

Chapter 25

Theory of Shocks About States in Static and Dynamic Economics

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ABSTRACT

The place of the state in the theory of shocks is predetermined by the increasing importance of the subjective component of the processes of self-movement of systemic integrities. The main problem is that the state formalizes the actions of subjects as economic agents, abstracting from social conditions that generate the individual values of a person implemented in the economy. So, the economic subject acquires its own individual values in a society with a sharp polarization of citizens' incomes, inequality of opportunities, a shrinking middle class, and an ineffective public healthcare system, as demonstrated by the coronavirus pandemic. As a result, a fundamental problem arises of the discrepancy between society and economy as well as formal and informal institutions that predetermine the opportunistic behavior of the economic subjects. Thus, the state persistently strives for financial stability in the economy, abstracting from the problems of social disunity.

INTRODUCTION

The state has a special role in the self-organization and self-development of systemic integrity in technology, economy and society. It is necessary to start with the fact that society initially made the state responsible for a number of functions, which R. Musgrave conditionally reduced to three main groups: (1)

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allocation of resources; (2) economic stabilization (subject to cost-effectiveness) and (3) (fair) redistribution of income (Musgrave, 1959). Their implementation was provided by formal institutions classified as public goods. These phenomena accompanied the process of self-organization of systemic wholes, which was distinguished by the dominance of the object component under the conditions of the law of unity and the struggle of opposites and an increase in the importance of the subjective component at the time of increasing quantitative changes to form their new quality. As for the state, throughout the static changes in technological, economic and social systems, its functions were financed from a part of the GDP created in the economy. It is in this regard that the functions that somehow contributed to economic growth were paramount in terms of budget expenditures. It was about effective allocation of resources as well as about economic safeguarding (equilibrium). As for formal institutions, their focus on ensuring economic and financial stability was also seen as an unconditional imperative. Moreover, this approach to the role of the state in national systems remained unchanged, despite the transition from the formation of the basic structure of real markets to a structural hierarchy at the expense of money markets, financial markets, etc. In other words, if from the point of view of the object component of self-organization, the integrity of the economic system was strengthened by complementing the horizontal structure by building a vertical structural hierarchy, then the functions of the state remained unchanged. In other words, if, from a theoretical point of view, the structure objectively had to adjust to systemic changes in order to preserve its integrity, then the state, performing some semblance of structural functions, also had to change. However, it remained unchanged. This could not but affect negatively the state of the system as a whole. Economic balance and financial stability remained the priority of public policy, and this was the goal of formal institutions providing the functioning of real and financial markets. In other words, this conservatism of government actions objectively contributed to the shock destruction of structural ties as a result of the COVID-19 pandemic.

As the importance of the subjective component of self-organization processes increased, the fragility of the system increased not only due to the vertical separation of cause-and-effect relationships between different structural levels, but also due to the inflexibility of the state and of the formal institutions it created. In addition, as the vertical of the structural ties of the economic system increased the importance of the subjective component of self-organization processes in the process of replacing the material support of financial transactions with the subjective “trust” of partners in transactions. The state overlooked a significant point related to the fact that in the more frequent cases of shock ruptures of structural ties in the financial markets, it was the subjects who implemented shocks and gave a start to subsequent crises. And this meant that the state, in many respects, due to the non-adaptability of formal institutions, accelerated shock breaks, since neither the mechanisms of positive and negative selection, nor institutional instruments in the hands of the state were able to organizationally resolve the contradiction between the growing differentiation of financial transactions (objects, subjects, processes, etc. phenomena) and their integration in one form or another of dialectical relationships. However, the main reason for the unintentional participation of the state in generating shocks as a mechanism for the implementation of dialectical laws at the stage of self-organization of economic integrities was its lack of understanding of the need to establish dialectic interrelationships between formal and informal institutions as well as between the economy and the society. Their conflict was based on abstraction of the state from the main essence of self-movement of systemic integrity, which can be expressed by the words “everything flows, everything changes”. And, meanwhile, at the final stage of self-organization of the economy, the object component began to increasingly be replaced by its subjective component, the priority in relationships began to shift from the economy to society, from formal to informal institutions, from economic

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