

The Nature of Crisis: Can Covid-19 Reveal the Deficiencies in Global Economy Governance?

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ARTICLE INFORMATION

Original Research Paper

Doi:

Received November. 2020

Accepted January. 2021

Keywords:

philosophy of crisis,
cyclicity,
sustainable development,
anti-crisis governance,
global economy.

ABSTRACT

The presented paper is devoted to the impact of the crisis as a philosophical and economic paradox on the modern civilization. How inevitable are crises? Are there universal methods for avoiding crisis situations? How effective are the anti-crisis paradigms implemented at the previous crisis stages of human development? These issues are considered by the authors in the framework of the study.

Introduction

The sad events of the outgoing year associated with the COVID-19 pandemic have made research on the nature of crises, ways to avoid them and methods of mitigating the consequences extremely relevant today. Probably, for the first time, since the Second World War, mankind was faced with such a global shock, which affected almost all countries and continents. The scale of the damage, both economic and social, has yet to be realized and evaluated. It is also necessary to assess the operational response of states, governments, supranational entities to the challenges of the pandemic. To what extent are the selected measures and resources used adequate and sufficient to overcome the crisis? Are the paradigms tested in previous crisis situations ready to effectively "heal" the modern world? The authors will try to answer these questions within the framework of the presented work.

Methodology

In the framework of the presented work, the authors used the following research methods:

- *at the theoretical level*: study and generalization, formalization, analysis and synthesis, induction and deduction, axiomatics;
- *at the experimental-theoretical level*: experiment, analysis, modeling, synthesis;
- *at an empirical level*: observation, measurement, comparison.

Analysis

As a rule, the current crisis has much in common with the previous ones, and the methods of dealing with their negative consequences are chosen approximately the same. A distinctive feature of the current situation is that, if earlier

the main goals were to restore the economy, rescue enterprises, the struggle to restore the payment system, etc., now there is talk about saving lives.

The problems of crises, their nature, rhythm, predictability have been worrying the minds of mankind for a long time, K. Marx introduced the concept of "limited effective demand" into the scheme of cyclical development of the economy, which, in his opinion, is an organic "defect" of capitalism [1, 2].

He proved that the cyclical development of fixed capital (renewal, aging and replacement of obsolete fixed assets) periodically creates a powerful negative synergistic effect in the form of destructive crises of overproduction caused by limited effective demand and supply of goods and services on the market. Limited effective demand (the demand of the population for consumer goods and services and companies - for machinery, equipment and other investment goods, raw materials, energy), recessions and stagnation of the economy - this is the "norm" of capitalism, its "incurable contradiction".

In modern economic science, the alternation of business cycles is considered by the wave theory of the outstanding Russian economist N.D. Kondratyev, who suggested the presence of long conjunctive waves in the development of society and thereby defined the development of the world economy as an uneven and cyclical process [3-5]. This theory was put forward at the beginning of the twentieth century and was questioned by many scientists, but now everyone has already recognized the correctness of these conclusions.

In addition, crisis is one of the central concepts of philosophy. In philosophical language, a crisis denotes a borderline state of the system, a state close to the transition of the system to a new qualitative state. In addition, when studying such courses as "Theory of Organization", it is said about the life cycle of an organization, that is, about the laws of birth, functioning and destruction of an organization.

Thus, science recognizes that there are deep-seated problems associated with the development of society and cognition, which further form the crisis. Leader's skill - based on knowledge, be ready to anticipate the beginning of the crisis and do the maximum so as not to get destructive consequences.

World markets are interconnected, managing global development avoiding economic crises has become more and more difficult, since it requires joint efforts of political and monetary authorities of all countries of the world and not only the so-called "developed" ones.

However, in the modern world, completely different trends began to prevail, such as national protectionism, trade and currency wars, which increased the risks of a new economic crisis.

Following the rapid spread of the COVID-19 pandemic, another crisis - the crisis of supply has emerged [6-9].

Over the past 40 years, the world economy has struggled and quite successfully with only one type of crisis - a demand crisis caused by stock speculations and "financial bubbles", rising unemployment, debt burden of states, corporations and the population, falling incomes, etc. The last time the world economy faced a supply crisis was during the 1973 oil crisis, when all Arab OPEC member countries announced that they would not supply oil to countries (UK, Canada, Netherlands, USA, Japan) that supported Israel during the war with Syria and Egypt.

Over the next year, the price of oil rose from three to twelve dollars a barrel, causing high and prolonged inflation in the global economy.

Next, in connection with a decrease in household income due to the closure of enterprises for quarantine and the devaluation of the ruble, a third crisis arose - a demand crisis.

The particular complexity of this situation lies in the fact that the demand crisis and the supply crisis carry different risks and must be treated in different ways.

The experience of dealing with demand crises in recent years has led to the understanding that they can be dealt with by monetary methods - by expanding the monetary base, lowering lending rates and making it easier to obtain loans.

At the same time, it should be borne in mind that the expansion of the money supply in a supply crisis only aggravates the situation, leading to stagflation - simultaneous stagnation of production, high unemployment and high inflation. The first thing that almost all states did was closed the borders, not only for the movement of citizens, but also for the movement of vehicles and goods. In fact, the global economy that has been built in recent decades has not stood the test of time.

Nevertheless, to date, the decline in early 2020 has almost been eliminated, as can be judged by the dynamics of the share price index, it is higher than it was at the beginning of the year (Figure 1). Here we use indices as a kind of indicator of investor sentiment and a barometer of the business climate. Despite this fact the overwhelming majority of stocks do not show the dynamics that the indices show, on the contrary, they are trading at lows. The success of the indices is ensured only by technology giants, their total weight in the S&P 500 broad market index (Figure 1) is about a quarter.



Figure 1. Change in SP 500 index 2019-2020 (daily data).

Thus, here it is possible, once again, to question the fashionable thesis of today "the digital economy will save the world". The economy cannot be digital. We are talking about the widespread use of digital technologies, which were known back in the days of Ancient Egypt. When the century of rapid development of technology began and steam and electricity began to act as the driving force of the economic structure, we did not talk about the "steam" or "electric" economy.

In the continue of the investigation let us consider the comparison of GDP growth with the number of cases in the developed countries with significant population and high pressure of pandemic (Figure 2, and Figure 3). The authors of the article, together with several colleagues from the Institute of Economic Forecasting of the Russian Academy of Sciences, conducted a study with the aim of obtaining threshold values for reducing the GDP of Russia and other developed countries. According to its results, it can be stated that the point of unacceptable damage to the economy is in

the range below -8.5%. One can speak of a reversal of the negative trend when it hits the segment [-5%; - 3%]. When the decline values are reached in the interval above -1.5%, one can state a recovery trend in the country's economy.

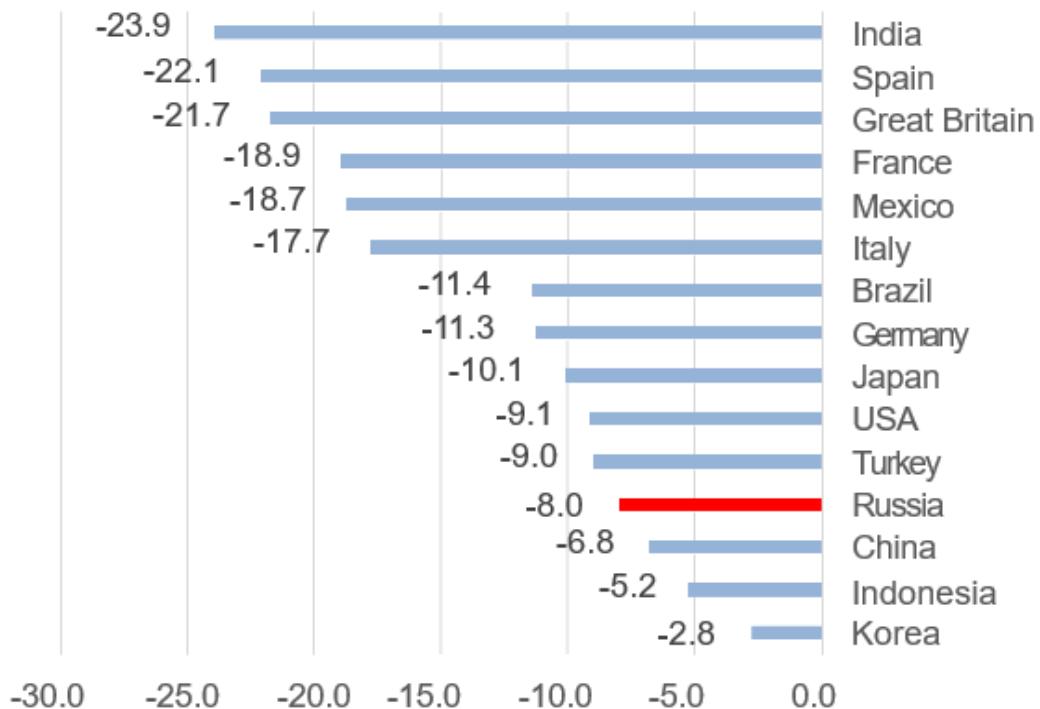


Figure 2. GDP growth, II quarter 2020, year-to-year.

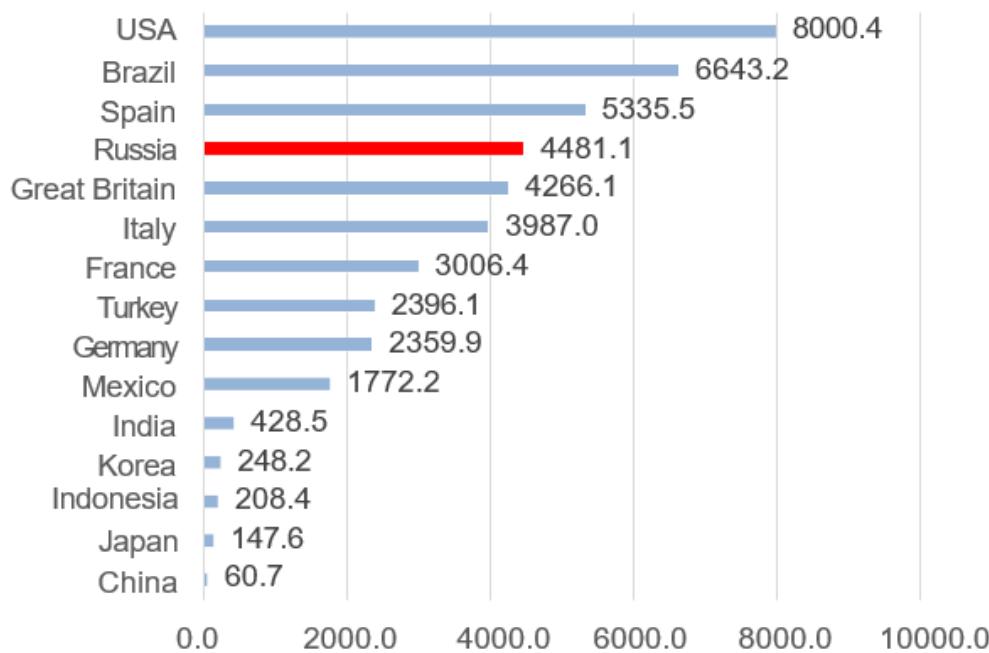


Figure 3. COVID-19 cases, end of II quarter 2020, per million.

The Russian economy was among the "best" in the 2nd quarter of 2020. Despite the fact that the incidence of COVID-19 in Russia is one of the highest in terms of a million population.

Main Conclusions

1. The cyclical approach to the nature of the crisis considered in the article looks scientifically proven and time-tested. Modern economic science since is not able to invent effective means of countering cyclically arising crises. At the same time, the indicated cyclicity with mathematical exactness corresponds to the doctrine developed at the beginning of the last century by N.D. Kondratyev.

2. Global markets are interconnected, and it has become increasingly difficult to manage global development while avoiding economic crises, since it requires joint efforts of political and monetary authorities from all countries of the world, and not just the so-called "developed" ones.

3. As has been mentioned above, the main contribution in economy indices recovery belongs to the so-called "technology giants" e.g. Facebook, Google, Amazon, etc. At the same time, it should be noted that just yesterday the digital giants carried out the functions of transferring information, but now they also claim a political role - they decide who will be the president of the country, what the election campaign will be, who will say what, etc.

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