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The 2008 Economic Crisis Ten Years On

in Retrospect, Context and Prospect

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Alternative institutional frameworks at national and supranational level

By László Kulin¹

Abstract

National economies of different countries faced a set of new challenges due to global crisis. Such a significant financial problem in history like the one in 2008 occurred only in the case of Great Depression in 1930. Back then President Franklin D. Roosevelt and his professional experts developed “New Deal”. It helped frozen financial markets in the USA get going. The main point of the scheme was to carry out Works Progress Administration by state orders. People managed to earn and spend money. Financial market slowly started operating again, money gained its former purchasing power. The problem is that the above mentioned system worked properly only in case of a closed economy, like the one in the USA in those years. Since then 90 years passed by, and the world has changed. We are living in the era of globalization. National economies are not separated but interoperable. Any firm can move its production, logistics, etc. into other countries. This is the reason why successful companies often establish subsidiary companies and creates jobs in other countries. It creates two problems: i) It generates tension in the voters of the motherland of the company, voters may drift apart from the political parties, ii) The system (i.e. the budget of the motherland) may not be financed. Taxpayers pour their money into a bottomless pit. Profit of the companies flow into other countries, and strengthens their economy.

To find a solution, allocation of financial assets will appear as an activity in the new economic structure. It is an important task to regain trust of the investors. Investors want to reach security with the biggest possible profit. I believe that the investor of the 3rd millennium prefers security to quick profit, as this security will be the token of future profit. In the language of the stock-market: The stock dog has to stay next to the legs of the keeper. It cannot run forward, cannot overtake the keeper. Indeed, international financial markets, even if temporarily, must be taken under a common regulation, meaning financial markets must be closed. By regulatory factors money flow can and must be controlled.

¹ Social welfare expert, Hungary

I. New Challenges in Global Crisis

1. National economies of different countries faced a set of new challenges due to global crisis. Such a significant financial problem in history like the one in 2008 occurred only in the case of Great Depression in 1930.

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Since then 90 years passed by, and the world has changed. We are living in the era of globalization. National economies are not separated but interoperable. Any firm can move its production, logistics, etc. into other countries. This is the reason why successful companies often establish subsidiary companies and creates jobs in other countries.

It creates two problems:

- It generates tension in the voters of the motherland of the company, voters may drift apart from the political parties.
- The system (i.e. the budget of the motherland) may not be financed. Taxpayers pour their money into a bottomless pit. Profit of the companies flow into other countries, and strengthens their economy.

2. The question arises what the solution could be.

There is no use of analysing the budget of the leading Anglo-Saxon countries. One thing is for sure: There are huge holes on the budget. When New Deal was created By Franklin D. Roosevelt in the '30-s in the previous century, it could work effectively. By increasing internal consumption, with enormous state orders, and by paying for them, it started the economy of the USA and the world. It is an important thing to mention that this principle, as I mentioned before, was able to operate only in the case of a closed economy. In the recent situation this model in this form is unable to work. Taxpayers pour their money into a bottomless pit when they make an attempt to finance sustainable development. Recently, the structure does not provide long lasting and sustainable development for different nations.

On the other hand it is also true that the structure which would be able to meet the challenges of the new global economic challenges has no come to life yet. If it existed, we should not be afraid of another crisis. A global structure is necessary. It must be a simple, effective organizational structure, which is able to give a helping hand to all countries of the world. The main goal is to operate the system with a low number of people but with great effectiveness.

It is also true that this kind of structure must be accepted by the public including its political content.

But what exactly is that political content? 95 percent of the society is involved in global crisis. They are those simple employees who go to work every morning all over the world. The remaining 5 percent including investors, economy controllers are not that much involved in the crisis. Their standard of living did not change in the past few years, just their bank account a little bit. Here is the main point: the highlight of the struggle is to convince an employee, who may have numerous problems, that even under these circumstances it is worth going to work to improve the effectiveness of production. When this view is widely accepted by the general public we will be on the right way to the solution.

The following important element is who would work in the new structure, what they would do, which countries would be willing to take part in the project. Unfortunately, there will be disobedient, resistant, short-sighted groups who will not be able to leave their selfish interest behind in favour of the community.

Workers of the structure will be the leading fighters of the free world, pioneers, who will use the instruments of economics to establish the good conditions and liveable economic surroundings for the rest of the society. The name political broker can be created. They sell political products on a tottering market. I have my faith in people all over the world. It is a well-known fact that the recipe for success is political and economic innovation. We need national and supranational institutional innovation. We need to make a difference, figure out new things and grab our hair to drag ourselves out of the “economic swamp”.

Allocation of financial assets will appear as an activity in the new economic structure. It is an important task to regain trust of the investors. Investors want to reach security with the biggest possible profit. I believe that the investor of the 3rd millennium prefers security to quick profit, as this security will be the token of future profit. In the language of the stock-market: The stock dog has to stay next to the legs of the keeper. It cannot run forward, cannot overtake the keeper.

3. I am convinced that international financial markets, even if temporarily, must be taken under a common regulation, meaning financial markets must be closed. By regulatory factors money flow can and must be controlled.

The name of this new mechanism is **GOFAM– Global State Financing Model**

The main point of the idea is the voluntary participation of different countries in the distribution of common production capacity and the use of labour-force. A new profession must be made. Its name is political broker. A political broker sells economic political products to different countries. The name of the sold product is **GOFAM**.

The question may arise, why a country should join this construction. As it will control for example in case of Hungary the number of employees that can be employed in the plastic or tobacco industry and the portion this job covers in the world market. Still, why can it be beneficial if this figure is lower than recent figures? Why can it be beneficial if there will be less employees in plastic industry in Hungary?

The answer is because the situation will be like when less is more. Capacities may narrow, but it will be a guaranteed and stable figure. This is exactly what an investor is looking for. This is the first fundamental pillar of further development. Guaranteed, stable production capacity will attract investors’ money on the stock market.

It will result in an unprecedented prosperity. Democratic societies, operating on the free market basis will reach their highlight in the upcoming centuries. The golden Age will be brought by this new economic construction, the **GOFAM**.

These are the basic principles.

II. Questions on the way solving the problems

Some important issues must be made clear:

1. What type of institutional structure can be the executive body of the **GOFAM**?
2. What are the controlling factors which will define the allocation of capital and labour-force capacity?
3. How long will the economy of the participant countries be joined? What is the time when they can be separated again? When will the system be viable on its own?

III. The structure

The structure which will be able to move **GOFAM** has not come to life yet. Neither European Union, nor G8 (G7) are appropriate for the task.

1. In my view the task should be given to a firm which is present on the stock market as well. The owners of the company will be those states, which voluntarily accept and are willing to use the concept. The pattern can be the operation of the European Union. Not only the interests of big countries should be prevailed, the interests of smaller countries should not be harmed.

2. The Rules and Regulations must be made by the participants. Each nation will sign the Cooperation Agreement with the firm. It is of crucial importance to comply with labour-force market figures, which bring the monetary balance in the overspending state monetary systems.

3. It is also an important question who the fund providers of the new economic model would be. Obviously he banks! One may ask why just the banks as their behaviour led to the 2008 crisis. Still, they are the answer. They serve market demands. As sustainable development is the demand, they will undertake it. Great international banks and the World Bank can have emphasised role in the process.

All over the world there was a great social pressure to get those credits that were unreachable for them. By this individuals managed to reach previously unreachable goods. The consideration of these goods was not produced at that time, there was not such a work-based value that could have compensated the purchasing value.

In my opinion banks cannot be blamed, they just satisfied needs for “easy credit”. Also, it is obvious that they must be the ones that have to play the leading role in the financing process of sustainable development. To carry out the plan, money will be necessary. There is an example from my own family. When there was a family crisis a wealthy relative appeared and provided the money. It was called crisis management.

IV. When less is more

The employee of the tottering world economy was disappointed in their own employer. Again, employers have their doubts. Is it worth going to work in the morning? Can they ever reach the goods which were produced by them?

These questions must be answered with a definite yes. We have to outline what the result of the increased working performance will be for an employee. The result is a more predictable, more stable economic environment. Even if the number of available jobs is less, the working environment will be more predictable, more liveable, more stable.

About diligence: The basic unit of society is the acting human being. We may ask the question: Which person gets sooner from A to B? The answer is not the strongest but the ones who are clearly aware of their abilities and their own performance. The most important thing is that the individual must take advantage of the possibilities of life. Those who are not strong and determined enough they let the possibilities pass by. To be determined some individuals need help. Help must be the following:

- responsible government of the country

- family, relatives of the individual
- surroundings of the individual (neighbourhood, settlement)
- religious communities

Each of them is such a helping support for the individual, which has to be used. An important step in the character development of the individual when they recognize the situation when help is needed, and they accept this help. In this situation they are realistic, they know their own barriers.

I have to emphasise that taxpayers have to learn the real market value of their working performance. What can they purchase in exchange of their work, and what is also very important as an employee how creditworthy are they at banks. Unfortunately in the past years there was a significant overvaluation. People received more credit than the coverage of their work.

Realistic aims must be set:

A: For the individual:

Work creates value. They can purchase restrictedly according to their income. They can create savings which can be invested in the stable stock market. Thus they can plan the future of their family.

B: For the state:

Doing well in the competition of countries. The aim must be set according to the country's GDP. It must be based on the real performance. Underestimation is as serious mistake as overestimation.

IV. Controlling factors of GOFAM

In the past centuries nations fought for the division of the world. On the first place for the distribution of colonies, together with gaining raw materials.

A new factor will appear as the aim of the competition, i.e. the production quota. This quota has to include every element of the production, for example agricultural products, electronics, logistics, and tourism. This quota system must cover the whole employment structure.

According to the common commitment the states control which part of their production capacity they use, and what proportion of it they deploy to other countries. The firm will be installed where there will be production quota.

Quotas must reflect the voters' demands and the social-operative characteristics of the countries.

In this system each participant knows what to do and what to expect in return. There are no open questions. The market is stable and controlled for those who voluntarily join the structures.

How long is this united control necessary? In the 1930s four to five years were enough. In my opinion the same amount of time will be enough as well. After that it will be possible to detach from the central control. The role of the central controlling firm will be to monitor the market-production process on the level of certain nations and to give recommendations in favour of further sustaining development.

SUMMARY:

First of all crisis management and sustaining development are obvious manifestation of will.

An economic innovation is necessary, the elements of which are the followings.

- A new economic model, called **GOFAM**
- A firm that coordinates the realization of **GOFAM**
- Direct coordination is necessary for a couple of years
- Voluntary participation of nations in the distribution of production and labour force-capacity.

If I manage to convince one single person with my article I have reached my goal.

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