

Crisis Phoenix

“We have created a financial system which has greatly exceeded the safety bounds we have instituted in the 1930’s to protect ourselves from crises. We should have realized that, by stepping over the safety mechanisms, we expose ourselves to a new crisis.”

Paul Krugman

For a few decades economic crises seemed to have their origin in the behavior of emergent economies. The forward leap, when forced, proved deadly. The description of the effects is complete, in the specific literature. The causes, though, have never constituted a reason for intellectual consensus.

Though over the nebulosity of causal explanations has settled a sort of belief, that the projects for breaking the vicious circle of underdevelopment are most often undermined either by unbridled ambitions, or by the lack of consolidation in the advance of development. The crises of Mexico, South-East Asia, Russia, Argentina etc., all from the last two decades, were subsumed under the vision mentioned above. They were crises which were easy to exit because the center had the resources to finance the periphery, on one hand, and to protect itself from contamination, on the other.

Starting with August 2007, crises no longer have their origin in the behavior of emerging countries. Through the trigger of the present global economic crisis – the irregular mechanism of American subprime credit – the origin of the crisis returned to the heart of the system, the engine of development. The crisis has exploded in the center of the global economy and has implacably contaminated the periphery of emerging countries.

Inverting the origin of the crisis and its sense of propagation signals the end of a long cycle of evolutions, which respect Kondratieffian calculations. The problem is whether this crisis truly will prove to generate – as a counterweight to recessional effects – transformational effects on the nature of fundamentals (to the level of basic principles inclusively) for another long cycle. In other words, the great challenge of a great crisis is a great change.

The past does not shed too much light in the way of understanding behaviors. After the crisis of 1929 there

was no triggering of a linear cycle of evolution due to the overuse of violence as a means of control over the benefits of development. The globalization trends which seemed to set the rules around the changepoint between the 19th and 20th centuries were irreversibly blocked after the crisis of 1929-1933, until 1989-1991. The interval of 1992-2007 was characterized by the recessional transformation of the periphery, often with flares of global contamination.

The great change expected with the restarting of a new Kondratieff cycle with this crisis has a discrepancy – mathematically speaking – of 6 to 9 years. If we estimate that the exit from the crisis could be achieved in 2 to 4 years, the sense of change is risky to reveal, being dependent on the type of solutions which will be globally approved for coming out of the crisis. The transformational processes resulting from the Washington Consensus have defied expectations, for both their length of time and their finality. The predictions are insecure on the medium term and powerless on the long term.

In fact, the crisis could be interpreted as a result of both insecurity and powerlessness in global government, meaning exactly the interval which covers the disparity of the closing of the long cycle of evolution and of the length of time for emerging from the crisis. It is, in the end, a crisis of adequate behavior with regard to the use of the specific means of an economy which is turning global. The means cover both the class of financial resources and the one of the institutional methods of allocating resources in general.

In this context, resuming the debate on evaluating the functional relevance of the basic principles of the global economy is unavoidable, as well as the debates on the efficiency of the management of behaviors stemming from the trust in the system and on the reform of economic policies which can no longer forego the Archimedic guideline of global coordination.

Marin Dinu

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