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THE CONCEPT OF SYSTEM ECONOMIC CRISES: THE SEARCH FOR NEW APPROACHES TO UNDERSTANDING OF THE ECONOMIC PHENOMENA NATURE

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Abstract. The presented article aims to researching the origin and nature of one of the most unknown phenomena of the world economic life – world economy crises – the phenomena that nature hasn't received the conventional explanation in economic science yet. The market economy is subordinated to its special laws that spontaneous character is found during crises. However the analysis of the global «crisis experience» draws attention to the difference in the forms of implementation of various crises that persists in all stages of economic development. Some economic shocks, despite the intensity and range, gradually give way to revival and further – to full economic expansion. Others end with weak rise and depression, gradually turning into a new recession. Such crises, depression, periods of weak economic recovery form some “waves of the crisis development”, holding the economy depressed for a long time. The impact and consequences of such «waves» go beyond the medium-term economic dynamics. They occur within the limits of the long-term (Kondratieff) cycle and coincide with its descending stage when, according to empirically proved ideas of the great Russian economist N. Kondratieff, the economy goes through a complicated stage of the crisis-depression development, which constitutes parameters of future economic growth. In the presented article economic events of this phase are combined in the term “system economic crisis”. The introduction of this concept aims to structure diverse phenomena in a single economic process occurring at the descending stage of the long-term cycle. Each of them may be due to special causes and have a separate story, but initially all these events proceed in the logic subordinated to resolve common system problems and for this reason can be considered as integral parts of a system crisis, overcoming which enables society to move to qualitatively new frontiers of economic development. This article represents an attempt to comprehend the reasons and consequences of system economic crises as a fundamental phenomenon of the long-term economic cycle.

Keywords: economic development, long-term economic cycle, recession, depression, system economic crisis, system problem, innovative renewal, modernization of the economy.

The occurrence of crises as a periodic economic phenomenon, the conditions and the time of their appearance remain a controversial and unresolved issue of economic theory. Most researchers are of the opinion that recurring crises happened long before the formation of the industrial production system. So, one of the most prominent representatives of the American economic science W. Mitchell states the presence of economic crises in the last decades of the 18th century, although then they were less significant for economic development than in the 20th century [9, p. 88]. Some researchers try to find recurrence in the

series of economic events of earlier periods, erroneously including quite different economic shocks in the unified process of cyclic development, such as the tulip mania in the Netherlands (the 1620-1630s), the 1696 monetary crisis in England, the fall of John Law (France, 1716-1720), the collapse of the South Sea Company (England, 1720-1721), etc.

L.A. Mendelson, by contrast, believes that only gradually economic shocks acquired a character of cyclical crises and discloses a methodological error in the approach of “bourgeois experts”, when the nature of crises is interpreted metaphysically

and the development process is ignored. Presenting the traditional approach of the soviet economic science, the scientist tries to link the occurrence of periodic crises with the formation of capitalist economy and, consequently, the prospects for alignment of economic development – with the elimination of the main source of “turbulence” in the economy – a capitalist economic system.

The identification of the time of occurrence of economic crises as a recurrent phenomenon is of theoretical interest; however, the determination of sources and nature of this crisis, which is the purpose of this article, also has a practical value. It is possible to form a set of tools and methods to influence the nature of cyclic processes.

Even in the pre-industrial period the economic dynamics was characterized by considerable inconsistency: the periods of economic activity interchanged with the periods of economic stagnation. At the same time, the recurring economic crises were usually represented as financial shocks and their causes were out of the reproductive process. The main factors that provoke worsening of the balance of payments and cause crises were the following: mass epidemics that took away millions of lives; bloody and destructive wars; serious crop failures and epizootic, involving galloping prices for essential food and commodities.

The successive crises were of entirely different nature; they were generated by internal conditions, occurred in time of peace and were provoked by quite sudden phenomena: bankruptcies, poverty, unemployment, etc. These events were recorded in the 2nd quarter of the 19th century, when with the strengthening of market relations and development of industrial society the national economies experienced imbalance between industrial production and solvent demand.

The analysis of the world “crisis experience” draws attention to an important feature in the various crises forms that persists at all stages of economic development since the early industrial period. Some economic shocks, despite the urgency and great scale, gradually gave way to revival and then to full-fledged economic recovery

(1825-1826, 1857-1858, 1866-1867, 1890-1894, 1900-1903, 1907-1908, 1920-1922, etc.), others led to weak recovery or depression, gradually turning into new recessions. Such crises and periods of sluggish economic recovery together formed waves of crisis development, leaving the economy in a depressed condition for a long time. For example, the 1857-1872 period was marked by 2 great economic revivals lasting for 7 and 6 years, preceded by the severe crises of 1857-1858 and 1866-1867. However, the subsequent period of 1873-1886 witnessed a depressive development, called as “Long depression” by contemporaries [8, p. 10]. Such depressive periods were also observed in 1836-1842, 1929-1938 and 1971-1982 [6, 7]. The long period of depressed global economy, which started with the 2008-2009 global crisis and included a number of other economic shocks of regional and country scale, suggests the unfolding of another wave of depressive development, which can last until the end of the 5th Kondratiev’s “big cycle”, i.e. presumably until 2020.

The extrapolation of crisis to long-term economic cycles reveals a pattern that, in the first case, crises were usually distributed at the ascending stage, and crisis-depressive periods – at the descending stage of the long-term cycle. This is clearly shown in Figure 1.

Relying on the ideas of N.D. Kondratiev, considering economic dynamics as a “continuous and diverse stream of qualitative and quantitative changes” [4, p. 24], we can assume that the above differences in the crises realization are caused by quantitative and qualitative processes in the economy. According to the Russian scientist, in the situation when the economic system elements undergo transformation, not reduced to the change in their number and volume, it is necessary to speak about the presence of qualitative changes (for example, a change in organizational principles, technologies, content and nature of social needs, etc.). In other cases (e.g., for prices, rates, rent, etc.) the movement of quantitative indicators plays the leading role. “The value of quality changes is only important when the nature of these elements changes, for example, when the price changes from free to fixed or from market to monopoly” [4, pp. 20, 24].

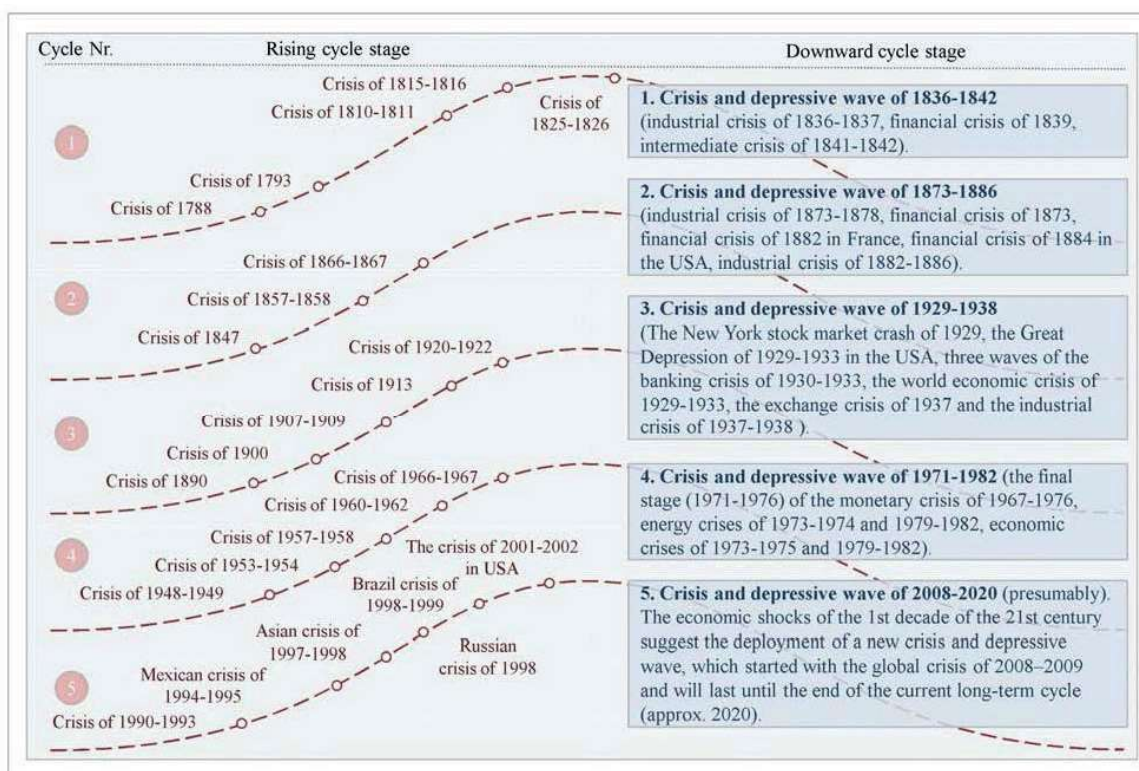


Fig. 1 Economic crises at various stages of the long-term economic cycle

This approach (further not developed by Kondratiev) allows us to create and scientifically justify a prospective “method of quantitative and qualitative decomposition”, aimed at disclosing the substance of the phenomena observed in economic reality. The division of economic dynamics into two fundamentally different (although connected by feedback channels) types of processes: 1) quantitative (streaming, market) and 2) qualitative (cumulative-transformative) is a powerful way to study the nature of economic phenomena that enables us to understand the essence of events included in the overall cyclic process.

Both quantitative and qualitative processes form negative phenomena, which, in the first case, are expressed in the violation of economic proportions (imbalance of supply and demand, price disparities, etc.) and, in the second, – in the violation of internal connections (internal harmony) of the economic system. G.B. Kleiner rightly points to the differences in terms of “disproportionality” and “disharmony”, which are often incorrectly presented as identical. In fact, disharmony is a condition of more serious distortion of the economic system than disproportionality. It is caused

by the quality problems of the economic system and “hinders the improvement of imbalances within the economy” [3, p. 73]. Accordingly, disharmony as a result of negative processes of qualitative order requires fundamentally different solutions for elimination of its consequences, than disproportionality.

So, the quantitative violations of internal balance of the economic environment (disproportionality), formed in the phase of economic growth, give rise to common (in the “traditional” sense) cyclical economic crises. So, the crisis is “a painful process to liquidate inconsistencies and disproportionality of production and distribution, supply and demand, created under the influence of certain conditions” [5, p. 208]. The crisis processes occurring within the economic system are, in this case, of streaming nature and, generally, realized within the medium-term economic cycle. The crisis is overcome due to the restoration of old or establishment of new quantitative proportions, providing further development for the medium term. In turn, the corresponding change in spatial configuration of the system does not entail changes in its properties and functional content. Such an understanding of the

economic crisis allows us to consider it as *an economic phenomenon, caused by the violation of quantitative proportions (internal balance) of the economic system in the phase of economic growth, overcome by the restoration of old or establishment of new quantitative proportions, providing further development in the medium-term economic cycle.*

At the same time, in the economic system there arise contradictions of qualitative nature (disharmony), which are a “reaction against abnormal changes, growths and inconsistencies in the relationship of economic elements and conditions of their development” [5, p.254]. These contradictions reveal the necessity of institutional changes, management model replacement, new technological base creation, etc. The scale and acuteness of these contradictions do not give an opportunity to eliminate them within the medium-term cyclical process, thus involving the accumulation and transfer of emerging dysfunctions for the next cycle. The accumulation of crisis potential (unresolved problems of economic system development) provokes the system or, as defined by G.B. Kleiner, mega-economic crisis [2], which determines the need to implement drastic changes in the quality of system relations between structural entities in space and in time. In this case, the crisis processes, which are a “consequence of accumulative conditions during the previous time” [4, p. 397], have a cumulative-transformative nature and require modifications of intra-system relations, carried out within long-term (Kondratiev’s) cycles.

The term “system crisis” in economic literature is often used to indicate the depth and scope of crisis shocks, the scale and destructiveness of a certain economic phenomenon. In such a context this concept is used associatively and practically does not bear any methodological content. However, when used correctly, it can quite aptly reflect the content of crisis processes taking place in the format of long-term economic dynamics.

In this study *the system (mega-economic) crisis is a set of phenomena conjugate in a single economic process that arise due to the formation of internal contradictions of qualitative nature in the economic system related to the need for fundamental transformations in the institutional environment, the change in a management model,*

the qualitative renewal of a technological base, etc. Overcoming the system economic crisis requires a radical change in the quality of intra-system connections and relationships between structural entities, carried out within long-term cycles.

The system economic crisis is not an isolated economic event, but is an economic process – a target-oriented process system (Fig.2), which in the form of functional elements includes a variety of economic phenomena, ensuring the achievement of the fundamental objective – qualitative transformation of the economy. System economic crises (process systems) differ from normal cyclical crises, representing certain economic events (event systems). Each event performs its function and has a separate goal – elimination of quantitative imbalances and restoration of economic balance. System economic crisis are realized in “waves” of sequential or coincident in time economic shocks of different intensity and duration, separated by brief periods of depression or weak economic recovery. Each can be caused by certain reasons and have a separate history; however, initially all these events try to solve common system problems, and for this reason can be considered as parts of a system crisis. Its overcoming lets the society achieve a qualitatively new level of economic development.

The overcoming a system economic crisis is connected with qualitative reconfiguration of inner ties between elements of the system itself, fundamental changes in the system profile. Paraphrasing A. Einstein, believing that no problem can be solved at the level of consciousness it was created [1], we can argue that a system problem can not be solved at the level of system development it emerged. Resolved system problems involve not only the update of technological bases, but also the change (or correction) of organizational principles and governing structures responsible for maintaining quality parameters of the system.

The analysis of works conducted in the sphere of long-term economic dynamics demonstrates a significant neglect of researchers, focused on identifying the causes for long wave emergence instead of studying the environment, creating conditions for periodic updating of the economic system. However, it is the severity

and scale of contradictions exposed in the wave of economic shocks of the long (Kondratiev's) cycle prepares a depressed economy for undertaking radical measures for its renewal, and the transformation of an economic system genome occurring in the depths of the crisis turmoil becomes a

driving force of quality development. For this reason, the content side of events at the descending stage of the long-term cycle requires a deeper understanding, a thorough description and a greater attention on the part of the scientific community.

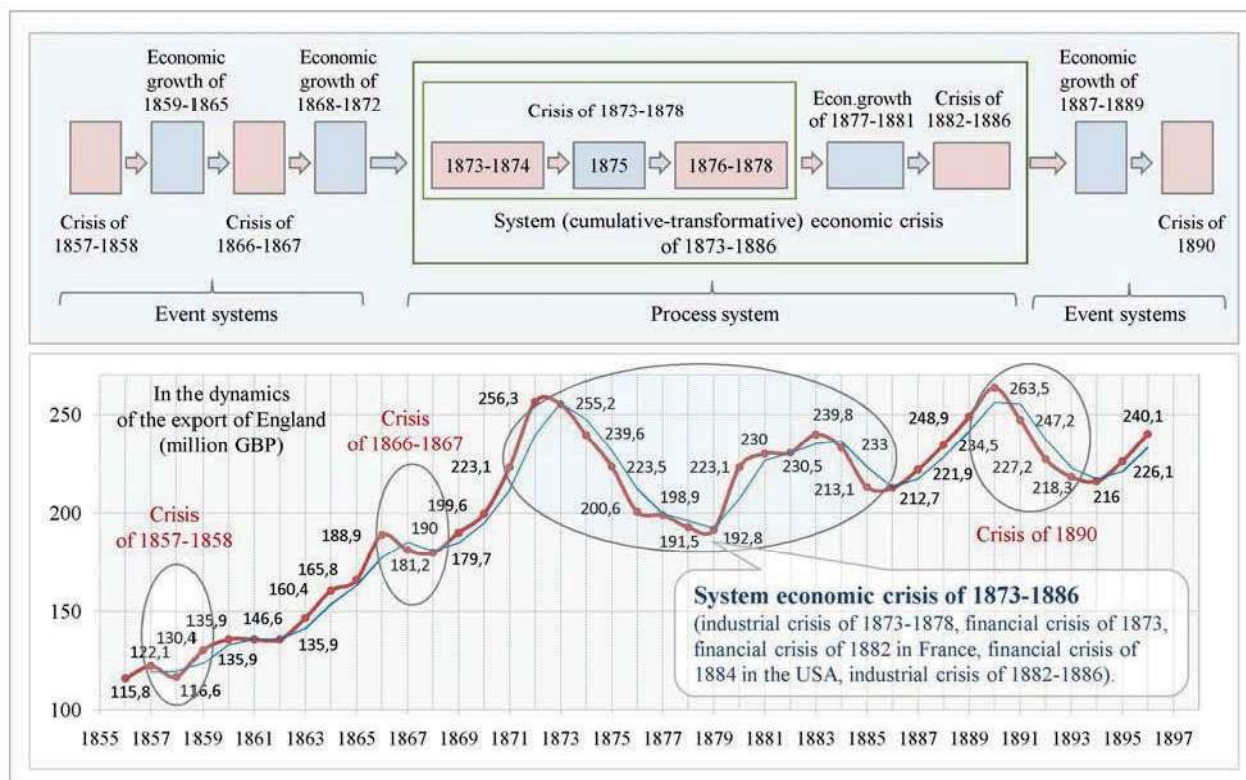


Fig. 2 Economic development in the 2nd half of the XIX in the categories of system economy

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