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NEW APPROACH TO ECONOMIC CRISIS EXITING POLICIES; MERKEYNESIANISM

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ABSTRACT

The world's economy has been trying to overcome one of the most important crises in its history, as of the early 21st century. The period starts with the collapse of Mortgage practices and followed by the fading of important American and English financial institutions, is not promising for a recovery period to the world economy. Even though experiences gained through the previous crises have already led us to the creation of various schools of economic thought in the history, aforementioned schools of economic thought does not bring up a solution to the contemporary complex economic crisis globally. Economists have not been that successful as they tried to *apply to their own countries or to international financial institutions, other countries' schools of economic thought during the last four decades*, which would also mean that the world's contemporary economic crisis might not be explored with the application of the previous practices from the literature.

This study presents a discussion on the ways of how countries could exit the 21st century's crisis that thoroughly affected the world's economy by giving an importance to a new approach to school of economic thought, and also an exploration on whether this new approach through combining the Mercantilist and Keynesian policies could be successful or not.

Key Words: World crisis, Mer-keynesianism, Mercantilism, Keynesian policies, Fiscal policies

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1. INTRODUCTION

The world has existed in the past, exists in present and will exist in the future too, so in all experienced or to be coming economic crisis exiting policies applied for the first time or based on previous experiences shall be undertaken. In the last crisis, policy makers and policy implementers supported the idea of increasing social utility and transforming it into individual utility, rather than transforming individual utility into social one. The 21st century's economic crisis, one of the biggest in world's history, made a shock over the global economy in such a way that it still remains to be answered. Due to the boast of the USA's low and unchanging interest rates requests for loans, and also to the collapse of mortgage practices together with the disappearance of financial organizations would not let global economy to recover. Even though the experiences gained through the previous crises have already led us to the creation of various schools of economic thought previously, those aforementioned schools of economic thought have not yet presented a solution to this complex economic crisis globally.

On the other hand, the United States and European Union countries have raised the level of crisis competition lately. While the American government is busy trying to circulate the national currency Dollar by increasing its value, European Union countries are busy trying to maintain the reputation of their common currency, Euro. In the period of 2008 economic crisis a lot of developed and developing countries gave signal of returning to Keynesian policies in order to be affected less by the negative effects of crisis. Developed countries by keeping a big portion of their reserves in gold, especially China and India together with other countries that continuously invest in gold, see and direct their source of wealth to precious metals as Mercantilist school does too. This study will discuss the ways countries want to exit the 21st century's crisis that thoroughly affected the world's economy by giving importance to a new approach on school of economic thought and explaining whether this new approach of mixing the Mercantilist and Keynesian policies will be successful.

The policy named as Mer-Keynesianism is not a new proposal to the economic policy. It might be evaluated as an overall policy that takes place in economic history, and as they are applied together that would forecast the results of the amount of the 2008 crisis deficits will be closed. As the cause-effect relationship among previous economic crises in the history was explored and compared, unclear economic policies take an important feature. Especially after a period when a financial sector that offers a complex content and also tries to direct the real sector, another period starts and the application of policies turn to be questionable. Another aspect that shall be considered from that condition is that together with the process of developing technology and globalization in a model of self-sufficient economy, a model that could affect all countries' markets might be derived. I will furthermore explore the contribution of both schools of economic thought and try to evaluate their effects on 2008 world economic crisis.

2. MERCANTALIST AND KEYNESIAN APPLIED POLICIES

Mercantilism, as a fact? Model? Approach? Concept?, deals with economic events as a whole and concentrates on supply oriented models. This model firstly considers the importance of government intervention on foreign trades, the concept of government protection and the essentiality of precious minerals. The predominant economic thought represented by mercantilism after the Middle Age**,** was criticized in the book of Adam Smith ''Wealth of Nations'' and its representatives were considered as the pioneers of Physiocrats (Savaş1986). Mercantilism is considered to be as the pioneer of practical applied-economic policies, and during its period of time it became the cause of important wealth sources that are to be collected in Europe. Mercantilism, as a stage in between feudalism and capitalism, includes three basic components: strong and national government, the desire of large profit by holding the ownership of precious minerals, and foreign trade. These three components of mercantilism shall always be taken into consideration as necessary principles which need to be connected to each other (Tekelioğlu, 1993).

Mercantilism, includes the development of exchange economy, was created through the five principles as represented below (Wolfe,1981):

- The economy and welfare of nations are connected to population growth
- An increase in a country's precious minerals shows the country's wealth and strength
- An active foreign trade policy requires to be followed
- In national economics, foreign trade and industry are considered more important than agriculture
- The government should use its military and economic policies to increase national welfare

In sum, mercantilists use foreign trade and precious minerals to show their national wealth and declare that such policies would increase the welfare.

Other policies that are applied to overcome 2008 global economic crisis, are considered as the proposals of demand-directed Keynesian policies. Keynesian school of economic thought is an applied policy includes the post-war period in the beginning of 20th century. After the war, as of the period of the great depression Europe and the USA, considered as the centers of trade, faced with the great economic shock. Classic theories that supports the constant full employment of economy were not able to solve the unemployment problem appeared during 1920s thus started to lose trust. During the period of crisis Keynes opposed the idea that in an economy of elastic wages and prices a condition of full employment could be achieved by itself. With his demand-oriented economic policies, Keynes supported the idea that short-run instability which has no effect on economic progress should be eliminated and with the aid of public expenditure and tax policies an effective demand that determines the level of employment and production is required (Friedman;1971). The general theory of Keynes revived the macroeconomic analysis that is neglected by classic schools of economic thought.

The basic assumptions of Keynes (Skidelsky;2011)

-The macroeconomic disequilibria can be removed by adjustments on total demand. They accept that supply conditions stay out of the influence zone of economic policies.

-In order to prevent the negative effect of disequilibrium in the private sector, a government intervention should be applied. The applied monetary and fiscal policies with the aid of their effects on total demand composition and amount will provide the desired economic equilibrium.

- According to Keynesian economists, fiscal policy tools are more effective than monetary policy in terms of the influence on aggregate demand.

- Keynes emphasized that economic events will be implemented in short-run, and the amount of productive constant capital will not change.

- Supporting the view of full-competition, Keynes neglected different-sized monopoles and wage-price policies.

- The general theory composed by more static analyses and dynamic analyses has been neglected.

- Keynes focused on unemployment based on demand inadequacy. The inadequacy of capital capacity and the foreign exchange of a bottleneck ignore the level of unemployment raised from the total supply.

- Keynesian economic theory adopted the general price level as given. Uncertainty and expectations have had an important impact on the theory’s core and the level of private investment spending has been affected by these two factors.

- Besides all the assumptions of Keynesian theory, it emphasizes that in order to ensure economic stability the role and function of the state in economy needs to be increased.

The representatives of the Keynesian school of economic thought supported the need for an active source of distribution, equal distribution of income and wealth, stable economic structure, balanced budget and equal balance of payment in which government should actively intervene. According to them, the government claims that application of different policies will be an active position over the total demand (Rogers; 2008) In order to achieve a total employment state in an economy, government should determine an intervention policy. Contemporary fiscal policy tools are mostly representatives of the macroeconomic theory of Keynes. Keynes’s perceptiveness on government intervention is one of the most important reasons of why public sector constantly rises. On the opposite of the perceptiveness of balanced budget the theory of compensated budget application is supported thus the opportunity of spending without being taxed is provided. Borrowing in order to finance public expenditure and emissions were found and implemented for the first time within this theory.

After 1929 crisis tax policy had been the dominant interventionist approach, the collected taxes began to be used for economic and social purposes by the government. Demand-oriented tax policies had been found use in the form of restrictive or expansionist policies. Restricted tax policy is used to eliminate the effects of inflationist pressure whereas expansionist policy to eliminate the effects rising up from the lack of demand (Güngör;1998). The application of expansionist fiscal policy is important in terms of state intervention in the economy. Keynes defines fiscal policy as the basis of macroeconomics. Considering the policy implementation in both theories state intervention can be observed.

Developed world economies, as it was explained previously in that study, are sourced by foreign trade. Trade originated from production has left its place to trade originated from finance. The provided profits were focused on valuable paper earned from exports from other countries. Mercantilists declared that precious metals have been transferred to valuable paper nowadays. The demand of valuable paper, used for a nation's loan or to finance new investments, was estimated as being directed towards the vast profits gained by natural resources and production potential. The foreign trade between countries in the mercantilist period has been active and the importance of private sectors on foreign trade has also increased. Nowadays instead of rich countries rich companies are on the agenda. Moreover China, as one of the most important actors in the global trade, has increased the demand for the precious metal of Gold. India, on the other side, is one of the countries which demand the highest level of gold amount in world's gold trade. Today the production of profits directed towards valuable papers and gold have become the symbol of power.

On the other side, the view of Keynesian economy related to governmental intervention and fiscal policy and its policy recommendations become a current issue on 2008 crisis. Moreover, the current implemented fiscal policies are in question in terms of whether being Keynesian or not. Particularly, the content of IMF bailing out policies is constituted by expansionist fiscal policies in order to finance high level of budget deficits. Fiscal discipline is considered as an important key factor in order to overcome a possible repetition of any crisis. Structural reforms, social security reforms and budget reforms support this policy. During the 2008 global economic crisis, the solution of the problems generating from the lack of demand primarily might ensure the smooth functioning of credit markets and lead the economic life of public interventions, proving that the effectiveness of Keynesian thought is certain evidence. Especially during the period of crisis increasing nationalization and the formation of new funds were strengthened. A major part of the issues of 1929 crisis defined by Keynes came on the scene of 2008 global economic crisis. In particular in the period starting with George W. Bush and continuing with Obama's demand-increase policies and arrangement of financial system with government intervention shows that the perceptiveness of general economics was alienated by Keynesian economic principles(Çolak;2011).

One of the results of the global financial crisis was the sharp interest rate cuts whose way out of the recession were applied policies left with no influence, which was also named in Keynesian theory as liquidity trap (Cochrane;2015). The interest policies that support increase of the demand during 2008 global crisis were faced with liquidity trap, and the 2008 global crisis is different from the 1929 Great Depression in this regard. During the great depression era when liquidity trap was brought forward for consideration, dollar was exchanged with gold. During these years, the low interest rates, the process of directing individuals to gold and their expectations which caused by a decrease in the price of debenture bonds was considered natural. However the fact that today any type of money that cannot be exchanged, has brought a different perspective into liquidity trap(Cochrane;2015). Accordingly, the low level of interest rates and money supply expansion has led individuals to make savings rather than to spend. In this case, even though there is a rise in the amount of deposits the growth in the amount of credit demand is not enough.

In a market where demand is decreasing, increasing production capacity by new investments might not mean a lot. On the other hand, economies with low interest rates as a result of monetary expansion, earn profits while countries with high interest yields are turning to outside sources. During Keynes period, having too much of capital movement would cause the extra injection of the liquidity in the USA and EU countries to flow towards economies with high interest rates. Briefly, in order to stimulate local demand and production that was injected liquid into the market will contribute to economies with higher interest rates. But with a difference, over-evaluating the aforementioned currency of the country may damage the country itself.

The policy implementers, that supported the idea of an interest rate cuts during the global crisis might not be sufficient, directed the rescue packages through the intervention of the state. Beside the need of transparent information in the content of the before-mentioned rescue packages, share purchases, increase in the value of lower-value assets, the purchase process to finance the non-performing loans, subordinated loan practices, tax cuts, an increase in social spending and concentrating on sponge-style infrastructure projects are some of the measures taken in order to stimulate the market (Akgüç;2009). All of these applications show that the basis of Keynesian theory which is considered as government intervention. During the 2008 global crisis outlook on markets began to change direction. The reputation of the idea that markets could repair themselves no longer prevailed. In the following period, in order to reach market regulation, a high level of importance was given to the audit system between the countries. One of the biggest factors of the global finance crisis was having unsupervised world markets.

3. MER-KEYNESIANISM

The essence of policies working against the effects of the global crisis of 2008 consists of measures that include Mercantilist and Keynesian policy recommendations. In this context, during the crisis turning the attention to precious metals as well as the use of intervention tools in the public sector seems to support these predictions. In the period of 2008 global crisis, countries generated moves that supported both of the theories. The new version of Mercantilism was the reserves of foreign exchange and gold which were a country's strength component in case of undesired situations. The amount of reserves in a country in terms of investments is also considered as the mechanism of assurance at the same time. Since the USA and the UK central banks' currencies carry a global importance they are not kept as reserves. The reserves of both banks are kept in gold. Mercantilism was actually never abandoned, since the weight of reserves in developing countries has been usually kept as foreign exchange.

The real value of precious metals market in the mercantilist period were represented directly in the form of real money. Nowadays it is not precious metals which represent the source of mecantilist philosophy, it is treasury bill. According to the data given by the World Gold Council, the USA and Europe own 64% of the World's total gold reserves. The country that owns the highest amount of the gold reserves is the USA with 8,133 tons and 26% of world's gold reserve. Coming next to USA is Germany with 3,373 tons and placed in second place while IMF is placed third, Italy is placed fourth with 2,451 tons, France takes the fifth place with 2435 tons of gold and in sixth place is ranked China with 1842 tons of gold (WGC;2017). As it migt be understood, most of the developed countries still have a mercantilist philosophy behind. The process where many developing countries give importance to gold, rather then diversity of exchange currencies, reflects the lack of confidence on different currencies. This condition is considered to show how the accepted power of a currency in world is still protecting its value with the power of gold as stated in mercantilist thought.

During the process of exiting 2008 global crisis dedicated to the fundamental predication of Keynes policy, it was first the USA and then many other countries who sought solution in government intervention. In the bailout process of many countries during the crisis, guaranteeing money in deposits and liquidity had been fully supported. Many banks and investment banks that gave low-interest credits were transferred from the established nationalized funds. In the period of crisis, the ineffective monetary policies began to be supported with the help of fiscal policies. The first method preferred, provided an increase in consumption spending with the help of tax cuts. The applied fiscal policies during 2008 were directed into compensating the damages of the private sector as one of the most damaged. The social policy dimensions of Keynesian school were not effective in this direction. The 2008 crisis in this aspect reminded the supply-oriented economic policies propositions. One of the most important results of the 2008 crisis is related to the fact that the process of market forces cannot be managed. Because the idea of markets exiting from crisis on their own apparently was not considered as enough, the Keynesian policy recommendations gained a prevalent position. Later on, in the post-crisis period, the developed countries of G20 agreed on the application of the expansionist fiscal policies in order to exit crisis with less damage. It was then obvious that this was an insufficient policy to be applied on its own.

The process, came up after the decision, became the period that questioned the effectiveness of fiscal policies. In fact, the government during the 2008 crisis sees the economy as a stabilization element. The complex structure of 2008 global crisis was not fully explained by Keynesian policies. However, it is recommended anti-inflationist activist policies that are considered as the only way to exit crisis from policy implementers were an interesting approach (Bocutoğlu;2012). No matter which type of macroeconomic policies has been supported, both Mercantilist and Keynesian theories during periods of crisis still support the need of government intervention. Especially Keynesian theory, in terms of crisis measures gives importance to government intervention and demand-oriented policies. In such way, Keynes thinks that expectancies will be more rational.

The USA and European countries that lead to the world economy, in order to be rescued from the traumas of the 2008 crisis, started to discuss again the role of the governments. The unsupervised way that transnational firms which represented free market economy started to exploit brutally during the crisis, by using different financial tools, the country’s economic resources. All eyes were directed at the protection tools of the state. In particular, the idea that the effect of fiscal demand-oriented policy elements will still ensure justice in unstable markets and risk distribution just by using government intervention in globally, is still predominant. The latest crisis has also brought up a new discussion. Central banks that do no handle the process and remain uncontrolled and unable in terms of policy implementations have led to the discussion of the quality of state’s bank. In the process of crisis central banks did not undertake the role of state. Briefly, in the 2008 global crisis, the rise in foreign trade and the high-rate profit, instead of unsafe currencies and financial values were directed to precious metals according to mercantilism. Keynesian fiscal policy implementation and both schools’ proposed that state interventionist application area include observations found by these policies’ implementation.

4. CONCLUSION

It is now obvious how the implemented economic theories during period of crisis are not applicable to the dynamic world conjuncture, and therefore it is suggested to find new economic policies that would applied and adjusted better. Economists have mostly focused on heading towards new solutions instead of making debates on old theories and deriving a solution out of them. Success, transparency, and new management may become possible with the help of information sharing. On behalf of reassuring financial markets even on transitional periods, steps through government control require to be taken. Government intervention perceptiveness that is the basis of Mercantilist and Keynesian economics is so important that might not be ignored. 2008 global crisis left totally aside past economic theories. That was a time which was not just the world economy that got into crisis but also past economic theories. Economic theories do not just come up with the results of mathematical economic principles. Economic theory should nowadays include traditional community structure, crisis traditions and social responses that include socio-cultural and psychological features.

All crises show that in the periods of search for solutions economic theories are insufficient. Together with 21st century came into life many global crises which can be overcome only by global-sized solution suggestions. Global solutions approach compressed on the axis of the insufficient consumption or financial demand, instead of easing the solution, leads to a complex outcome. Bringing global demand into an adequate way does not mean that a global equilibrium is achieved. As long as problems like global income distribution and global employment have not been figured out yet, a global equilibrium would not be achieved. In particular, the basic principle of 2008 financial crisis was directed to accelerate searches on finding reforms needed for the global finance and economic system. There has not been yet a common view regarding to reforms’ content and scope. The basis of the philosophy on global economy has brought modern economy principles to suitable state. It is exactly here where radical sized global financial policy content feels the need to include state intervention. The government by putting on the first plans its supervisor characteristics over global economy should actualize fiscal and monetary policy applications that can control capital flows.

Today's world economy includes the level in which financial sector peaked. The risk created by the financial system is in the upper levels and suitable to spread. The distorting effect of the risk, which includes the real sector of savings-investment balance, comes due to the instability of the credit markets. This situation is a courier of collapse as a whole. In order to prevent the distribution of income and profit inside the axis of uncertainty methods as preventing the conditions of financial instability using government interventions takes an important place. Besides the fact that state is the source of economic instability itself, it has at the same time the power to prevent it. The main duty of a state is being responsible for increasing the welfare of individuals in order to achieve full employment in a broad sense.

The functions that modern economy has assigned to the government fills up the absence remained from private sector. In this respect, the central banks that direct monetary policies and carry the quality of being state banks, together with price stability and interest policies application produce at the same time policies that do not disrupt payment system and that support the formation of capital in an economy. Monetary policy alone is insufficient to ensure financial stability that is why policies that include income flows in an economy and control production units shall be applied. This would be considered as the content to a modern state intervention concept. The basic feature of Mer-Keynesianism recommendations is not to apply a government interventions based on suggestions of previous economic theories but to create an expectation of government understanding that solves the results of instability with a well-managed model.

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