

Global Crisis: Consequences and Solution Possibilities

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Abstract: In this paper, the reasons and solutions of the 2008 global economic crisis are discussed. In the first part, a comparison of 2008 global crisis with 1929 economic crisis, the effects of each and also the differences are explained. The champions and the losers of the current crisis are interpreted. Also, the estimated duration and the expected end time of the crisis are discussed. In the second part, the effects of the crisis to the Global Economy and to some of the countries are stated. The expected effects can be summarised as, “losing of confidence in global market”, “having negative prospects”, “decreasing of the foreign trade”, “shrinking of the national incomes”, “shrinking of demand and consumption”, “increasing of unemployment”. In the last part, some solutions for negative effects of global crisis are offered. A world economic story is stated and suggested a new International Money Currency. Restrictions for the virtual Money is recommended and also some new rules on international trade and international finance system are offered.

Keywords: global economic crisis, effects of 2008 global crisis, 2008 global crisis, solutions of 2008 crisis

Definition and Reasons for The Global Crisis

This conference paper has three parts: how does global crisis arise and what conditions do it develop until today. Second, it will be discussed consequences of global crisis. Lastly, solution possibilities will be offered for global crisis.

1 –Is the 2008 Crisis, a global or local one?

To understand how global crisis arises, first, we should comprehend is the crisis global or local? In light of information in the last 3-4 months it is possible to say that the crisis we are living is a global one. This crisis is different than that of the 2001 and 1994 Turkish, 1996 Asian and 2000 Latin American crisis. These crisis were regional. The crisis we live in today is global, that is it affects the whole world.

2– A comparison of the 2008 and 1929 world crisis

If we think about the 1929 crisis, it was the first world wide crisis. The crisis of today, unfortunately, could be considered a second world crisis. Since 200-300 hundred years ago or in the 1700's, society was agricultural, and there was no possibility of the creation of global crisis. Because what we know today as being factory production and means of transportation did not exist then. Society solely existed on the sustenance of their agricultural means. However, by the end of the 1700's and the beginning of the 1800's with the introduction of the industrial era, with the invention of the Steam machine by James Watt, there arose a drastic structural change in society.

Society began to evolve from agricultural to industrial. At the same time, economic points of view were also beginning to move to a more Classical economic perspective. In a liberal economy Classical economists advised that “people should be, and people should pass”. This was based on the famous idea of the invisible hand. Or that economy, inevitably, has the mechanisms to adjust itself, and that any type of intervention would ultimately destroy this mechanisms function.

As a result the commencement of mass production and the industrial revolution lead to the typical standard of factories producing as much product as possible because the same economists thought that “every supply created its own demand”. This development and thought came from England. In turn, this idea also passed to Europe and America. However, this theory did not develop as Classic Economists had desired.

Due to mass production in factories a substantial amount of stock piled up and as a result many factories were forced into bankruptcy. This was the main reason for the 1929 crisis. In short, the 1929 crisis was industry based, the cause of mass production and insufficient demand. In this period the crisis caused in the industrial sector resulted in a crisis in the financial sector. Bankrupt factory shares had lost their value in the stock exchange. The reason for this was the parallel processing of an industrial and a financial deficit. The profit from

production made during the Industrial deficit was used to pay for for the principal and interest in the of loans in the financial system.

There was a break down of economic claims in the frame of the 1929 crisis's general economic offers and claims regulations. There needed to a balance in supply and demand. The drastic and sudden imbalance of this system was the cause of the crisis.

In order to understand the type of crisis we are in today we need to understand the structure of our society. Although today, many countries are recognized as being industrial, America and Europe are no longer considered as such but are refered to as technological societies. Since America and Europe are the culprits of today's crisis we need to further explore their infrastructures.

America and Europe have completed an industrial period and as a post industrial society have progressed to an information or technological population. As a result America's financial crisis has influenced related societies. Therefore, information regarding America's financial market directly influences the markets of countries like England and France. Thus, the crisis of today is not an industrial but a financial crisis.

This crisis, using the fundamentals of finance, still maintains the imbalance of supply and demand. Because money as a fundamental by-product of finance has caused the instability of this supply and demand relationship. More specifically either there has been a high or low demand of money. There has been contradictory points of view on this topic. Some experts in this area claim that the crisis is caused by the abundance of money while others claim it is a result of a scarcity of money. According to our opinion this crisis has been the result of the abundance of monetary funds.

3 – Has the 1929 Crisis been more influential than the one of 2008?

When compared to the 1929 crisis, it could be said that the one of today is significantly more influential because globalization is much more wide spread. The ending of the 1929 crisis, took approximately 4-5 years. The crisis of today, because it is so major and wide spread, will be much more influential than the one of 1929.

4 – Causes of the 2008 Crisis

The crisis of today is caused by the wealth of money. Thus a wealth of money does not necessarily translate into a wealth of physical money but a great quantity of virtual money.

4.1- A Story of a World Economy

This topic could be further explored in the form of an exemplary story: lets imagine that ten people live on a planet. These ten people each offer a service or product. On of them labours in agriculture or grows and sells fruit and vegetables. The second person labours in the production of raising animals for the sale of milk, meat and cheese. Another is responsible for the production of textiles. Yet another produces vehicles and another for the construction and sale of homes and buildings.

In short, all, except the tenth person, is responsible for the production of some goods or service. The tenth person produces nothing. This person has a machine, and when he presses buttons on this machine he produces a product stamped on paper used for exchange purposes. When he gives this paper to the car maker he gets a car. When he gives some of this paper to the agriculturist or the grower of fruit and vegetables, he gets produce. These nine people with the paper they have recieved use it amongst themselves to exchange their products. This story could directly relate to the situation of today. This story is called "**Ekmel Theory**". The pressing of money must be based on some regulation as it was before. However, in 1971 with the abolish of the Bretton- Woods system everything had changed.

4.2- The 1944 Bretton Woods System

In 1944, there was a small town in the US named Bretton Woods. An international money system was accepted there. According to this system the US was pressed money depending on the US gold reserves. In this system, 1 ounce of gold was equal to \$35 or 1 US dollar was equal to 0,88867 grams of gold. International trade was handled by the US dollar that was pressed depending on gold reserves of the US. If there was demand on gold the US would provide it. This system was active in 1944, however, in 1971 was abolished. Today, there is no requirement for the US to press money depending on gold reserves. The system was basically abolished because of the dependance on gold reserves and press money was blocking the development of world economies and international trade. Thus, this rule was cancelled. Any country could press any amount money, however, international trade did not have the same acceptability or values. Today, there are two accepted money currencies: the Euro and the American Dollar. Other country currencies are not valid in purchasing goods or services in international trade (Seyidođlu, 2003).

4.3- Industrial or Financial, an Abundance or Shortage of Money?

Our global crisis is a financial wealth of money crisis. There exists groups who control or own the world financial market. These groups are wide spread in America and Europe and could be called the proprietors of globalization. The proprietors of globalization, although in reality consisting of many groups, could be categorized into two factual groups. The proprietors of globalization played with all their worldly assets and then exerted these valued assets beyond all highest expectation.

4.4- All assets were played with as if in the stock exchange and within 5-6 years their values increased 2-6 Fold

Since Stock shares represent the value of a company, a company must increase its "real" value. Although sometimes the increase in value of stocks is not dependant on "real" gains. This type of increase is a speculative one. A company, for example, with a realistic growth of 10% to 30% could hold stocks that represent the company may have increased in value five fold. The same type of specualtions have been made in stocks of petroleum, iron, and copper. For example, a barrel of petroleum within 5-6 years (2003-2008) has increased from 25 US\$ to 150 US\$ (İncekara, 2009). In the same time a ton of iron has increased from 300 US\$ to 1500 US\$. A ton of copper has increased from 25 US\$ to 150 US\$ (Tuduk, 2008).

In the same manner real estate property value in the US has risen from 8 trillion US\$ to 20 trillion US\$ (Tarhan,2008). If these prices had risen in terms of an inflation it should only increase 30-40% because in European countries inflation rates could be 2-4%, in America 3-4% and other developed countries are observed at a steady 5%. Within 5-6 years of this type of inflation a 30% increase would be the possible outcome. In light of this information petroleum, copper and iron or real estate do not reflect true gains. However, these abnormal gains were not problematic in those days.

4.5- Instruments of derivatives: $Two\ to\ the\ third = 2 \times 2 \times 2 = 8$ $Two\ to\ the\ fifth = 2 \times 2 \times 2 \times 2 \times 2 = 32$

The aforementioned abnormal increase rates has not been with actual currencies but with virtual money. As a result, these gains have been a devlopment based on derivative instruments. As known the derivative instrument is a financial instrument that does not increase money volume arithmetically but geometrically. This instrument frequently used in America has commenced and caused the wide spread global financial crisis because these instruments (generally used in corporate equity and mortgage based documents)are sold and bought in the global financial pool. These instruments have been observed in the large financial market transactions of investment corporations, hedge funds, and retirement funds. However, the development of the basis of the instrument, or real value, has been observed to be significantly different than the instrument itself. For example, a home built with a mortgage of 100,000 US\$ has lost its relationship with the application of the instrument, the paperwork that represents the 100,000 US\$ home has risen to 300,000 US\$ with the buy and sell procedures within the financial sector.

International accreditors like Fitch, Moodies, and S&P exist to evaluate the aforementioned procedures within markets and their pools. These accreditor firms have noted investments with AA and AAA scores. This way, investments have been known to increase. Also, insurance companies like AIG have been known to insure these investments and instruments. This way the return of money is also insured. Another important issue is the lack of audit or inspection. As a result the crisis of today has arised within the loss of real instrumental value and the existence of accreditor and insurance companies.

4.6 - The Glass-Steagall Act of 1933

The Glass-Steagall Act was enacted in 1933 USA. With the act came the prohibition of bank transactions within the stock exchange and the use of derivative instruments. However, it's interesting that this act was dismissed in 1999 and banks were permitted to transact within the stock exchange and were allowed to issue derivative instruments (Yıldray, 2009) .

The crisis of today commenced with the Lehmann Brothers' September 2007 claim to bankruptcy. The announcement of the Lehmann Brothers' bankruptcy, exclaimed exageration, and was the symbol of a company that went through and failed in an unreal market. After the Lehmann Brothers many investment companies,insurance companies and corporation giants like GM were left in difficult situations. For example, in a short time, the value of GM went down from 20 billion US dollars to just 1,8 billion US (Anatolia Agency, 2008).

For this reason, the crisis of today, is not just a mortgage or investment crisis, but in general a financial crisis that is affecting the globe. For example, the Foreign Minister of Kuwait, in the recent past, has claimed the loss of 2.5 trillion US dollars in Gulf countries (i.e. Kuwait, Dubai, and Katar) exemplifying the magnitude of the dimensions and spread of the crisis.

5 – Champions and Losers of the Crisis (4 Groups)

Another valuable question, whether or not this crisis arose on its own or if it was knowingly controlled? And who are the champions or losers in this crisis? There are three possibilities. The first, is if the crisis has arisen on its own in an uncontrolled environment? Then the global market has lost as a whole. The second, the crisis was under control and one of the aforementioned markets won and the other lost, respectively. The third possibility is that the crisis was controlled and both markets prospered.

In this crisis the winners and losers could go into two groups. The first champions are the ones who franchised the money press because with the fall of the financial markets came the weakness of the real sector, the industrial and service sector and other real assets. For example, petroleum at a rate of 150 US\$ quickly falling to 40 US\$ stands at a currency rate of 55 US\$. At the same rate, a Turkish home valued at 500,000 TL has fallen to 250,000 TL. For this reason, those who own a money press could benefit from worldly assets, and can take advantage of offers when costs go down. The second group of winners are those who own a vault and a desk or those who still use cash. All asset prices fall and when the once valued 20 billion US GM falls to 1.8 billion US, it becomes possible to own.

The first of the losers are factory, corporation, and holding owners. Their losses are in proportion to their business. In other words, big corporation owners' losses are greater than those of smaller corporations. For example, Forbes's World's richest people list consisting of Husnu Ozyegin, a rich Turkish Businessman, was no coincident. Because right before the crisis he was the owner of Finans Bank. Just before the crisis he sold it for 2.7 million US dollars and while he held the money, fresh in his hands, the crisis began. The second group of losers are those who hold investments. Those who hold shares in American government, corporation or investment bank stocks would be considered disadvantaged since it is unknown what or whether or not they will pay or get paid.

6 – What is the duration of the Crisis? Has it hit rock bottom ?

How long the crisis will last and when it will hit rock bottom are important questions to ask. It will end eventually. When it has hit rock bottom it could bounce back in three ways. Either in a V- shape, a U- shape or a W- shape with the later two possibilities it could end for good. Three possibilities are in question. The first option, if the two global market actors have won and they are in gain (have profit), the crisis will last 1-2 years, hit rock bottom in 2009 and bounce back in a V-shape. The second possibility, if the two global market actors, one winning and the other losing, the crisis will last 3-4 years hitting rock bottom in 2009-2010 and will come back in a U-shape. The third option, is if the global market actors are both in the red then the crisis could last 5-10 years hit rock bottom in 2015 return in a W-shape and possibly cause war.

The world by the end of 2007 and in Turkey since October of 2008 has recorded global economic information on a daily basis. With this information we have composed a global crisis journal. If we were to look at this journal we would see that upto mid April of 2009 we have received only negative news reports. However, with the bad news upto mid April we have received few but good reports after this date. In our opinion, not only in Turkey but in the world the crisis has not ended but has come closer. The bottom of the well and the end of the tunnel are visible. With positive good news, alongside the wide spread (bad) news like the bankruptcy of corporations, joining of corporations, and the sale of corporations, we will hit the bottom of the crisis.

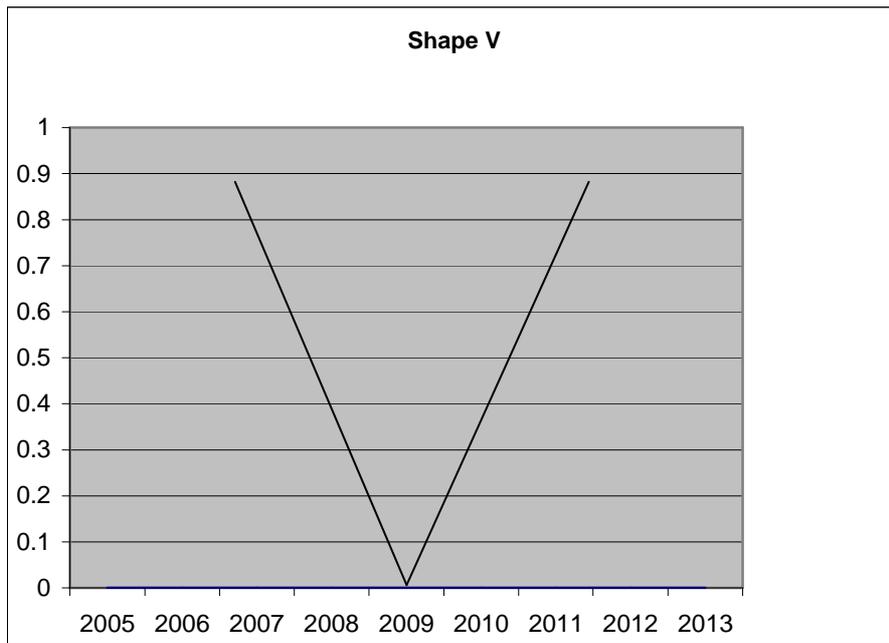


Figure 1: Shape V

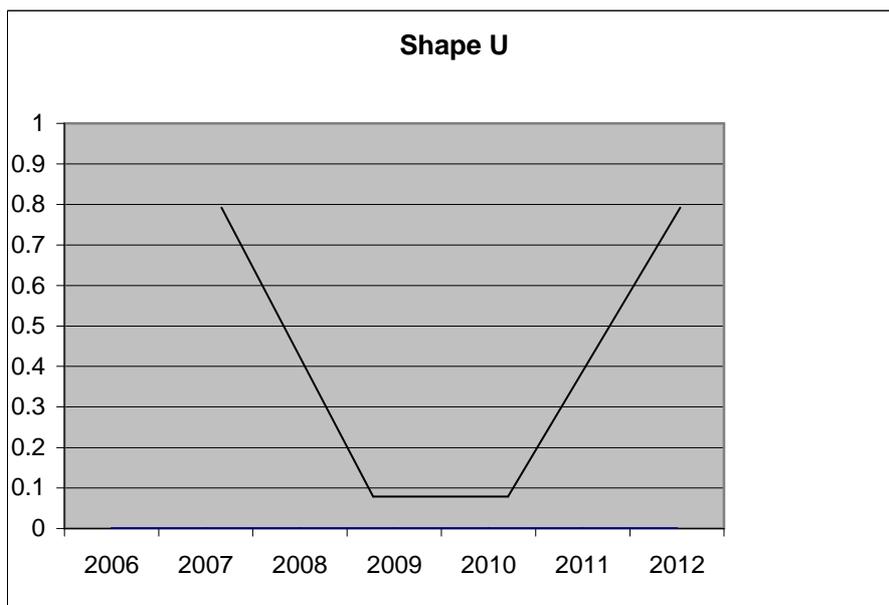


Figure 2: Shape U

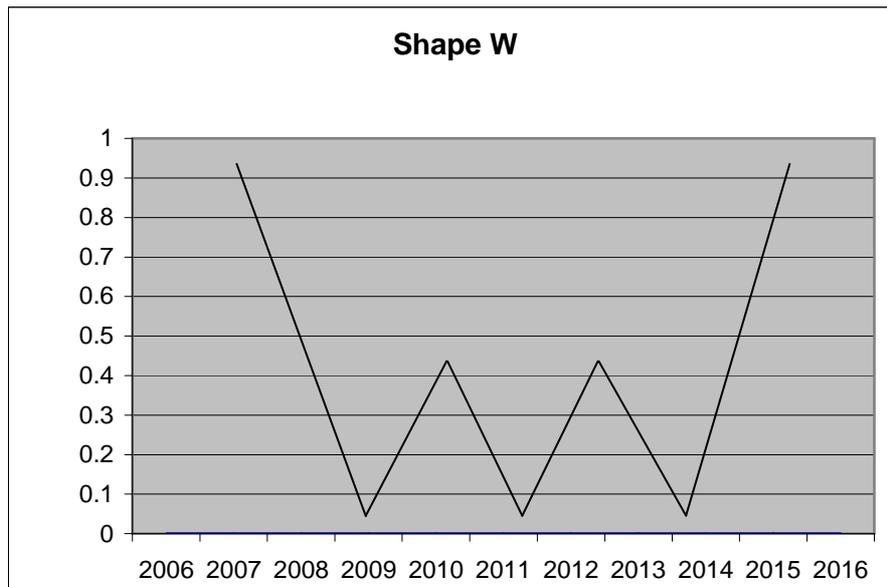


Figure 3: Shape W

Consequences of the Crisis

1- Security Problems in the Market

The first consequence of the crisis is the issue of security and trust. With the initiation of the crisis the entire world suffers from a lack of trust and security. At the moment individuals have a difficult time trusting each other. For example, banks have no trust corporations they do not give out loans. In the same frame no one relies on checks. People do not trust each other. As a result trust in global terms is at a loss.

2- Negative expectations

The second consequence of the crisis is the negative affect on expectations. Individuals choice to not consume products has a negative effect on the economy. As a result prices of goods have gone down. Moreover, it may be said that we could be faced with a deflation.

3 – Consequences around the globe

The third consequence could arise among countries. Developed countires are foreseen to be more influenced in comparison to developing or non-developed countries. For example, the US, the UK, France, and Germany, will be the most influenced countries while Turkey is seen as a country that will be less affected by the crisis. Thus, Nigeria, Sudan and similar countries will be less influenced. The reason behind this is that their integration in the world economy is less, compared to the others.

The fourth consequence of the crisis is in countries where export is more than imported products which would have a negative effect on the economy. Countries where export is greater than import will suffer with the weakening of global trade. For example, countries like Japan, China, and Germany. The most disadvantaged are especially Japan and China where their economies are dependant on export. Another effect of the crisis is in regard to global national profit of 60 trillion US\$ has decreased to 30-40 trillion US\$.

4 – Effects on Turkey

Because this global financial crisis has its roots in America and Europe the arise of the crisis in our country should not be the fault of the government. The responsibility of our government takes place after the fact. In other words, the government has the responsibility to take care while in crisis. As a result, our government is not at blame for the crisis however, if the crisis has had negative effects the government should be questioned. If there are consequences and negative outcomes as a result of the crisis then the government should be held responsible and could it could be said that they were not capable of directing the country.

This crisis is considered to be a world financial crisis. When global financial sectors crash, banks and then industrial sectors begin to go bankrupt. This situation did in not take place in Turkey but has taken on an

interesting twist. In Turkey no bank goes bankrupt, but in 2008 every bank has made a profit and to say that there is a financial crisis would be false. However, there is an industrial and real sector crisis. In comparison to the world crisis, Turkey's prosperous financial sector demonstrates an awkward turn of events in the industrial and real sectors.

The reason for this is financial cuts and the existence of foreign banks not giving loans. As a result the prime minister stated that the crisis would be mild over the country and not allow it to break down, but the crisis has more than skimmed over the industrial sector. The difference between the world crisis and the one in Turkey is based on the holding of funds from the financial to the industrial and business sectors. However, because the industrial sector has lost profit and unemployment has gone up the financial sector will soon negatively be affected as well.

The low flexibility of essential products such as bread and rice will not be much affected by the crisis. However, sectors that produce furniture, computers, and automobiles, products with high flexibility, will be influenced. To say that the crisis will be mild in the industrial and business sectors is an overstatement.

The high quantity of foreign banks in Turkey is the internal cause of our crisis. Moreover, the 2001 crisis, in terms of Turkish banking systems, had positive outcomes. However, because of the abnormal number of foreign banks in Turkey, a normally disadvantageous crisis has become much more.

Solution Suggestions

Solution suggestions could be grouped into 3:

1. what the world needs to do
2. what Turkey needs to do,
3. what corporations need to do,

1- What the world should do

I would like to tell a economic story. First we should accept that the crisis arised because of fictional money concept, not real cash money. Therefore, fictional money should be eliminated. The USA achieved that in 1933 and 1934 with precautionary measures. However, in 1999, to produce virtual money those precautionary measures legal acts abolished, thus the crisis was unavoidable. For this reason the development of virtual money and ties to derivative instruments have been forbidden. Another problematic point is that the world trade is done in Euros and US funds. The use of specific currencies gives those countries undeserved distinction and authority. For example, America can press its own currency as it wishes and in return buy goods and services from the whole world. In the same way, those countries involved in world trade prefer to use US dollars.

For this reason, the system is rotten and has been observed to fail. Therefore, a central world bank should be established or the United Nations should establish a currency that can be used worldwide.

In other words, there should be an international currency used worldwide. For this to be realized, every country's contribution to the world national profit should be considered. For example, the contribution of the US to the world national profit is 14 trillion US. Turkey's contribution is 700 million US. Every country does not contribute equally the currency profit is based on an individual basis. Thus, the whole world's contribution and control over one currency would provide a trustworthy monetary system, thus, soon there will be more insight into this area. There is positive feedback on this topic. For example, the most recent G-20 meeting in Russia claimed such an offer. In the same concern, China also made similar requests. The first commentary on these requests was made by the US because it would be hazardous to its own wealth.

2-What Turkey Should Do

In summary Turkey should use precautionary measures. The ending of the crisis should be foreseen. To reach this goal, consumption must be re-originated because of the reduced demand caused by unemployment and negative expectations. Reduced consumption and demand causes no sales or production by factories. Therefore, they dismiss employees. Unemployed individuals induce a reduction on consumption and demand. This is a vicious circle that should be eliminated. The worldwide economy gets diminished. Economic graphs demonstrate a decrease of profits. Urgently, Turkey should take precautionary measures. Turkey should convert its own economic graphics into a V or U-shape.

Turkey must be one of the first countries that should do this. There are three steps; first, the crisis has ended the campaign by the media. It must furnish a secure environment and positive expectations into markets. Due to negative expectations those who have money do not spend it.

The second is to increase the money supply. It has to be handled with foreign funds or with the pressing of money by a central bank. With the increase of money supply, real sector must be supported. This will increase production and investment. Moreover, an increase of money supply would increase demand and consumption.

A third step is for the government to cut taxes and make compulsory levy cuts or payment should be delayed. Consequently, money will still be in the market, indirectly, and the money supply will increase. Here we should be careful about liquid deficit. If, there is no secure environment and positive expectations in markets, liquid afflux will cause deficiency. If liquidity increases through foreign funds, the Turkish Lira will gain value. With the central bank pressing money inflation will arise.

To eliminate these risks, national products should be produced and consumed. In other words, importance should be given to national goods and industry not foreign goods. How we are going to do that.

3- What Corporations Should Do

1. They have to guess the rock bottom of the crisis. And they have to rearrange their budgets.
2. Their budgets should be based on a six month period not one year.
3. They have to reduce credit loans. They have to give more importance to their equity capital. It means they could be lessened.
4. They have to produce and sell products that are in demand and whose flexibility is less than others.
5. Expenses should be reduced in a quick manner because earnings and revenue will decrease.
6. They have to find new customers and markets.
7. They have to organize campaigns in order to increase demands and consumption of consumers.
8. They have to increase efficiency of the work place and labour forces.
9. Functional flexibility should be increased.

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