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THREE TYPES OF FINANCIAL CRISIS

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In the article the author examines the development of financial crisis and its devastating consequences and introduces different points of view on the financial crisis. The investigation of productivity growth shows that it depends on the growth of wages and thus sheds light on the central role of the functional distribution of income in determining growth rates.

Several arguments have been offered to explain the development of the subprime financial crisis and its devastating consequences. Broadly speaking, we may say that there are three explanations.

According to *the first one*, closest to the neo-Austrian school, the Chicago school a la Milton Friedman and the so-called 'fresh-water' economists, market system works fairly well as long as market forces are left unhindered. On this basis the reason of the financial crisis in the United States was a result of series of government interferences, such as the overly low US short-term interest rates or the inducements to banks to provide loans to poorer communities, or, looking further, the crisis was triggered by the Chinese government, who rigged exchange rates, thus flooding long-term US bond markets. It is also argued that the stimulus packages put in place to respond to the crisis only made matters worse and amplified the crisis [1].

The second point of view, which is best associated with the so-called 'salt-water' economists and New Keynesians, sees the financial crisis as an extreme example of market failure and poor information. Financial innovations, such as securitization, also called the new 'originate and distribute' banking model, which replaced the former 'originate and hold' model, turned out to have unwanted consequences as lenders managed to get rid of bad loans by transforming them into securities. These failures were due in part to inappropriate pay structures in the banking and financial industry, while fraud or quasi-fraud was made possible by the gradual relaxation of financial regulation and the lack of appropriate supervision.

The third explanation, while it recognizes the validity of the microeconomic elements highlighted by the second group of economists, relies in addition on deeper structural causes tied to the evolution of macroeconomic variables, most importantly income distribution. This explanation is usually associated with non-mainstream economists. The economists who rely on the third explanation emphasize the fact that since the 1980s there has been a switch in economic policies, which have moved from policies aiming to promote full employment to policies targeting low inflation. They also emphasize the general transformation of society towards the acceptance of neoliberal precepts, in particular the increasing importance of finance and that of shareholders, a phenomenon which has been called financialization and which is associated with a 'downsize and distribute' model, where firms make profits by reducing the size of their workforce instead of increasing their investment levels. Both of these changes have weakened the bargaining power of labour, leading in most countries to a substantial decrease in the share of wages in national income, as well as to a noticeable increase in wage and income inequality.

These phenomena have led to a change in accrual of income. Whereas growth had previously been supported by a wage-led consumption, with wages rising broadly in line with labour productivity, growth over the past two decades has been based either on household debt ('*debt-led growth*') or on low wages so as to help generate exports to foreign countries ('*export-led growth*'). These regimes of income accrual eventually proved to be unsustainable.

This study offers an analysis of demand formation and productivity growth as dependent on wage growth and thus sheds light on the central role of functional income distribution in determining growth performance.

Several authors have recently highlighted that inequality may have contributed to the crisis.

Raghuram Rajan (2010) was one of the first to highlight the ties between income distribution and the crisis, but his findings were based on what we defined as the first explanation of the crisis. Rajan contends that the observed rising income inequality induced governments to look for new ways to raise aggregate demand. The US administration fostered a new 'ownership society' by encouraging credit growth and, ultimately, the subprime boom. According to this argument, it is not the rise in inequality itself that caused the crisis, but rather the government's reaction to the rising inequality [2].

Joseph Stiglitz (2012) sees this transformation as an ideological battle between the Right and the Left, with the upper economic class having taken control of the reins of government and having succeeded in achieving regulation capture, on top of having convinced voters that trickle-down economics was a fact rather than simply a theory. This has allowed the upper classes to pursue and achieve rent-seeking. For Stiglitz the negative effects of rising inequality are mostly to be found on the supply side.

Thomas Palley (2012) argues that economists and economic theory are very much to blame for the global financial crisis, because of their focus on supply-side economics and the optimal properties of unfettered markets, and ignoring the demand-generating process. What he calls 'emergency Keynesianism' – expansionary monetary and fiscal policies in crisis periods – is unlikely to succeed, because it ignores the underlying problem, that of the structural lack of aggregate demand, caused by excessively low wages and overly large income dispersion. However, he does not provide systematic evidence for this claim [3].

James Galbraith (2012) presents a novel measure of economic inequality and argues that it reflects a concentration of wealth at the very top of the distribution. It has been brought about by financial rather than real forces. Interest rates, stock market booms and international payments, but not technology or education are responsible.

While Galbraith repeatedly stresses inequality as a cause of the crisis, he is rather vague about the exact mechanisms and criticizes the Bush administration and its drive for an ownership society for a deterioration of lending standards. All of these contributions share a focus on the experience of the United States. Our approach differs, firstly, in systematically highlighting the link between income distribution and demand formation, in particular the effect of wage growth on consumption growth. This link is substantiated empirically. Second, we take an internationally comparative approach, highlighting that different countries have adopted different strategies in dealing with the rise in equality. The US debt-led growth model is only one variant among many. Other countries have pursued export-led growth strategies. Both strategies do rely on rising imbalances (the former on rising debt ratios, the latter on rising trade imbalances). A wage-led growth strategy offers a sounder macroeconomic alternative.

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MANAGEMENT OF FORMATION AND DEVELOPMENT OF THE KNOWLEDGE ECONOMY BASED ON ITS ASSESSMENT IN THE REPUBLIC OF BELARUS

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Multilevel analysis of the knowledge economy establishment in the Republic of Belarus with adapted information and analytical support is presented in this article. The main problems of the establishment of the knowledge economy in the Republic of Belarus are detected and solutions of these problems are proposed here.

At the moment, the economy of the Republic of Belarus is in transformation period, economic system of the country is being restructured. And now it is important to formulate the model that national economy should become. Note that the Republic of Belarus has no significant natural resource potential to compete with foreign countries in the world. At the same time, according to experts, it has a significant employment potential. Thus, the business model which could fully realize this potential should be used in the country's economy. Knowledge economy can serve as such model.

Knowledge economy is the highest stage of development of the post-industrial economy and the innovation economy [1]. It's the economy where the main factors are the development of knowledge and human capital. The development process of this type of economy is to improve the quality of human capital, improve the quality of life and produce knowledge, high technology, innovation and high-quality services.

The main components of knowledge economy are the following [2]:

1. Scientific and methodological support of the innovation development.
2. Development of the national innovation policy.
3. Efficient scientific and technological venture business.
4. Efficient fundamental science.
5. Production of knowledge and high technologies.