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Economic Theory

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«CHILDHOOD DISEASE» OF THE LEFTISM IN CAPITALISM

Abstract

The global financial crisis affected not only the world economy but also the economic system as a whole. As is well known, all the problems of market economy should be solved by Adam Smith's «invisible hand». In addition to the invisible hand of A. Smith, also there is an invisible hand of the Friedmans, which acts in the reverse direction. We proceed from the fact that the Friedmans meant not only corruption. That *specific interest* implies that the government should save people and corporations who had been economically gambling and gambled away. Anyway, they make pay not those who gambled away, but common tax payers. As a result, the businessmen who dishonestly behaved now can start their gambling again. They forget that the 2008–201… financial crisis was initiated by moral hazard provoked by intervention and «support» of the government. And, accordingly, «the crisis of surplus production» was replaced with «the crisis of surplus financing». Global economy really needs new rules providing for a new role for international and financial institutions. We need the economy «with two hands».

Key words:

Financial crisis, globalization, recovery, regulation.

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The global financial crisis has delivered a heavy strike not only to global economy. It made a hole in the intellectual thought likewise in the Marx sarcophagus of «the ghost of communism», the rumors about its death, at least in Europe, happened to be exaggerated. As a result of that, some intellectuals began to talk that Marx as the immortal terminator of capitalism was «coming back». Moreover, some of neo-Keynesian politicians offered the acts for weak economy support that the opponents suggested that the USA should be renamed into the USSA that is the United *Socialist* States of America. Billions and billions dollars have been injected into the USA economy, in particular, into financial sector. And the recovery started rather soon. Anyway, it turned out that the recovery began *after* the acts of the state support, rather than *as a result* of those acts. And it was the main reason for passionate desire of the leading investment banks of the USA and Europe to pay back the financial aid accepted from their governments in return for their nonintervention into banking business. Primarily, it pertained to bonuses received by bank top mangers. But as I see it, it is only a visible part of the problem. What really was needed after the crises had been triggered was not «a Big Brother», but «a Big Bang». Mentioning «a Big Bang» I imply not so much of a general liberalization and deregulation, as the bankruptcies of certain financial institutions and companies. The crisis and bankruptcy in the conditions of imbalanced economy is a conventional logic way out in the direction of recovery. In order to understand that, it is worth reading either K. Marx, or the classics of bourgeois political economy. All the problems should be solved by the «invisible hand» of Adam Smith, which under Milton Friedman's explanation is «the possibility of cooperation without coercion». If someone does not like that method, he could try to organize the economy on a socialist basis, i.e. the one with «Great Coercion» over people and intellect. The result has been already known, and unfortunately, not only theoretically, implying a Big Crisis and the Bankruptcy of All Economy.

So, what has happened for the latest years? Why the well known «invisible hand» has not timely corrected the economic tendencies? It is because the economy, like economists has got two hands. In addition to the invisible hand of Adam Smith there is the Friedman invisible hand acting in a reverse direction: «The individuals trying to foster particularly *common interests* are directed by the invisible hand at fostering *specific interests* whom they were not going to support» [1]. In my opinion, the Friedmans did not mean the corruption itself. Those *specific interests* imply that the government comes to help people and corporations, who played the economic game and gambled away. And not the failed gamblers had to pay but common tax payers. As a result, the businessmen who dishonestly behaved on the market now are ready for risk operations. So, having learned nothing, they forgot everything. They forgot that the financial crisis of 2008–201… was ignited by a «*moral hazard*»[1] or an «irresponsibility risk» inspired by the state intervention and «support». The crises started in the USA mortgage sector, and it was the public companies of *Fannie Mae and Freddie Mac* who became its first victims. Those institutions also gambled on the financial market, but they did not estimate the risks properly, since they were sure to be supported by the government. And their clients behaved in the same way. It was not the free market economy with the principle of *«laissez – faire».* It was the economy with the principle of «*laissez – faire and Big Brother (Government) will rescue you in case…*

We can imagine how it is if we recollect the biggest financial «bang» in our own history, I mean the USSR Savings Bank collapse. If anybody considers it a long ago»soviet history» I can remind the succeeding «big bang» of «Ukraina» bank (former Ukragrobank). That bank was closely connected with the government, which de-fact was confirmed by the rescue actions offered by the government and the Central Bank of the country. And before nobody was really concerned with the risk management, since they were sure that the government would settle all accounts. It is just «the irresponsibility risk» that many economists consider being a real reason for «financial bubbles» emerging in the area of consuming crediting and trading in derivatives.

Karl Marx described the so called «crisis of surplus production» of goods and services. But the latest crisis notedly differs from those which had been observed earlier. Incidentally, we can say that it differs in a form but is similar in its essence. In this given case *money is the good, the surplus production of which brought about the beginning of the crisis.* Certain banks and financial companies (first of all, the funds of common investment, and hedge-funds) distinguished themselves in surplus production of moneyed funds («broad money» – i.e. debt liabilities and financial derivatives) and they had to «burst up». Nevertheless, the State provided them the aid instead, rendering it to the Man (tax payer). The State has played against the Man. That contradiction is not something new. *«The Man Versus the State»*, that is how the book by British philosopher and sociologist H. Spenser was called, where he suggested that as far back as in 1884 that the restrictions for trade and industry should be eliminated. Herbert

[1] The term *moral hazard* originated in insurance business, where it was primarily used for a special type of a risk related to dishonest behavior of people who insured their lives or health (e. g. the owner of the insured car behaves more risky while driving, thus increasing the probability of a road traffic accident). It is just that term which is interpreted in American Heritage Dictionary as «a risk to an insurance company resulting from uncertainty about the honesty of the insured». In insurance business that kind of a risk can be quantitatively measured as against a plain «uncertainty». With reference to its «morality», naturally, it is a loan-translation. It would be rather more correct to use the term of «the dishonesty risk», or «irresponsibility risk». What hinders to use that translation is that recently it is used in too wide sense when the primary or direct meaning of that term looses its meaning and sense in the English version.

Spenser is also known by his theory of general evolution. While searching the similarity between social and biological evolution, he saw much in common between the Body and the State, having compared various state institutions with these or those organs of a human body. In particular, he paid attention to the fact, that the growth is peculiar for both, the society and human constitution, as a result of which they both are becoming more complicated. And the differentiation of the structure comes alongside with the differentiation of functions. The normal, natural functioning of the organs/institutions ensures normal functioning of the body/the state. And vice versa, abnormalities (like revolutions) are diseases, which lead to disintegration and crisis. If we take into account that the economy is the same component part of the society as the state is, then the noted analogues could be spread on the economy. In this sense we can regard that the recent global crisis is «a developmental disease». That disease is tried to be treated with «child medicine» while the world economy has already become «adult».

The world economy has entered a new stage – the Stage of Globalization[2]. In this new globalized economic system the main role belongs not to the production but to the financial sector. It is not easy to accept a statement which once seemed to be nonsense that industry is more important than agriculture[3]. Nevertheless, it is the realities of today. And, accordingly, «the crisis of surplus financing» has replaced the «crisis of surplus production». The modern global economy entered that crisis in 1997–1999 (so called «Asian crisis»). The global financial system was «overheated» with speculative deeds (mainly, with derivatives), that was resulted in «surplus production of money». The economy happened to be familiar with the surplus of money production in a form of inflation. But now it has faced with its relatively new form, so called «financial bubbles»[4].

The fallouts of those crises were shocking. Amid the «Asian crisis» the nominal GDP of ASEAN countries dropped by 9.2 bln. dollars in 1997 and by 218.2 bln. dollars in 1998. When in 1997 before the opening of annual IMF session in Hong-Kong the then Malaysian Prime Minister Mahathir bin Mohamad blamed G.Soros in a speculative game against Malaysian currency, the interna-

[2] Naturally, as everything new the globalization is rooted in the past Some found its basis in the times of Great geographic discoveries, and some see its foundations since the moment when Adam and Eve had been driven from Eden. In any case, the researches distinguish the following three stages: the first – from the times of Portuguese sea voyages of the 16th century, the second – from the Napoleon invasions of the 19th century, and the third – form President R.Nixon abolishment in 1971 remnants of «golden standard» (Rodriques J. N. Devezas T. «Pioneers of Globalization», 2007, pp.27-28).

[3] Anyway, even at the moment there are those who insist on the priority of ever lasting agriculture, who in their wish of «pumping out» endless budget donations do not want to realize a very simple, statistically proved truth, i.e .the countries with 80 % of population employed in agriculture are usually starving, while the countries, where 5 % of people are engaged in this sector do not know what to do with excess food.

[4] The innovation relativity of «financial bubbles» is explained by the fact that in principle, the first «bubble» of that kind emerged yet at the beginning of the 18th century as a result of the shady transactions of the South Sea Trading Company.

tional experts thought that the known game «a weak link» was implied. But for ten years of speculation the «moral hazard» involved the strongest link of modern global economy – the USA. The «childhood disease» has afflicted the old economic body. It means that the global economy needs a new medicine. The Volker Rule and the DeFazio tax on the financial operations are only the components of that medicine. An important component is a new role of international financial institutions. That approach is strongly supported by many experts. «The crisis of 2008–2010 was not a monetary crisis, but the trans-border, inter-industrial one. Then, why has the International Monetary System turned out to be in the center of the suggestions made by the President of France Nicolas Sarkozy**,** the President of National Bank of China Zhou Xiaochuan, and the President of the Bak of Canada Mark Carney that it should be reformed? Even though it was not the core of the financial crisis, the International Monetary System suffers from the globalization and the conflict between the tasks of internal policy and international obligations, thus tending to cooperation [2]. We seem to need the economy «with two hands».

What does the «surplus money production» imply? Well, as B. Spinoza said «the best quality of money is its amount». Though that phrase rather belongs to its short-term practice of his family business management. Moreover, at that time the gold (silver) coins, which are not vulnerable to inflation depreciation, were circulating. Under «overlimit», when their aggregate value (with account of circulation velocity) exceeded the cost of goods which they served, the «extra money» replenished treasure. And now the circulation is filled with paper substitutes or even electronic signals, and their internal value is approaching zero. And «zero» naturally, no matter how many times is multiplied, gives only «zero» in result. Therefore, as I see it, it is more important to remember Spinoza's postulate from his «Ethics» proved geometrically and divided into five parts, saying «*Ignorantia non est argumentum*», that is, «ignorance is not an argument». What has to do with money when the demand comes to «issue money» for support of production, either to reduce the credit interests, or ensure stability (increase/decrease) of exchange rate of hryvnia… At that, more often those providers do not proceed from the professional logic but from benevolent intentions with which, as is known the road is paved to the most unattractive place.

Of course, I am not going to argue that the market itself, like market relations and instruments is not the panacea for all woes, including inflation. The market methods of struggling against the price increase are applied to oppose the market factors of inflation, while against non-market acts non-market methods are used. For example, it is in vain to struggle against the oligopolistic convention as for the prices through increase of refinancing ratio or shrink of budget deficit. And that is realized all over the world. For example, in 1970 the USA Congress delegated to President R. Nixon unlimited rights concerning administrative control over wages and prices. I mention those distant times because R. Nixon represented the Republican Party who were the principal opponents against the excessive intervention of the state into economy. In general, the so called «policy of control over incomes» is one of the main instruments of the inflation fight that is described in any text-book on the given subject. The other thing is that the decisions on this or that instrument application should also be taken thoughtfully after having studied real reasons of price growth. That is, the main principle here is that of applied in medicine, i. e. «first, do not harm» («Primum, non concere»).

In this place it is time to make one more «terminological digression» and suggest that we should agree what to understand under the term of «inflation». Since the soviet times we had the two following approaches to the interpretation of inflation: i.e. after Friedman («inflation is always a monetary phenomenon») and, let's say, after Krasavina («inflation is a multifactor process»). The second variant which accounted for such inflation-wise factors as shortage of commodities supply, deterioration of their quality, monopolistic practice of pricing, and so, was described in the standard text-book in money circulation and crediting in capitalism by Prof. L. Krasavina. The inflation in that single at that time book was considered as the phenomenon non peculiar to our economy. But in my personal opinion, that question seemed not to be urgent approximately in late 80-s after the monograph by Prof. H. Matiukhin had been published «The *Skyrocketing Prices and Inflation in the World of Capital*». (When Russia itself later joined that world of capital, the author became the first President of Russian Central Bank). The introduction of certain terms, like «expensiveness» and «inflation» agreed the two approaches, having viewed the monetary phenomenon of inflation as an integral part of a general trend of price increase The continuous monetary component of price increase is conditioned (programmed) by the mechanism of non-exchangeable for gold credit-paper money. It turns out that now any amount of circulating money is required and normal. Understanding of that new basis of the world money circulation explains the inevitability of constant inflation processes the nature of which is the drastical changes and can not be explained from the viewpoint of traditional theories, as well as it can not be overcome with traditional actions.

If the inflation is taken for «national №1 enemy» (and in the USA it was just like that in the 70-s), accordingly, the inflation targeting should become the national idea, at least for all economic institutions of the state. The comprehensive program should be developed for transition to targeting rather initiated by the National Bank, specifically, by its Board as a collegial, to some extent interdepartmental body. And within the framework of the development of that program, the responsibilities and prerogatives of all the power organs should be clearly determined, since in any country with market economy the government is not keeping aside from the currency exchange policy playing the role either of a fan or of a plain observer in the «exchange rate races».

Some assure that the exchange currency regime of actual peg of hryvnia to dollar helps to pursue the rigid monetary discipline of the National Bank. It is regarded to be a reliable «currency exchange anchor» in «the pre-storm sea of financial flows». But a long–term ignoring of a real dollar exchange rate drop brings about not only extra emission (as a result of purchasing dollars in a rich rate by the National Bank) , but also creates an «exchange illusion» of hryvnia stability in the area of foreign economic relations. As any illusion, it is dangerous because the process of its inevitable crash could cause a general scepsis or even a panic. I think that the possibility of such long-term exchange rate stabilization is conditioned by approximate concurrency of the velocity of external dollar depreciation (depreciation of its exchange rate) and internal hryvnia depreciation (inflation). That concurrency is not complete, since certain difference in the velocity brought about once to intense purchase of dollar (to support its exchange rate) and creation of significant (but not excessive) exchange currency reserves by the Central Bank of the country. The enforced hryvnia inflation depreciation is mirrored in the decreased intervention of dollar purchase. Then it could bring about the changes of either intervention direction (purchase of dollars) or devaluation of hryvnia. And that could become a real shock to the market. From the view of external shocks leveling, it would be better if the hryvnia exchange rate would continuously fluctuate within minor frames from 5 to 10 %, thus having the market adapted to certain risks, implying those which could not be completely removed, and which in the conditions of financial globalization could be taken into account, and accordingly preventing the excess risks. It is worth accentuating that at the moment the role of the Central Bank is actually played not only by the National Bank, but also by foreign banks to some extent, since they in fact refinance and regulate the liquidity of our commercial banks. I mean a significant growth of external borrowings of Ukrainian banks for recent years. The problem is not as much in total volumes of indebtedness as in their structure, i. e. the short-term external loans were used in Ukraine for granting mid- and long-term credits to the clients (consuming and mortgage credits). And in the period before those credits reimbursing the banks paid their debts with new loans. That pattern is succeeding under the condition when the markets are steady. But when the first problem arises, or amid crisis situations the big transnational banks «close limits» primarily for the «newcomers» on the world market like Ukraine is.

It is good to point out that the exchange currency inflows are either used on the foreign market (avoiding the domestic money circulation where the single means of payments is in our case hryvnia), or are sold to those who need, mainly to importers in exchange for the national currency, which also affects the circulating monetary stock. But when the Central Bank has to support the established (either fixed or targeted) exchange rate of national currency and gradually begins to purchase the «excess» foreign currency, it is performing a direct emission leading to inflation, that is to the growth of monetary stock. The Central Bank, that is targeting the currency exchange rate, is forced to do that even if the economy needs the reduction of monetary stock to keep the prices down. Under the system of a floating exchange rate there is not such a specification. The Central banks take care of the currency exchange rate specifically to the extent it does not hinder performing their main objective, that is to ensure the internal stability of national currency and deter the inflation growth. A very important specification is the one concerning transition to the inflation targeting. Sometimes its opponents ignore it saying that the economy in some cases needs to have the monetary stock «injected», very much like the injector injects fuel into the engine which is going to stop. But the matter is that targeting does not provide for complete keeping prices down. And the «emission» is an economic term, not a curse, which someone would like to take away from our economic lexicon. Targeting implies the assure of reaching the pre-selected, grounded, reasonable level of inflation.

And what is essential here, is to stress the word «reasonable», since the economically responsible government acts logically understanding that there are things more important than inflation. For example, social peace. There is such an indicator as Gini coefficient, or index of income concentration characterizing the inequality of incomes in the society. In Ukraine it makes about 0.4 (sometimes it is shown as 40 %), under the risk limit of public outrages of 0.7. Though we have a certain «margin», the government should think in advance about the social security. Moreover, the American scientists D. Asemoglu and G. Robinson proved that if the inequality is rather substantial, the ownership loses its legality for people, resulting in the reduction of investments [3]. Is the situation familiar? So, it is worth minding that the inflation brings about not only price increase but also erratic price increase. And the government channeling «the inflation money» to the less well-to-do tries to improve the general social and economic atmosphere in the country. How right is it? It is a question of political views. As for me, it is better to let the market do it. For example, eventually to simplify the terms for setting and running small and medium-size businesses that all the politicians promise to do but nobody does. And let the «invisible hand» of the market against the greedy «palm» of the bureaucrat be responsible. The similar tactics and strategy should be the integral part of the program of fight against «№ 1 civil enemy». That program should be developed and implemented constantly, not when the inflation is sharply increasing and is becoming the topic for discussions in modern saloons (or kitchens).

Thus, the anti-inflation measures should be of comprehensive character with exact reference to the reasons and countering actions. In our opinion, the first part should include the list of reasons and oriented assessment of the effects they produce on the rates of price growth in certain industries. And in the second part each reason should be facilitated with the countering actions and probable assessment of the effect on price decrease. In that case it will be the program of concrete actions instead of a plain enumeration of anti-inflationary measures. Accordingly, it will enable to ensure the operational monitoring and to timely respond to enforcing or mitigating of certain measures. Also, there are common recipes which could be «prescribed» after respective symptoms (price increase) had emerged without made deep analysis of the reasons. Let’s say, the standard IMF recommendations, like «expensive money» (restriction of emission) and a rigid budget discipline (absence of deficit). If those actions are implemented, eventually there will be neither inflation, nor expensiveness. But the economy itself could be gone. I happened to be in Botswana. It is one of the richest countries in Africa, if to take into account the GDP ratio per capita (over ten thousand dollars US). For several years they execute the surplus budget, and «extra» funds are accumulated on treasury account in kind of the government reserves. The country has neither inflation nor devaluation. Nevertheless, it has no the economy to be expected under that GDP volume. The country is desert-like. The people are poor, very poor. There are no ordinary roads, and no proper dwellings. Public health care and education are in embryo. In addition, water, even natural water, is in awful deficit. So, do we need those outcomes of «a sound macroeconomic policy»? Perhaps, no. Therefore, it is not reasonable to refuse from money issue, even if it is considered trendy.

Therefore, we will dwell in details on the analogy made almost half a millennium ago by the Florentine banker Bernardo Davanzati Bostichi in his treatise «Lecture on Money» (*Lezione delle Monete).* It is in his opinion, money is usually considered to be «blood of economy». Of course, any analogies are rather shy, but if we simplify the processes to the main principles, we will have the following picture. Like the blood including various useful elements assures the process of metabolism, so the money containing the abstract value facilitates the exchange of concrete consuming values among economic agents. As much as the blood is important with its different leucocytes and erythrocytes, the money is important with the value it makes in circulation. And the total value of the money is a concrete value for each moment of the development of the economy despite the amount of circulated money. Therefore, the pumping of the economy with money influences only «the weight» of a currency unit and growth of inflation, against the capitalization of the economy. In other words, in spite of the growth of the economy money emission is not obligatory. In this case the «weight» of currency unit will grow, while the prices accordingly will drop, and the inflation will be observed. What is better: inflation or deflation? Well, what is better either to have the leucocytes increase or reduce in blood? It would be better to have its constant natural structure. Though the main thing is to have the functions performed: those of blood and those of money.

Further, like the mechanism of blood circulation is based on blood pressure, the money in economy is flowing under the influence of interest rate. (I mention it again that the analogy is rather simplified, since it ignores the peculiarities of the commodity exchange, and lays stress on the peculiarities of financial capitalism). The «normal pressure» of monetary circulation is an average profit rate in economy. Naturally, if that value is real, not something like «average temperature» in a hospital. Unfortunately, the situation very much similar to that is observed here, which is conditioned by high level of shadow economy and low level of free competition. And just because of that, the appeals of economic agents and certain politicians to decrease the bank crediting interest for many tears «are up in the air». At that, the realities of nowadays Europe, in particular the EU often serve as an argument. In many other countries while facing the financial crisis undertake the reduction of interest rate. In order to understand why it is not done in our country, it is worth casting a glance at the factors which effect the norm of interest rate.

In addition to the average profit rate (more specifically – «under active operations of financial institutions») the following factors produce a great effect:

- inflation (as far as the interest rate, in principle, should exceed that of inflation, and the «real interest rate» reflects that);
- payment for raised funds (primarily deposit rates);
- demand for credits in addition to general economic state it also depends on alternative ways of capital attraction, first of all, the development of stock exchange market);
- terms of crediting (in particular, availability and quality of mortgage and amounts of bank loans, etc.)

Consequently, the program of those who wish to get reduced the bank interest rates should not include the appeals/demands to the National Bank and/or the Government, but concrete actions directed at the reduction of inflation and the development of the exchange market, which actually functions as a mechanism for redistribution of capital among the industries of national economy. It should be directed at the assure of guarantees for the rights of corporate property, that is the improvement of the system of registration and depositary accounting; also at the improvement of the banking system reliability to let its clients be ready keep their idle cash on deposits not only under low interest rate, but also for a long time. That program should accentuate that the profession of a banker should not be listed among the most dangerous, and naturally the profession of a banker should not admit tricky people (sometimes, those who without doubt should be forbidden to take that profession).

A little separate is the factor of central banks refinancing rates. If we cast a look at the USA, we will see that there is the discount rate, established directly by FRS and the Federal funds rate which is regulated directly by the FRS through the operations on the open market. The matter is that the commercial banks are obliged to keep a part of attracted from people funds on the accounts of the Central Bank (that is, Federal Reserve Banks) as the obligatory reserves. Under increase of the credit demands the excess of idle funds could drop lower the minimal point, and then the funds of other banks had to be attracted. Naturally, in that case the funds are attracted at lower interest rate than the allocated assets are, and for a very short period of time, overnight, only with the purpose to show in the «daily statement» that the requirement for obligatory reserving had been met. In the morning the life begins from the beginning, «the overnight» credits are paid back and new ones are granted, deposits are accepted and margins discounted. At night the bankers again **«** close the bank return» attracting the «overnight» credits to balance window dressing, or vice versa, accommodating them under the principle «….a tuft of hair from a mangy mare». The interest, one bank is crediting the other one is established by the crediting bank itself, and it is called the «effective rate», and the FRS rate belongs to so called «target rate», that is, it is the «desired purpose». And the FRS task lies in that to accommodate the effective (real) rate to the target one. In order to reach that goal the FRS purchases/sells state securities increasing or reducing reserve volumes in the banking system. When the excess reserves grow, a number of those who wish to borrow increases, the rate drops, and thus the FRS reach its aim. At the same time, while purchasing in the banks the government bonds/bills, the FRS increases their reserves in monetary values. In other words, the FRS in that way promotes money supply. Or vice versa it facilitates the sterilization of circulating money stock. That is so called «the invisible hand» of the Central Bank. And there could be the direct intervention through accommodating to the commercial banks credits pledged with the state securities (though, in fact not only state ones, but in our case it is not essential). That direct crediting is under the discount rate, since the FRS «accounts» or rather «discounts» the securities. That rate is usually higher the «effective rate» under «overnight credits. Therefore, the banks accommodate those credits (refinance) specifically in extreme cases; let's say when there is no way out. Why are the central banks called «the creditors of the last instance». In the English version it sounds like «the lenders of last resort facility», implying that it is, «the last hope» or «the last resort» which better reflects the nature of the central bank for the lender who had lost faith to find needed money.

In the countries of «euro» zone the European Central Bank serves that kind of resort. It regulates the rates under the «overnight» credits through two following instruments: «marginal crediting rate» (high but accessible in extreme case) and «depositary rate» under which the banks are able to allocate idle funds in the Central Bank instead of reducing its rate overnight. The ECB refinancing rate is somewhere between the above mentioned parameters, under which the Central Bank grants credits on pledged securities under repo agreement. From the view of the volumes of operations that rate «sets the pace» on the credit market and trend of the commercial banks' rate changes, the average index of which is so called «Euribor». It is similar to that in London where the historically better known to us «Libor» responds to the rates of the Bank of England. That is, the value of money on the market of inter-bank crediting directly effects the average level of credit rates in economy. It is evident that if the banks are able to get cheap money, they can credit their clients under lower interest rate. But that is *probable to be there* in the EU, while *here it is unbelievable*. That is, the National Bank refinances, and applies for that the discount and overnight rates, likewise that of under «repo» operations. In addition, there are also special programs. For example, crediting of «Euro-12» projects. However, that approach is usually argued that as a result of implemented investment programs in time the concrete product will come into being for issued money. And what if it will not? And what if it will not be demanded, that is, if the product will not become a good in politico-economic sense of this term? For example, the price for oil and gas will increase, and the cost of project will grow? And the product will become expensive and unprofitable? And what if there will be shortage of money and everything will ground to a halt? And what if…, and «above estimate» money is in circulation! In short, since there is no possibility to build a powerful state investment institution (conditionally: the Ukrainian Bank of Reconstruction and Development) the idea arises to reform the emission bank into the investment, which will be directly busy with «project financing». That idea is not new. If we look back at the times of Mobutu Sese Seko, when the Central

Bank of Kongo in the mentioned way financed the diamond recovery, and set off the diamonds into gold and foreign exchange reserves, or rather «diamond and foreign exchange reserves». But why under the rich alternatives of rates their effect on the real effective rates desires to be better…? Primarily, because unlike the well known Roman Emperor the monetary power is not able to do several deeds in one and the same time. Naturally, the triad is implied: «fixed exchange rate»- «free capital movement» – «inflation control». The matter is that in this so called «Julius Caesar trilemma» only two objectives at choice could be reached. Freedom of capital movement is not only political choice of the source of our development funding (attraction of foreign investments), but also the prescription of modern globalized economy, which could be opposed when having transited to autarky. For example, the North Korea. (Nevertheless, it did not help Pyongyang either to restrain inflation, or the exchange rate of won. Last year the latter was exchanged for new «wooden» in a rate of one to one hundred). But let us come back to the realities of globalized world: the Central Bank has one more option between the controlling (targeting) of prices (inflation) and the exchange rate. The majority of the countries (in particular industrially developed ones) refused from the fixation of their currencies exchange rates long ago. In principle, if I am not mistaken it is from the times of 1976 Kingston decisions. Those decisions in fact have played for monetary circulation the role of a certain Kingston which regulates the inflow of liquidity, in our analogy it regulates the inflow of liquid, rather «blood of economy».

Now it is time to come back to the global financial crisis and say that a dangerous virus has penetrated that «blood». In the contradiction of «the state – the man» the state has got a sudden advantage. As a matter of fact the crisis was not resulted by «the surplus of capitalism» but as a result of its «shortage». That is likely to be the first crisis conditioned by the weakened immunity as a result of disturbing of natural long-lasted equilibrium, which had been supported in the conditions of existence of the «two worlds». The crash of the world communist system brought about the situation when a dangerous excessive socialization (or nationalization) of the economy was not taken very acute, since the «bad example» in kind of «success» of socialist economy, i. e. «*the economy of deficit*» which had been observed by the western politicians for almost all the twentieth century, suddenly has disappeared. And at the moment the western countries tend to the heresy of «state intervention» into economy, at that preferring demand to supply. The results did not compel long to be waited for.

We should say that the beneficiaries at that had become not only (and not so much of) the socialized classes, like low paid qualified workers, pensioners, unemployed, pupils, and so. It is much written about say the least unreasonably excessive incomes of bankers and other financiers. And can the economy be highly efficient in the society where the masters of such «socially needed» habits like, let's say, ability to run quickly with an air filled bladder and then hit it placing in a certain place, have also record incomes? Either ability to produce pleasant (sometimes not very pleasant) sounds, and effectively moving on the stage that is highly paid? Undoubtedly the industry of entertainment has always been and has the right to exist, it has the right for its place in the economic system. But if that place becomes a throne, can the production efficiency be expected? It seems to be called like «the tail wags the dog».

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