Institutional Foundations for Searching the Ways out of Modern Global Permanent Crisis

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Abstract

Objectives: The objective of this study is to investigate the phenomenon of modern permanent crisis to develop and implement institutional foundations for overcoming this new type of crisis. Methods: Principal methods of the investigation are represented by economical and comparative analysis, methods of statistical analysis, dialectic method, method of economic analysis, method of deduction (general-to-specific), factor analysis, social and economic analysis, investment and macroeconomic analysis and also systemic and structural approach, concept of sustainable development that make it possible to consider the new global permanent crisis in most comprehensive manner. Findings: This study develops theoretical approaches that can serve as the foundations for searching the ways out of the modern global crisis. The definition has been given to the little known theory of turbulence. Global economic turbulence becomes the source of the high risks in different sectors of the economy: Financial, banking and real sector. The rules of organizing the “chaos” have been suggested. The way out of the spiral of crisis has been suggested based on the triple helix of institutional interactions between governmental authorities, businesses and science; however, there are actual opportunities for enhancing the number of the players by means of involving the progressive international organizations, interstate structures and unions. Crisis of Russian economy represents a component element of the permanent worldwide global crisis of 2007-2008, which has started subsiding by 2010 generating optimistic expectations and ideas. Applications/Improvements: The material represented in this study can be of practical value for economic scientists, academic teaching staff, post graduate students and economic professionals of any level.

Keywords: Autopoiesis, Fractality, Permanent Crisis, Recession, Spiral of Crisis, Turbulence

1. Introduction

It will be safe to say that the most important feature of the new economic reality in Russia and all over the world is represented by the new global permanent crisis.

The deep nature of the current changes enables a conclusion that a special phenomenon is observed now that represents not just global systemic but the permanent crisis that coincides in time with the modern civilization crisis which is more profound and of much greater scale and therefore, it lasts longer (permanently).

It is a well-known fact that economic crisis (from Greek krisis – the turning point) implies deterioration of the economic conditions in the country (or in the world) that manifests itself through considerable decrease of production outputs, through the destruction of the existing economic relations, bankruptcies and unemployment that result in the overall decline in the living standards and the wellbeing of the population. However, this is not just recession but also the opportunity for rejuvenation. In this regard the search for the ways out of the crisis acquires paramount importance. The significance of this study has been predetermined by the need to define theoretical approaches that can serve as institutional foundations for searching the ways out of the modern global crisis.

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2. Concept Headings

Crises as economic phenomena have been here for a long time. The first crisis in history is commonly associated with the one that took place in the Old Rome (88 B.C.). Since the beginning of the 19th century, i.e. since the time when the market relations have become relatively mature the economies of the developed industrial countries have been experiencing crises of overproduction with astonishing regularity (periodically). The first serious crisis occurred in several counties, for instance, in Great Britain (1825), in the USA (1836). However, year 1847 is already remembered for the all-European crisis and 1857 announced the first world crisis; the 30s of the last century have been defined in Soviet economic literature as the general crisis of capitalism and in the West it was called “Great Depression”.

The current crisis is not just the crisis of the modern global economy. It simultaneously represents financial, economic, ecological, demographical, social and cultural, ideological, ethical and moral crises. This can be explained by the fact that this crisis coincided in time with the modern civilization crisis which is of much greater depth and scale. It is this peculiar feature that makes it possible to describe it as systemic and civilization crisis.

Over the last decade the economic science has been paying much more attention to the idea of the permanent (from Latin permanentis – constant, continuing) crisis that is of proper systemic nature which initially seemed rather astonishing than convincing. Now this theory is moved forth and supported by quite authoritative scientists. Thus, a representative of American elite, candidate for eight presidential campaigns in the USA, renowned politician, economist and philosopher believes that American economy is indeed in the conditions of the permanent crisis.

The work belonging to V. Paulman “Economy in the grip of the elements and permanent crisis” maintains that it will be safe to say that we all have to deal with the new type of economic crisis. The article of I. Tkachev “Crisis put an end to classical economic theory” states that the current crisis “has broken the backbone of the economic paradigm that has been dominant in the brains of scientists and politicians over the last decades and there are just a few who are brave enough to say that together with the “bubble” of American finances the whole economic theory has burst failing to anticipate the forthcoming catastrophe and being incapable of suggesting any effective remedies for coming out of the crisis”.

Over the last decades there has been ever growing scientific interest in institutional theory both in this country and abroad, sometimes even to the extent of becoming a mainstream in modern economic investigations. This can be easily understood and is objectively associated with the intention to consider comprehensively and systematically the complex nature and varied forms of the modern economic and social processes and phenomena that are perceived rather differently from the perspectives of institutional analysis as compared to other scientific approaches.

Institutionalism in its most common representation is an area of the economic thought that analyzes the institutions, the interrelations that exist between them, the establishment of new institutions, the elimination of institutional vacuum, the regulations of institutional traps, institutional management, including the design of the effective institutions and the forecasting of their functions.

From the perspectives of traditional institutionalism institutional foundations are represented by the current, to a certain degree commonly accepted system of the opinions on the surrounding environment, quite stable system of the world outlook. Is it possible, based on the principles of this system, to explain all the new, complex and unknown processes and phenomena of social life? The answer is Yes and No. Yes, because this system, this world outlook model has been proven in practice, it has been shared not by one but by many generations gaining the patina of traditionalism and even, to some extent, of the routine; it serves as a guidance for action, it contains scientific, rational origin and thus, it explains the surrounding environment and the things that happen. However, every point of view, according to the laws of elementary logic, may and in this context, should be challenged with counter arguments including the most obvious one, namely, that the modern world in general, including its economic space, is developing much faster than any theory or concept developed by science; and thus, there is always a region of the unknown.

The tasks and the problems of the modern global permanent crisis have been studied in works of...

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phenomenon of modern permanent crisis to develop and implement the institutional foundations for searching the way out of this new type of crises.

3. Method

The investigation makes use of systemic and structural approach and of the concept of sustainable development. Economic methods of the investigation, comparative analysis and the methods of statistical analysis have been applied along with the method of scientific abstraction.

4. Results

The profound changes that occur now make it possible to conclude that a special time phenomenon has come to represent not just the world systemic but the permanent crisis which overlaps with the crisis of modern civilization which is much more profound and of much greater scale and which, therefore, will be here for a longer period (or permanently).

The current crisis is the crisis of the modern world order, though it started as the crisis of global virtual capital that made the economies to unleash the resources of the state budgets and to turn on their printing presses to full capacity. In the system of global capitalism the private interests of the subjects of reproduction dominate over the public interests which inevitably results in the chaos, in the spontaneity of the reproduction of public capital within separate national economies and across the whole planet.

Up to now there is a dominating scientific idea about crisis as one of the phases of an economic cycle that alternatively replaces the phases of depression, revival and growth (boom). At this background there are rather dubious efforts to provide other interpretations of the avalanche-like processes of the crisis occurring in the world economy that vividly reveal themselves in the economy of Russia. Here we observe such phenomenon as the spiral of crisis which, it seems, possesses the nature that is different from the one assumed by the phase approach and which features another dynamics of its development. Many statements of the renowned scientists and politicians testify of the fact that the spiral of crisis involves not just Russia but also and predominantly, European economy. The bankrupt countries emerged; for instance, the debt of Greece amounts to circa 150% of its GDP and if this debt is to be paid there should be annual growth by 0.5% over the next 10 years; thereat, the budget surplus should amount to something in the range of 10% which, given the current economic situation in Greece, seems to be quite problematic or even impossible.

As a hypothesis the “spiral of crisis” can be represented as permanent growth, intensification, spreading and exacerbation of crisis symptoms, as some phase of no return that is prolonged over some indefinite period (it can be very long as is evidenced by Russian and by the world experience) and that makes it impossible to come out of the crisis and to move on to the next phase of the cycle (Figure 1a).

Figure 1. Spiral of crisis.

The question arises about the reasons for this spiral of crisis, how long and how severe can it be tightened up and, most importantly, how shall we come out of this spiral, how shall we overcome it and who is the major player here? The authors of this study will try to provide the answers to these questions based on the new theoretical approaches that can serve as institutional foundations for searching the ways out of the world recession. It seems advisable that the little known theory of turbulence, which has just “started its residence” in Russian science, has to be noted in the first place. The theory of turbulence implies the phenomenon of self-organization that results in either regular or irregular chaotic shifts from disorder to order and back again, the
very complex trajectory of the national economy and of separate businesses (companies) in the “vortex flow” of various changes. The world economic turbulence becomes the source of high risks.

First fiddle in the process of generating “turbulence” is played by financial capital which flows move around the globe almost instantaneously and which are associated with the changed flows of human resources, materials and energy. This capital comes everywhere, “flows” everywhere and is responsible for nothing.

The era of the turbulently shifting conditions of chaos and order in the new economy originated at the end of the last century and has already covered the new millennium. Global economic turbulence increases the risks in different sectors: Financial, banking and real sector.

Instability of the global economy acquires the protracted character and it continuously bears the risks of yet another global recession. None of the reasons of the current financial perturbations have been eliminated so far.

In the 21st century the new rules of the game have started to be developed that are supposed to be adequate to the conditions of the economic turbulence. This is the new world economic order, new global economic system with the “rules of the game” of its own and featuring quite another dispositions of economic and political powers.

The new world economic order as an aggregate of the legitimatized norms, rules of the game, principles and institutions that regulate international economic relations and that make it possible for all counties all over the world to enjoy warranted opportunities for social and economic development, for developing scientific, technical and technological, investment and other potentials is being formed affected by a number of factors. And the determining factor is represented here by globalization.

The widened spiral of crisis can finally result in chaos which, according to the recent investigations, possesses its immanent rules, i.e. to some certain extent chaos is also institutionalized. Some rules for “organizing chaos” have already been established up to now.

The rules of organizing chaos are as follows:

• Chaos is created naturally by means of increasing the sizes of the self-organizing part of the single system of particles and then, upon achieving some milestones of fluctuation, it is extinguished in the same manner. The consequence of this activity is represented by the natural opportunity for the birth (or for the creation) of regular structures of different order, from Benard cells up to the living organisms and thoughts.

• Critical milestones of the fluctuations of the conditions of the system are predetermined by the physical dimensions of the system and correlate with each other exponentially.

• In the course of the shift from disorder to the ordered state the system regularly returns to the vicinity of the point at which it has already been before along the closed trajectory of a strange attractor, i.e. quasi-cyclically or turbulently. From this rule follows the consequence:

• Our thoughts and actions always move in the phase space along the closed trajectory of a strange attractor. That is, while we design one thing we always build something different that lies in the vicinity of the designed thing.

• The dimensions of the designed vicinity or more precisely, the extent of the indefiniteness of energetic or structural condition of the system (the scale of the chaos) is proportional to the physical dimensions of the system. The larger the system the more indefinite is the behavior of the system.

• Within the evolution phases of the turbulent development the decrease in disorder in the system is accompanied by the accumulation of energy of structural complexity within it (in society it is associated with economic growth).

• At the bifurcation points, on the contrary, some minor decrease in disorder is accompanied by catastrophic drop of energy of the structural complexity of the system (in society it is associated with economic recession) and the fast growth of disorder is accompanied by the growth of the complexity of the system. Thereat, the external effects directed at decreasing the physical dimensions of the system stabilize it and those directed at increasing them destabilize it. As a consequence, at the bifurcation points the system can easily be put out of balance by applying just slight effects and then it is almost impossible to bring order to it again.

• Creating artificial order in some certain area of closed space we mostly generate chaos in the areas that surround it.

The study suggests that the idea of the turbulent spiral of crisis should be adopted as hypothesis.

What conclusions can be made for Russia and for the
modern world based on those abstract theoretical ideas of turbulence?

In order to find out the way out of the world recession, its nature and its reasons have to be understood. Available theoretical and methodological tools of economic science will not suffice for such analysis. New approaches, principles, theories and concepts will be required and will have to be developed urgently.

To investigate the nature of modern recession the theory of autopoiesis can be used (founded by H. Maturana and F. Varela in 1970) according to which the mechanism that turns the systems into the autonomous unities is revealed through autopoiesis, the process of reproduction (self-generation) of the components of the system by the system itself in order to preserve one’s own sameness. Applying the theory of autopoiesis will help enhance the methodological basis and the subject field of the scientific investigations, identify “areas of self-revival” in the institutional environment and develop adequate mechanisms of institutional management.

The methodological basis for investigating the modern recession can be represented by the theory of complexity which generalizes the whole aggregate of the new interdisciplinary and trans-disciplinary approaches; which is focused on the processes of generation and development of self-organizing structures in the systems that are dynamic, emergent, fractal and non-linear. The theory of complexity is based on the assumption that in the theory of chaos the non-linearity and complexity are regarded as a single paradigm. The theory of complexity is founded on such basic ideas as adaptability, self-sameness or fractality when separate elements and subsystems at different levels of a single system are similar to each other; self-organization and self-regulation; attractors, i.e. the aggregates of endogenous and exogenous conditions whose correlation in space and time changes chaotically; “edge of chaos” that represents the boundary condition, a narrow area between the system which is in the condition of balance and order and the chaos that destroys this system. It is exactly in such conditions when the systems are placed on the “edge of chaos” that the processes of their self-organization start; “hilled landscape”, i.e. the uncertainty and non-linearity of the processes that predetermine the unpredictability of the environments of the systems’ co-existence, alternating “the hills of success and efficiency” with “lowlands of instability and imbalance”.

Applying the approaches of the theory of complexity it is possible to investigate the processes that occur in the complex system and that are never exactly the same, that come to balance every time at different points of the phase plane and reveal the self-sameness. The complex adaptable systems themselves possess the capabilities for self-organization; however the results of their functions can never be predetermined beforehand even to any certain degree of the estimated probability.

Considerable potential is also represented by the theory of fractals that applies this name to different structures that consist of the parts which in a certain sense are similar to the whole and thus, these self-similar structures are the recursive models, each element of which repeats the development of the model as a whole in the course of its development. Applying the ideas of fractals makes it possible to formalize complex processes and objects, which is important in the area of institutional modeling, to describe unstable systems and processes and most importantly, to predict the trends of the future development of such objects.

5. Discussion

Symptomatically, there are forecasts according to which the economy will come out of the spiral of crisis by travelling along the triple helix. This is the opinion of the professor of Stanford University Henry Etzkowitz, the founder of the concept of the “triple helix” development. The “triple helix” is understood by him as the interaction between the government, business and science, i.e. the chain “university-industry-government”. Universities prepare the human resources for developing businesses and they are the suppliers of the new experts that possess fundamental knowledge. Industries together with the government are called upon to not just use the new specialists prepared by educational institutions for the industry, but also to support and to develop the applied and fundamental science by organizing different types of science and development activities paving for themselves the way of the innovative development that has no alternatives today. It is believed that this is the most efficient way to arrange the interactions between the government, business and science in future. Universities can become the leaders of the post-industrial society without usurping the innovation monopoly.
6. Conclusion

Thus, let like be cured by like; it is suggested that the way out of the spiral of crisis should follow the triple helix of institutional interactions between the government, businesses and science; however, there are actual opportunities for involving other players as well, for engaging the progressive, civilization building international organizations, interstate structures and unions.

Crisis of Russian economy is a component element of the permanent global crisis of 2007-2008 which has commenced subsiding by 2010, enlivening optimistic expectations. However, in the middle of 2014 it came up with a bang which made the scientific world talk about the new (second) stage of the permanent crisis.

Russian economy stepped into 2016, burdened with the whole complex of the problems inherited from the previous year: The ongoing fall of oil prices, economic sanctions, poor investment-to-GDP ratio, slowdown in GDP growth and, worst of all the continued decline in the living standards of Russian citizens.

Considerable potential for overcoming the permanent crisis is seen in formulating the new rules of the game by the new players that would shape the new outlines of the global economy and the new world order. Active participation of Russia in such structures as BRICS and EAEU improves the chances of overcoming the crisis and of reaching the rising trajectory of economic development.

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