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THE FINANCIAL CRISIS – CATASTROPHE OR RENEWAL? FINANČNÁ KRÍZA – KATASTROFA ALEBO OBNOVA?

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The article presents a chronicle and causes of the global financial crisis. It contains an analysis of the influence of the crisis on Poland and a trend of Polish business cycle. The article presents a theory of Kondratiev large business cycles. Based on the calculations and opinions of economists, authors attempted to predict the global cycle in the context of globalization. The paper contains also the cycles by the year 2060, which were described by the economists after Kondratiev's death. The relation between the Kondratiev cycles and technological systems in the historical perspective is also presented there. The article ends with the conclusion that authors predict, for next few years, a slower activity of investing funds, bankruptcy of big companies and higher development of new technologies after 2015.

Key words: global financial crisis, business cycle in Poland, Kondratiev long cycles, phases of cycle, forecasting

Once we are frightened that the crisis would last for a long time, the other time, on the contrary, we expect that in 3–5 years we will reach the same level of GDP per capita as we had before the crisis. But ordinary citizens want to know what they can expect from this crisis in the future. Should we look for a new job or country of residence, should we buy some currency, collect tea, salt, matches, or maybe calmly and confidently look to the future? We will try to talk about this problem.

Material and methods

The problems of America – the problems of the World

In the late 80's, globalization, that is, creating common financial institutions of independent countries and their common „production line“, had reached its maximum. The opening of the huge markets of the former Soviet Union, Eastern Europe and China for new business partners willing to take loans and buy goods stimulated a rapid growth of economics of developed countries. For example, from 1993 to 2001, the United States – the largest international borrower – were developed with a fantastic result: in 1998 the U.S. has even beaten a long-term budget deficit. And that was a signal to investors that the U.S. securities were reliable and profitable. Therefore, money flowed to the U.S. from Europe, Japan and from the developing countries.

The first problems arose in early 2001, when some of the most advanced countries of Asia and South America survived severe currency and financial shocks. The Americans, who literally bathed in money, started to lose more and more on social programs and to expand their military presence in the world. On the other hand, globalization stimulated the migration of production capacity to developing countries, which have almost unlimited amount of cheap labor. As a result, China became a leader in economic growth, while the U.S. became its largest debtor. The Americans at the cost of debt and investments (and this is a type of debt) acquired a huge debt. In January 2001, the foreign national debt of the United States

(private and federal sectors) amounted to \$ 5.7 trillion, but in March 2008 it exceeded \$ 13.8 trillion. In this way, a system of debt obligations began to resemble a classic financial pyramid: own money is no longer enough to cover debt obligations, and we need to look for a way to restore the payment, or, at least, the percentage of old debts. It was understood that in the end there would be a situation where we wouldn't get loans, and then the whole pyramid would crumble.

The chronicle of the crisis

In 2006, there was a remarkable boom in the housing market in the United States. As the demand for real estates was very high, the prices were growing very fast. The reason did not lie in the rapid growth of Americans' income, but in the availability of mortgages for almost everyone. First of all – mortgage loans in the United States are at least three times cheaper than e.g. the Russian loans. Secondly, the mortgaged property, in accordance with U.S. law, can be sold without restriction – and thus, money could be made on it. And thirdly, mortgage programs have very flexible terms of loan repayment. The first few years, loans installments are very small, so that even poor family can afford such installments. And only after some time the amount of repayments becomes inaccessible to those families. In such a way, the illusions of easy housing availability are created.

Most of real estates were proved to be the property of borrowers who did not have the financial capacity to repay, or even had no intention to pay off the loans completely. This phenomenon became particularly visible in early 2007. It is possible that this situation was not sufficiently proved to be disastrous if not the presence of the U.S. bonds on the mortgage market. For example, two thirds of mortgage documents in the U.S. were converted into mortgage bonds and sold as securities to the largest financial institutions. As a result, banks could quickly recover the money (to provide re-mortgage), and the bonds were bought in the capital markets by various companies and corporations. When the mortgage market in the U.S. was flooded by the non-refundable mortgage loans, the price of mortgage bonds was strongly decreased and their holders have suffered huge losses.

The list of financial machinations victims started with an American company „Bear Stern”, the banking group Commerzbank and Allianz Holding International, the world-famous Deutsche Bank and the largest U.S. investment banks – Lehman Brothers and Morgan Stanley and others.

August 2007 is linked with the beginning of the global crisis of securities liquidity. Until September 2007, fifty mortgage institutions had become bankrupts in the U.S. The bankruptcy of these companies has led to an increase of unemployment, especially in the construction sector. At the same time, the first mass panic of the owners of savings took place in Europe. The economic crisis was continuing to deepen and moved to other sectors of the economy.

September 15, 2008 was a shock: Lehman Brothers bankrupt, Bank of America Corp. was absorbed by Merrill Lynch, declined credit rating of American International Group (AIG) – the largest insurer in the world who felt the lack of cash for the reason of the mortgage losses. These events caused a domino effect, or wave of bankruptcies, mergers and takeovers in the U.S., as well as in Europe.

Results and discussion

How does the global crisis affect Poland?

Leading Polish economists say: „The crisis will not hit us as hard as in the euro-zone and the U.S., but we are not completely safe.” In their opinion, the crisis is likely to affect the Polish economy through an increase of credit costs, investment risks and weaker export. The circumstances in the world financial markets will certainly also have impacts on the Polish economic development. In the economic exchange a mean of payment is needed but business will have a limited access to credit. The essential question is whether the crisis in the U.S. will affect a situation of the Polish financial sector.

International Monetary Fund predicted that financial crisis would affect Poland in a very small extent. In 2009, the Polish economy was driven by internal consumption demand, investment demand and export. Salaries, in real terms, are forecasted to rise up to 16 percent over the next two years. The financial situation of companies operating in Poland is good. Exports in Poland increased in 2007 by 8.7 percent, in 2008 it was 9.2 percent, in 2009 it was 8 percent and in 2010 it was 10 percent. Poland’s adoption of the euro currency will increase the credibility of the credit in the EU and the world.

Is Poland threatened by the economic crisis?

Until recently, there was optimism about further economic growth in Poland among Polish politicians and economists. The current turmoil in global markets begins to cause the revision of these opinions. Increasingly, there are statements about a possible economic slowdown or even recession. The state income tax is clearly marked by a downward trend. Certainly, the best years are behind us. Global economic cycle is relentless and the current economic problems in the United States must find their reflections in our country. Inflation and the inevitable increase of interest rates may slightly cool our economy. Polish Zloty is also getting stronger and it does not serve the exporters. It requires looking with some concern into the future, but the crisis is still far away.

Recently, we have heard statements about a possible crisis that awaits us in the coming years. There are signals to support

the contention about the impending economic crisis. First of all, few people are aware of the fact that economies around the world develop in cycles. Secondly, the economy of our country has been lucky so far – we used the global economic situation, combined with the effect of accession to the EU and the stream of money for subsidies has been reflected in the economic growth. Thirdly, currently, there is almost certain slowdown in the growth of economies around the world – so is in Poland.

A crisis similar to that occurring in the U.S. in general is not the question. First of all, the Poles firmly repay home loans, secondly, securitization of receivables, as developed in the U.S. market, is still in its infancy in Poland. There are no fundamental cells, which in the U.S. caused the problems in the mortgage market and brought the financial institutions’ losses.

In our opinion, there is no reason to anticipate the recession in Poland in the near future. Decline in the growth rate of economic growth is obvious, but not the recession. The economic growth will be supported by Polish accession to the EU and resources for infrastructure development. Rapidly rising incomes of the Poles lead to the increased consumption and economic growth. It is also worth noting that during the rapid economic growth, Poland reduced the budget deficit and unemployment. The increase in real wages in recent times was quite big, but it may be that it will not have much significance for inflation. Firstly, because in previous years the increase in production and productivity was not accompanied by the increase of wages, so that part of labor costs fell in total costs. Secondly, the economic slowdown in the U.S. and some EU countries may cause the return of some of our compatriots to Poland encouraged by better prospects in the country than abroad, which increases the supply of qualified workers.

Kondratiev cycles

Today, economists break down the hand: the crisis could not be foreseen and nobody could have been prepared for it, economists were forced to make decisions very quickly and intuitively. But this is not true. Current crisis was predicted almost a century ago and an excellent Russian economist Nikolai Kondratiev did it. He was born in 1892 and graduated at the University of St. Petersburg.

Kondratiev developed the theory of large business cycles. Of course, there are different economic cycles: the Joseph Kitchin cycle – 3–4 years, the Clement Juglar cycle – 7–11 years, the Simon Kuznets cycle – 15–25. But for us the most important application is represented by the cycles of global crises that arise once in 50 years and have a minimum of prosperity. During the study, Kondratiev examined some economic indicators of countries in Western Europe and the U.S. from 1790 to 1920. Economic indicators used for the analysis are: price indices, government securities, the nominal wage, the turnover of foreign trade, coal mining, gold, production of lead, iron, etc. Kondratiev noticed that these indicators vary cyclically over time. In capitalism, economic growth and its decline are cyclical, which does not depend on the degree of development of production and the quantities of countries involved in the economic relations. Kondratiev indicated time periods of the first three cycles in the history of the capitalist economy:

1. First: from 1779–80 to 1841–44
 - prosperity from 1780 to 1814
 - recession of economy from 1814 to 1841
2. Second: from 1841–44 to 1891–96
 - prosperity from 1843 do 1870

– recession of economy from 1875 to 1891

3. Third: from 1891–96 to 1929–33

- prosperity from 1896 to 1914
- recession of economy from 1914 to 1929

The maximum was achieved in the years 1814, 1873 and 1914, while the minimum in the years 1779, 1841 and 1894. The length of the cycle consists of an average of 50 years. Based on his observations, the long-term prognoses to year 2010 were made by Kondratiev. And based on the Kondratiev calculations, after his death, economists have described, in greater details, the following cycles (figure 1):

4. Fourth: from 1929–1933 to 1973–75

- prosperity from 1933 to 1951–53
- recession of economy from 1951–53 to 1973 (possible to 1981)

5. Fifth: from 1973–75 to 2010–15

- prosperity from 1975 to ~1995
- recession of economy from ~1995 to 2010

6. Sixth: from 2010–15 to 2060

- prosperity from 2015
- recession of economy to 2060

Until now, nobody knows why, regardless of the development of modern economics, the rhythm and mode of Kondratiev cycles are immutable.

Phase of growth

It mostly begins with the war or other reason causing increasing loss of the state, increases the demand, production, number of credits. Rising rate of inflation and implementation of the inventions actively develop new industries and branches, followed by the development of competitiveness, increasing the scope of international trade. Marketing loans exceed demand,

the financial situation is stable. Economists, politicians and voters are focused on long-term economic growth.

Phase of peak

Almost always it means an increase of military activity: the surge in prices, the change of state policy – from support of the demand to financial stability – the increase of exchange rate fluctuations due to different levels of inflation in different countries. Patents are not implemented; there is overproduction of means of production. Society turns to solving international problems.

Phase of decline

In the first half after the war phase the economic growth begins. Inflation is reduced; the production is developing intensively due to the reduction of costs. The fiscal policy is in the center of public attention. The second half of the decline phase is the transfer of a substantial part of the credit to the hopeless category of debt. Polarization of society. The reduction in demand. Strengthening of protectionism and nationalism, building customs barriers. Strengthening the degree of regulation of financial markets. Declining interest in public policy in favor of economy. Course to depression.

Phase of depression

Low inflation, bank rate is almost zero, very low demand and sales of loans. Overproduction in the old industries. There are major inventions in the field of technique and the management, which will be implemented in the next phase of growth cycle, causing that new media energy, types of transport and communications will be created. The gradual reduction of debt, high unemployment, getting out of raw materials.

While analyzing this situation, a forecast for the next few

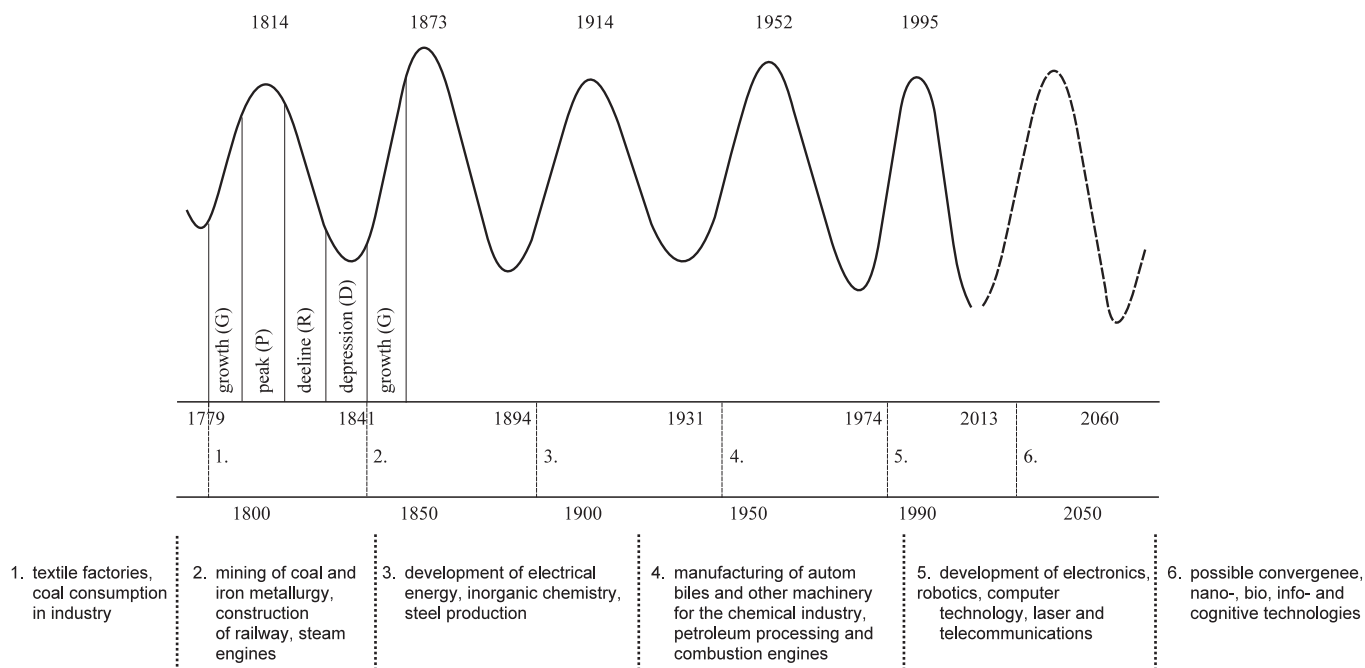


Figure 1 Kondratiev cycles

Obrázok 1 Kondratievove cykly

(1) textilné továrne, spotreba uhlia v priemysle, (2) ťažba uhlia a železa, stavba železníc, parné stroje, (3) vynájdenie elektrickej energie, anorganická chémia, produkcia ocele, (4) výroba automobilov a strojov pre chemický priemysel, spracovanie ropy, spaľovacie motory, (5) rozvoj elektroniky, robotiky, počítačových technológií; laser a telekomunikácie, (6) nanotechnológie, biotechnológie, informačné technológie, poznávacie technológie, konvergencia; (G) rast, (P) vrchol, (R) pokles, (D) kríza

years can be made: maintenance and strengthening of the present situation, the release of activity funds, the bankruptcy of large companies, development of new technologies after 2015 (rather in the field of genetics and medicine), advantage for small companies, able to adapt to the market downturn.

We can also see the relationship between the Kondratiev cycles phases of growth and peak and technological systems:

- 1 cycle – textile factories, coal consumption in industry,
- 2 cycle – mining of coal and iron metallurgy, construction of railway, steam engines,
- 3 cycle – development of electrical energy, inorganic chemistry, steel production and electric engines,
- 4 cycle – manufacturing of automobiles and other machinery for the chemical industry, petroleum processing and combustion engines,
- 5 cycle – development of electronics, robotics, computer technology, laser and telecommunications,
- 6 cycle – possible convergence, nano-, bio-, info- and cognitive technologies.

During the economic decline, the years of crisis are mostly coming. Considering that the previous crisis began in 1973, it can be concluded that for the moment we are in a „declining“ phase of the cycle, bringing economic prosperity to a minimum. To start a „booster“ phase, a few more years will pass; the strong growth is expected around the year 2015. But that does not mean that until then we will be hungry and poor, and after that period everything will bloom! This process is much more complex. The same Kondratiev indicated that at the very beginning of the „booster“ phase, changes occur throughout the whole life of the capitalist society, which precede significant scientific and technical inventions, and scientific and technical progress.

Conclusion

Current crisis seems to be a result of cyclic fluctuations and is deeper because of financial bubbles in real estate market. Economists say that today we are in the bottom of the crisis, despite some positive symptoms of growth. From autumn 2010 the world economy should be in late phase of depression and slowly come over the crisis. The strong growth is expected around the year 2015. For next few years, we can predict slower activity of investing funds, bankruptcy of big companies, higher development of new technologies after 2015. Small and midsized business, as more flexible and adaptable to current situation, takes market advantages over.

Súhrn

Článok predstavuje priebeh a príčiny svetovej finančnej krízy. Obsahuje analýzu vplyvu krízy na Poľsko a trend v poľskom ekonomickom cykle. Článok popisuje Kondratievovu teóriu veľkých ekonomických cyklov. Autori sa na základe výpočtov a názorov ekonómov pokúsili predpovedať globálny cyklus v kontexte globalizácie. Práca tiež obsahuje popis cyklov do roku 2060 ako ich popísali ekonómovia po Kondratievovej smrti. Je v nej tiež predstavený vzťah medzi Kondratievovými cyklami a technologickými systémami v historickej perspektíve. Príspevok končí záverom, v ktorom autori na niekoľko najbližších rokov predpovedajú nižšiu aktivitu investičných fondov, bankrot veľkých spoločností a intenzívnejší rozvoj nových technológií po roku 2015.

Kľúčové slová: svetová finančná kríza, ekonomický cyklus v Poľsku, Kondratievové veľké cykly, fázy cyklu, prognózovanie

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