

1 Fundamental Causes Of Financial And Economic Crisis And Its 2 Overcoming

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6

7 **Abstract**

8 The article deals with the fundamental methodological and theoretical ideas of market
9 economy. The logical core of the market economy (ME) and its functioning is briefly
10 described. From these logical bases of ME basic principles of its right functioning are deduced
11 And from there is deduced how the contemporary practice of ME and market society disturbs,
12 subverts these principles. The consequence of such disturbing of the logical core of the ME
13 could be its partial and even total collapse. The current financial and economical crisis is a
14 warning example. It is necessary to implement and to restore in practice fundamental
15 principles of market economy in order to resort present crisis and to avoid future great - even
16 fatal risks. And this will be mainly the role of states and international institutions.

17

18 **Index terms**— free market, financial crisis, economical crisis, methodological analysis, free exchange,
19 information, symmetry, risk, overcoming of crisis, long-rang

20 The basic building block, the essential relation of ME is free exchange instantiated in the relation of purchase
21 and sale. If the exchange is really free, it takes place only if it is advantageous for both sides of exchange. Only
22 such exchange acts as the right selfregulator and the moving force for desirable development of economy. Thus it
23 affects by a balanced objectification of profile of the needs of the buyers motivates and profiles a desirable structure
24 and capacities of economy. To guarantee this free exchange, so essential for ME, after bourgeois revolutions some
25 prerequisite social (political, civic, state and legal) mechanisms were given rise to.

26 Because of the violation of free exchange, of its dynamic balance, indispensable information completeness and
27 symmetry, the very basics of ME are being distorted, its principles are being subverted. The distortion of the
28 free later must end by its distortion in a Author : University of Prague, E-mail : vrecion@volny.cz great extend
29 or even exchange directly deforms selfregulative functioning of ME (i.e. "Invisible hands" can't work) what
30 sooner or by the collapse of the whole ME and capitalist society. The serious symptom is contemporary crisis (
31 but also -such symptoms for the future probably more serious mostly ecological crises are e.g. the traffic collapses
32 in cities).

33 The contemporary practice of ME and civic and political society esp. lack of proper, truth information and
34 different kinds of pressures on the parties of the exchange constrains, distorts or destroys the free character of
35 exchange. There are both objective and subjective contributing factors: -Distorting are disinformation about
36 money in exchange and non -transparent financial practices (mortgages, loans) on the side of sellers that mainly
37 have caused contemporary global financial and economical crisis -The growing technological complexity and
38 sophistication of products and their use in society tends to require better and broader knowledge and education
39 of buyers and we see a growth of discrepancy between general education, culture and required technical and/or
40 scientific knowledge of the buyers. This objective but for the ME negative trend is deliberately used, abused and
41 amplified by biased advertising, medial and political manipulation. The objectivity of decision-making, esp. on
42 the side of the buyers, is subverted by disturbing and limiting their objective perception of the object of exchange,
43 the all of its relevant qualities, incl. consequences of its long-term (worrying example is cosmetics etc) and mass
44 use (motorism, tourism etc). It can causes even substantially worse economic crisis in future (after 15-20 years).

3 III. THE LOGICAL CORE OF THE MARKET ECONOMY

45 The main goal of the article is to show on solid methodological and theoretical base how esp. and honest)
46 international bodies that must be properly organized.

47 For a deeper scientific insight into the ME and its fundamental problems a deeper methodological approach
48 is needed. It is also fully valid for the economy that there's nothing more practical than a good theory. And the
49 good theory can not be created without a good methodology.

50 1 II.

51 2 TO THE METHODOLOGY OF ECONOMY

52 One of the most general methodological ideas of science is, that the all in this universe is built on principles of
53 logical simplicity, logical unavoidability and elegance -beauty, and the all relatively stable parts of reality are
54 built on relations of polarity and symmetry.. These ideas could substantially contribute at the analysis of logical
55 core of market economy (ME.) and its functioning.

56 The ME is methodologically suitable subject for such methodological approach because its mechanism clearly
57 shows signs of logical simplicity, logical unavoidability and elegance. But in this article we'll be looking at the
58 postulates of polarity and symmetry in ME only.

59 We label this general methodological approach as a general theoretical -logical method (GTLM). Its use in
60 research of the ME means, that if we try to find the logical core of ME, which would eventually imply general
61 laws of ME, we have to find and analyze at first the simplest and the oldest social relation, which came into
62 being as historically first in the phenomenon (called now) ME. The "Big Bang" for the ME was the appearing of
63 a general equivalent = money, which enabled the first social relation to come into being -the relation of purchase
64 and sale, in the other words, relation of exchange of money for goods (products, services).

65 The relation of purchase and sale represents the microstructure of ME. It is the primal building block of
66 ME. This can also be seen as an instance of the before mentioned general principle of simplicity. It is not by
67 chance that similar general theoretical and logical procedure (GTLM), was at least implicitly used by the great
68 economists, who have elaborated sufficiently complete, logical and practically useful theories of ME (Smith, A.,
69 Friedman, [1], [2], [3] and some others).

70 From the very beginning of the ME the structure of the relation of purchase and sale has been the same. This
71 relation shows general features characteristic for any (relatively) stable material, energetic, dynamic structures.
72 Among these features they are especially the features of polarity and symmetry. The polarity and symmetry are
73 necessary requirements for creating of any, even relative, dynamic stability of a phenomenon. In our case the
74 relation of exchange requires this polarity and symmetry not only for the own existence but also for creating of
75 relative, dynamic stability of the whole ME which is built on this primary relation.

76 3 III. THE LOGICAL CORE OF THE MARKET ECONOMY

77 The relation of purchase and sale (its basic, most widespread form -type I, see further) is built on the relations of
78 polarity and symmetry, in other words the polar symmetry between the buyer and the seller. (which is in principle
79 the same as the polarity of particles in the microstructure of matter). The buyers and sellers are "attracted" by
80 interest in a product (its purchase /sale/) and at the same time "repelled" by the opposite interest in the price of
81 the product. These forces = interests, polar and in principle symmetrical, create this relation. Intensity of these
82 counteracting interests is being balanced and stabilized during the deal of free exchange. A particular balance of
83 interests is created by negotiating the exchange (esp. price) of the product, i.e. negotiating a particular symmetry
84 of exchange.

85 In the macroeconomic scope, numerous buyerseller relations of a special kind of product are stabilized in an
86 abstract dynamic equilibrium -in a certain tolerance of general price. We say, that the value law enables us to
87 state an average (probabilistic) price of product from a number of relations of the free exchange relations of a
88 given ME in a given time.

89 The law of value is an abstraction -it is an attribute of generally valid methodological principles, that we can
90 see in it elements valid in the physical principles of quantum indeterminacy and locality (deeply analyzed in both
91 theoretical physics and mathematicsbut methodologically applicable also in theory of ME). It means, that even
92 in ME there are phenomena (commodities, customers, parties of exchange etc) quantified and we = observers
93 can these quantity perceive only with some probability and we don't always have to consider the ME of the
94 whole state or world but only adequate local surroundings of a particular exchange. We can consider that as the
95 "principles of the indeterminacy and locality in economy ".

96 The polarity and symmetry of individual relations of purchase and sale are also the necessary prerequisites of
97 necessary stability of ME segments and the whole ME in their aggregation. This stability is of course relative to
98 the place of exchange, product development and it changes dynamically in time.

99 The methodological criterion (applicable also in economy), whether we have grasped the real core of a
100 phenomenon is that we can speak about it in a simple and clear manner. Undue complexity and of course
101 obscurity is always a sign, that we have some factual or logical lack of knowledge about the phenomenon (or that
102 we lie). Let's add that a well grasped phenomena can be visualized and this visualization (usually in some Thus,
103 the primal and simplest relation in ME is a relation between two subjects: the seller (S) and the buyer (B) ,

104 their structured values, interests, features etc. are depicted by the structured oblongs. The subject of exchange
105 will be marked as (G) =goods, its various properties are marked by a structured circle around G.

106 **4 Pict. 1**

107 This relation is created on a polar symmetry (the perpendicular line in G marks its axis) which is the condition
108 for its existence, balance and stability. Polar symmetry means, that there is a stable counteraction of at least
109 two forces of two entities (e.g.: gravity. ???" centrifugal force).

110 The relation between S and B is polar, S and B are two entities between them counteract some partial attracting
111 and repulsing relations -forces.

112 B is attracted to S by his interest in goods, which will satisfy his needs, S is attracted to B by his interest to
113 gain the general equivalent -money -in exchange for his goods, to satisfy his other needs. Both parties are thus
114 "attracted" due to their needs, due to complementarity of needs. This "attraction" is marked green.

115 At the same time S and B are being "repelled" from each other by their opposing interest in price of the goods:
116 S is interested in maximization of price and B in its minimization -this relation is marked red. The both of these
117 counteracting interests are of course relative, These elements create polarity of relation and this relation must be
118 in principle symmetrical esp. in the aspect of forces (attractive and repulsive) to create needed stability. During
119 asymmetrical compensation of needs and interests (e.g. because of pressure, which deforms these attractive and
120 repulsive forces from the outside), such exchanges either don't take place at all or necessarily are disbanded soon.

121 Initiated by axiology the needs and interests of the seller (S) and the purchaser (P) (whose structure are marked
122 by structured rectangles at S and P), their relation of exchange is accomplished by physical "intermediators",
123 i.e. by language or other communication means (being marked by the outer bows) and space transfer of goods
124 towards P and of money towards S.

125 The exchange is implemented when the relations between S and P are balanced (by the mentioned "forces"
126 -even only in subjective appraisal of S and P). The exchange is reached and the relation influencing by state of
127 the market, psychological and other factors. ceases to exist (the legal implications of the accomplished exchange
128 we left aside here).

129 The exchange is fulfilled in the point of balanced interests and influences of S and P. The balance is a result
130 of a fundamental symmetry in the construction of the examined relation of purchase and sale.

131 In the market economy the relations of exchange concerning concrete types of commodities (money is also a
132 commodity) represent a mass phenomena and by continual averaging out (even by a

133 The elementary primary relation of ME -the relation of purchase and sale -can be further analyzed in many
134 regards.

135 Since Chammurapi's times we recognize 4 kinds of the purchase-sale and/or money spending relations. They
136 differ one from another according to whose money is spent and for whom:

137 Fundamental Causes Of Financial And Economic Crisis And Its Overcoming subjective estimations) the law
138 of value and price movement function.

139 **5 Pict. 2**

140 In order to evaluate these particular kinds of purchase and sale, first of all we have to define the criterion of
141 evaluation according to which they act positively or negatively regarding ME development. As for ME this
142 criterion can be probably best defined by our demand: to have economy that creates maximum of needs that
143 are subsequently satisfied by it as much as possible. Thus, when evaluating, we consider how much a particular
144 kind of relation (or any economical element) contributes to such demanded economy. marked in red). If I buy
145 something for myself paying with my own money, I perform the utmost effort for as low expenses as possible
146 (marked by +) to acquire an optimal (maximal) utility value (marked by +, too). Then by + we mark rational,
147 effective acting and by -we do the opposite in accordance with the criterion described above. So, in relation I,
148 my attempt is to minimize expenses and maximize acquired utility value. 1 necessary even for ME itself that
149 the purchaser is equipped with as much knowledge as possible about the selling goods not only from the point of
150 view of his individualized utility values but also the general utility values of such goods. It becomes increasingly
151 important to know how the bought goods influence life not only of buyer but of the whole society and in addition
152 in a longterm horizon (e.g. cosmetics etc) and at mass use (e.g. cars etc). (According to author's experience,
153 e.g. the ex post discovered individualized and also general utility value of his bought car in Tokyo was zero if
154 not even negative -and it could be only worse in future. And it is not by chance that automobile industry was
155 strongly hit by contemporary crisis) This is supported by many reasons and it could be here generalized and
156 abbreviated by formula "to keep sustainable economical growth".

157 The information symmetry between S and P is the prerequisite of a correct running of relation I. S must
158 be objectively informed about the quantity and the quality of the money received and P must be objectively
159 informed about the quantity and the quality of the goods received. The symmetry (and actually the existence)
160 of relation I demands that the truth about commodities exchanged be an economical imperative. The truth
161 about commodities exchanged, thus, is not only an ethical demand but also the immanent economical category
162 -imperative in ME.

163 At the same time, the logic (and namely the mutual polarity) of relation I implies that the selfinterest of S
164 and P is the foundation stone of ME. S and P must try to get the maximum from the other side of the money as
165 well to the recipient of the value). And exactly this is the relation that represents the basis of state economics,
166 state funds spending.

167 The state, in fact represented by a group of bureaucrats, obtains money from taxpayerscitizens,enterprises
168 and it spend it for other citizens, institutions, companies etc. The most of the bureaucrats can't be personally
169 vitally interested in the maximal purposeful money spending. In addition the feasibility of various kinds of
170 manipulations and corruption is an inseparable part of relation IV logic. Many politicians and bureaucrats are
171 magnetically attracted by this possibility (so to say the opportunity makes the thief). Therefore the corruption,
172 thefts are integrally incorporated into "iron logic" of the relation IV i.e. also into the state money spending.

173 The responsible state (and also big companies) must therefore permanently and carefully organize anticor-
174 ruption activities.

175 In addition the state is basically an anonymous subject and as the owner and supporter of institutions, as a
176 services provider, as property keeper and investor has necessarily lower work efficiency in comparison with an
177 individual private keeper, entrepreneur.

178 The mentioned rules valid for individual (buyer, seller) are also valid mutatis mutandis for private enterprise.
179 The more is applied the relation I into the all its activities, the more efficient the enterprise is. The employees
180 of a small company are able nearly to identify themselves with company and act there according to the relation
181 I. (The number of employees of such "beautiful firm" is maximally 100, also Fundamental Causes Of Financial
182 And Economic Crisis And Its Overcoming exchange for the minimum of their own assets if they want sufficiently
183 exist in the environment of ME. All the moralistic theses about great altruism are, thus, in contradiction to the
184 "iron logic" of the ME.

185 The relation II. is worse from the point of view of mentioned criterion of ME. It can be demonstrated for
186 example by buying your work colleagues birthday presents. You try to minimize the expenses (+) but you do
187 not care so much about the utility values, design etc the given things (-). That is why the birthday present you
188 have got have seldom some utility value for you and you mostly do not know what with them .

189 According to the relation III, when somebody invites you for a dinner you do not try to minimize the expenses
190 (-) but you choose your dish carefully (+).

191 The relation IV is effective least. Somebody who spends somebody else's money for somebody else is not
192 (vitally, deeply because it is not his money) interested in minimizing the expenses (that is why marked by -). At
193 the same time he is not interested (vitally, deeply and in addition he normally can not know well the needs of
194 somebody else) in maximizing the utility value that is bought (again -). And yet more, there is an opportunity
195 for various kinds of deception, corruption in both directions (towards the source of psychologically we can have
196 maximally this number of closer acquaintances.) That is why "the small is beautiful" in ME. Therefore the bigger
197 companies is better to divide into smaller units, each of them to be managed financially separately.

198 Yet others principal truths, laws, can be deduced from the analysis of this basic "foundation" relation of the ME.
199 A society, an economics that function maximally on the implementation of the relation I, i.e. Leistungsgesellschaft,
200 with the really free and fair market are naturally wanted by the strong, i.e. able, health,, young, hardworking etc.
201 individuals. On the contrary the old, sick, or somehow disabled people tend to a socialized, redistribution-oriented
202 society i.e. to the society based on relation IV.

203 With that in mind, it is then quite natural and not unethical if you change your politically-economical opinions
204 and convictions even radically, from the right (relation I) to the left (IV) and vice versa according to your
205 individual circumstances and abilities throughout your life. The similar pendulum behavior can be said about
206 the collective subjects, nations and states. If the subjective and objective conditions are favorable, they tend to
207 the relation I., if not, then to the relation IV. These pendulum changes could have deep and long-term influences
208 in a nation's or state's life and can be clearly Let us now look at the types of purchase and sale (I -IV) also as
209 far as polarity and symmetry are concerned.

210 The relation I is polar and symmetrical and that is the main reason why it legitimately represents the building
211 relation of ME.

212 The relation II is non-polar and asymmetrical. S is interested in minimization of price of the "given" product
213 and P (actually the one who gets) is interested in maximization of value of the given product G but this as well
214 as the price can not be normally influenced by his will.

215 The relation III is the inversed relation of relation II and therefore it is valid vice versa the same as above.

216 The relations II and III then can not be the "building" relations, core stones of any economy. Being
217 asymmetrical, they can never become holders of any long-term balance, stability or even self-regulation by their
218 own. In ME they act only marginally, being additional and "derived" from the dominant relation I. Moreover,
219 these relations must be regulated, checked, though only afterwards and externally by participants of relation I.
220 (A company checks its salesman's expenses, a father checks his children's pocket money spending etc.)

221 The relation IV is symmetrical but non-polar (or possibly very little polar). It represents the relation in which
222 the attractive force (towards the goods for somebody else) and also the centrifugal force (towards the price -it is
223 paid by somebody else's money) are selling goods on the side of the buyers connected with bias advertising and
224 yet by subsidy, dumping etc.

225 The symmetry (in terms of mathematical theory of groups) means that if changing the relations in a

226 phenomenon, there are some relations that can not be changed -which unfortunately is actually happening
227 in ME.

228 Moreover, the disruption of polarity and symmetry in the basic ME relation implies that ME function without
229 sufficient self-regulation. Then it is necessary for the states and international bodies to take corrective (now
230 unfortunately sometime unsystematic) measures concerning ME.

231 The role of civic society as well as of the states is to assure really free character of exchange i.e. that the
232 purchase-sale relations will be really free, fair, independent, polar and symmetrical.

233 Otherwise the market economy would be doomed to end up in various "traps", where it would be confronted
in longer run namely with the ecological limits. ¹



Figure 1:

234

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Relation of Purchase and Sale

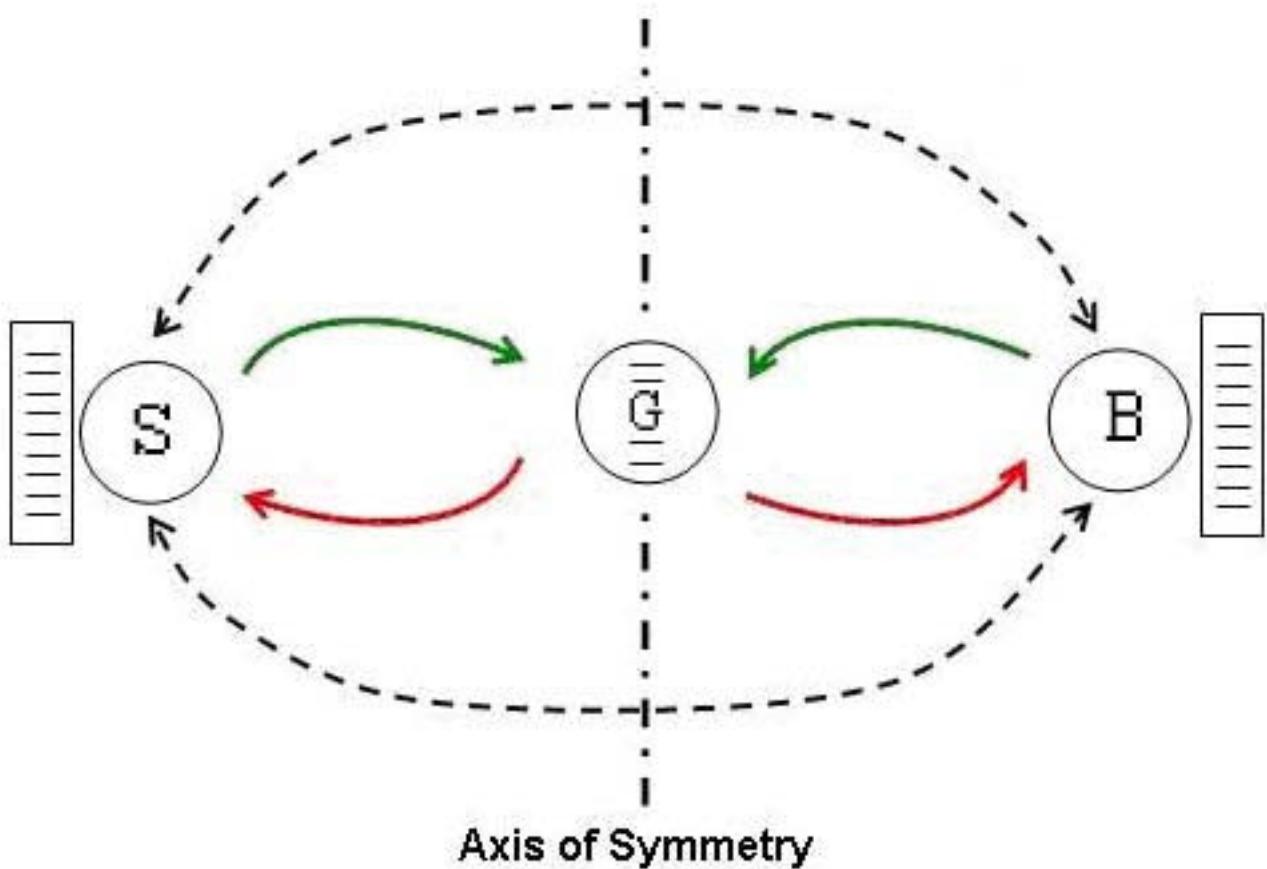


Figure 2: Fundamental

Relation of Purchase and Sale

whose money	for whom spent	
	for you	for somebody else
yours	I. +	II. +
of somebody else	III. -	IV. -

Figure 3:

235 Fundamental Causes Of Financial And Economic Crisis And Its Overcoming observed in history. very weak.
236 This relation of symmetry is in fact the symmetry of "unconcern" towards the goods and the price.
237 Should this relation has a polarity and a symmetry "strong enough" to be the stable and balanced relation of
238 a stable economy and society (and thus become similar to relation I), its polarity and polar symmetry must to
239 be brought to economy "from outside "by non-economy forces: by moral-political means, by power forces. The
240 relation IV alone can't function well as a self-regulator of economy.
241 As for the relation I representing the building relation of ME it is crucial to monitor and protect its polarity
242 and its versatile symmetry, which is important role of civic society and the state.
243 The above said implies that ME is prone to various threats. The constant threat of ME is an excessive usage
244 of relation IV in economy. The much worse threat is that the symmetry and the polarity of relation I, both of
245 them representing the prerequisites of a dynamic stability of ME, are being more and more disrupted.
246 Nowadays, this basic relation is being disrupted namely by information asymmetry, above all by the lack of
247 truth information about money and in future about the
248 [Friedman ()] *Capitalism and Freedom*, M Friedman . 1962. University of Chicago Press.
249 [Friedman and Friedman ()] *Free to Choose*, M Friedman , R Friedman . 1980. New York, London: Harcourt
250 Brace Jovanovich.
251 [Smith ()] *The Wealth of Nations*, /1776, A Smith . 1930. Methuen & Co., Ltd.