3.0	3.3
2008 Q1	113.5	2.5	1.2	1.0	2.1	1.8	4.0	3.0
Q2	114.8	2.9	-0.9	1.4	2.0	2.5	2.7	4.6
Q3	115.7	3.5	-0.9	3.9	2.6	4.4	3.5	2.8
Q4	117.9	4.5	-0.4	9.1	2.1	5.1	2.1	3.2
2009 Q1	119.9	5.7	–	–	–	–	–	–
Compensation per employee								
2005	112.3	2.0	2.4	1.8	2.0	2.1	2.4	1.9
2006	114.9	2.3	3.3	3.4	3.5	1.5	2.4	1.6
2007	117.8	2.5	3.8	2.9	3.0	2.1	2.3	2.5
2008	121.4	3.1	3.1	2.9	3.9	3.0	2.3	3.5
2008 Q1	120.2	3.1	3.8	3.4	3.5	2.5	2.6	3.3
Q2	121.2	3.2	2.8	2.7	4.1	2.3	2.2	4.4

Q3	121.9	3.5	3.1	3.1	4.5	4.2	2.8	3.2
Q4	122.5	2.8	2.5	2.6	3.8	3.1	1.6	3.3
2009 Q1	122.5	1.9	–	–	–	–	–	–
Labour productivity [3]								
2005	130.1	0.8	-5.8	2.9	-0.8	0.8	0.3	-0.1
2006	104.4	1.3	0.5	4.2	-0.2	1.4	-0.2	-0.5
2007	105.4	0.9	2.0	3.3	-0.8	1.0	-0.3	0.4
2008	105.3	-0.1	3.2	-0.5	1.9	-0.3	-0.7	0.2
2008 Q1	105.9	0.6	2.5	2.3	1.4	0.7	-1.3	0.4
Q2	105.6	0.3	3.7	1.2	2.0	-0.1	-0.5	-0.2
Q3	105.4	-0.1	4.0	-0.8	1.9	-0.2	-0.7	0.4
Q4	103.9	-1.6	2.9	-6.0	1.6	2.0	-0.4	0.1
2009 Q1	102.1	-3.6	2.5	-13.2	1.2	-3.7	0.2	-0.1

5. HOURLY LABOUR COSTS[1,4]

	Total (s. a. index 2000 = 100)	Total	By component		By selected economic activity			Memo: Indicator of Negotiated wages [5]
% of total[6]	100.0	100.0	73.1	26.9	34.6	9.1	56.3	
2005	116.5	2.3	2.3	2.1	2.2	2.1	2.5	2.1
2006	119.4	2.3	2.3	2.2	3.3	1.6	2.1	2.3
2007	122.5	2.7	2.9	2.1	2.6	3.1	2.6	2.1
2008	126.8	3.3	3.3	3.1	3.6	4.6	3.1	3.2
2008 Q1	124.8	3.3	3.7	2.5	3.7	4.2	3.0	2.9
Q2	125.9	2.3	2.4	2.2	2.3	4.0	2.4	2.9
Q3	127.4	3.4	3.4	3.3	2.8	5.0	4.3	3.4
Q4	128.9	4.0	3.9	4.4	5.6	5.1	2.6	3.6
2009 Q1	–	3.7	3.6	4.5	6.1	–	–	3.2

Sources: Eurostat, ECB calculations based on Eurostat data

1) Data refer to Euro 16.
2) Compensation (at current prices) per employee divided by value added (volumes) per person employed.
3) Value added (volumes) per person employed.
4) Hourly labour costs for the whole economy, excluding agriculture, public administration, education, health and services not elsewhere classified. Owing to differences in coverage, the estimates for the components may not be consistent with the total.
5) Experimental data (see the ECB website for further details).
6) In 2000.

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