Multidimensional analysis of determinants of global economic crisis

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Global economic crisis is a major challenge for economic analysis. While its process and main elements have been described with details in both professional media and general circulation publications, many questions have not been properly addressed yet. This paper attempts to present detailed analysis of peculiarities of the functioning of financial organizations, which led to development of critical situation as well as of the judicial, political, criminological, sociological and psychological factors which had created an unprecedented circulus vitiosus.

What was motivational background of erroneous strategic decisions, made by top management of major financial corporations? What was institutional framework, which implemented these decisions into banks operations? What is the corporative culture, which enables undertaking of excessive operational risk? Does ownership structure effect operational principles? What was the role of governmental agencies? Who was supposed to execute control and why there were no effective control measures? Who and why had taken controversial decisions related to providing governmental funds to private enterprises? Why some banks were saved, while others were left to collapse? These, and other questions, related to the mechanisms of global crisis will be discussed.

Chronologically the crisis might be divided into five stages. Each stage is going to be interpreted in terms of interaction between stakeholders of financial organizations.

1. Foundations of the crisis were laid down between 2003 and 2006. Recovery from financial crises of 1997-98, and 2001-02 was swift and produced no lasting effect on decision-makers. First subprime credits were awarded already in 2003, and their number had increased to at least 3 millions by 2006.
2. First signs of the crisis per se had appeared in the spring of 2007. This stage had lasted till the end of the year with huge losses of major US banks, Citigroup in the first place setting up the basis for global crisis. These signs were neglected for many months, no actions were taken.
3. Six months between fall of such major investment corporations as Bear Stearns in March of 2008 and Lehman Brothers in September of the same year had shown the extent of losses.
4. US Government had made a decision to bail out major financial institutions. More than 1000 billions dollars were allocated, and transferred to banks, principal realtors and insurance companies, as well as to largest car makers. Other governments (Russia and China among them) and EU had also stepped in, assisting banks and trying to stimulate consumption plagued by recession.
5. Seemingly last stage of the crisis had started in the summer of 2009, losses of banks are diminishing, production grows, trust has been at least partially restored. Recovery however will take long time. Some facets of economy are still indicating worsening of the situation. Unemployment should be mentioned in the first place.

There are several attempts to address conditions, which lead to the crisis. Legal regulations and tougher state control over financial institutions should be mentioned. The author advocates application of basic Keynesian principles in creating international crisis preventing system.

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