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CONTROVERSY OF ECONOMIC GROWTH AND FINANCIAL STABILITY

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Abstract: *In the recent theory of economic growth, there are multiple explanations for the "downward trend of economic growth", which has already been happening during the past decade in developed and emerging markets. Almost all economists have avoided researching the "hypothesis of the world without growth", dealing with Krugman's rhetoric of "secular stagnation is probable" or thinking about Koehn's rhetoric "get rid of dependence on growth". The cult of growth is embedded in the economic, political and social heads so deeply, that for each of them growth is an imperative of life and death. In this pape, we examine the theses and controversies of economic growth and financial stability, and in this context, the development of economic theory as a whole.*

Key words: *economic growth, financial stability, economic controversies.*

1. Introduction: Management of economic growth

In this context, there have emerged the advocates of a new religion, "green growth", which, in conditions of ecological crisis, requires huge investments in renewable energy sources, agroecology and biodiversity, but also in the "reduction" of certain production that has a negative impact on the climate. Is economic growth compatible with the rate of reduction of emissions of harmful gases and how much is the reduction of the carbon dioxide intensity per unit of global GDP? Michel Usan's research shows that the halving of global CO2 emissions can be realized by accepting a significant slowdown in GDP growth. "This means that green growth is a myth: growth that would be compatible with limited

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material resources (fossil fuels, minerals, forests, water, soil) and with strictly limiting climate risks (for oceans and biodiversity)."[2] But how to conceive the economy and society without economic growth and is it necessary to accept economic regression in the name of ecology and environmental protection? The saturation of growth leads to the declination of growth, which with slowed demographic growth and generational aging of the population leads to a reduction in consumption and a weakening of demand (with a weak pressure on growth of working funds) and the accelerator to the life of new technologies and technological progress "extrusion" of labor force from production processes with a reducing effect on the growth rate of employment. This breaks the myth of economic growth and the cult of overstaffing. The fragile growth rate is already suffering from the rising natural rate of employment, which modern theorists do not know how to explain. Insufficient growth is the antithesis of sustainable growth. (Gadre, 2015).

In today's neoliberal capitalism, the highest value is the financial capital rather than human capital, which modern technological progress reduced to "nonsense". Today, the employees as human capital, are treated as superfluous, since they are used and amortized. The fate of the majority of the over-fifty population is reflected in their replacement for the new model „trioxo olds“ without the need to increase salary and to go to minimum retirement. We are destroyed by the robotization of production, which reduces the cost of labor to one quarter, and that is why the unseen ease of removal from jobs is the new capitalist collective damage.

But, economists (both old and new) are still in love with growth, and stand firmly on the model of future which looks like a reactivation of the past, repeating their old-new argument that without strong and continuous growth there are no new jobs (that is: reduction of unemployment). Although, the global players of neoliberalism adore unemployment as a disciplinary tool which enables blocking demands for increase in salaries and wages, and intensifying work on increasing profit. And that is the recipe of the liberalized growth market. (Gregory, Stuart, 2015).

However, growth is not necessary for the creation of new jobs because it is always possible to produce more with the same amount of work. In that case, production profit does not depend on the job market. And a production growth lower than the production value contributes to the diminishing volume of work and volume of jobs, under the condition that work hours stay the same. Furthermore, the harmonization of production and consumption incorporates the quality of common social and economic goods into the center of human activity, in order to avoid the problem of inequality. This, in turn, means that a sustainable economy, as a rule, starts from nature, labor, people and societies that resort to low technology without lack of innovation. Certainly, in these 'constellations' there is a new form of re-designing jobs. However, this is different from the high technology of the current productivity economy, because for the same quantity of products, obviously more human labor should be needed to produce ecologically, in standard working and living

[2] Emerging markets (franc. *pays émergents*) are usually called groups of states whose economic growth is rising and which are forming economic alliances. In 2001 the acronym for the first group of such countries was made: BRIC (Brazil, Russia, India and China). Later, when the South African Republic was included in this group, the acronym changed to BRICS. With economic changes, economic groups of emerging markets are changing as well, and some of contemporary acronyms are MINT (Mexico, Indonesia, Nigeria and Turkey), CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa), PPICS (Peru, the Philippines, Indonesia, Colombia and Sri Lanka.

conditions. Moreover, this is achieved without an orientation towards growth; and when economic growth occurs, not all macroeconomic policy goals are "diminished" in the full employment plan. That is why growth is a cult that is disappearing and that is why new ways of human progress must be explored.

Robust economy and synchronized growth remain the unachievable dream of the world economy: now the disparities and the polarization relative to underdeveloped economies are already alarming, as global performance in developed economies is indicative of uneven and fragile growth, high indebtedness, demographic tension, low investment, a drop in productivity, and the necessary redefinition of monetary and fiscal measures for output growth and the reduction of turbulence in financial markets, because industrial production is still weak at the global level, world trade is in a slowdown, inflation is still below target (despite the stability of core inflation), oil prices and the dollar continues to decline, yields on government bonds are rising (due to the introduction of the program of quantitative easing), and because there has also been a drop in the price of borrowing. Lower investment growth is the result of the weakening of domestic demand; a slower growth of stock capital; the poor situation in the labor market and the decline of investment in human capital adversely affected the decline in factor productivity. This led to a number of imbalances on the macroeconomic plan: the output grew slower than income, demand grew faster than income, investments grew faster than savings, the slow adjustment of prices and earnings led to the growth of the damaged output above the potential output, which indicated the need to prolong the simulative reforms; in the supply scheme (perhaps the IMF pointed out that about two-thirds of the slowdown in economic growth can be attributed to cyclical factors and only one third to a simulative spending). In this context, even smaller debates about the interaction between the foreign exchange rate, foreign trade and economic activity have diminished the conventional model that the depreciation of the domestic currency is a safe means of increasing exports (because it turned out that the real effective depreciation of 10% increases exports by only 1.5% of GDP), and this is mainly due to the increased participation of global value chains in the world trade, due to economic fragmentation, with production segments located in several countries (in order to bring the final products out of many economies).

From the point of view of economic development, foreign direct investments (SDI) are also one of the largest meaningless actions of transnational corporations, which nevertheless exposes the myth of their nature in terms of impact on capital accumulation, technological progress, re-industrialization, employment and development, cross-border flow of capital, restructuring of production capacities, transfer of managerial skills, linking domestic companies to global markets, as well as the volume of input from local manufacturers. However, none of these "details" are an internal quality of foreign direct investments that contain speculative and imperative elements and a negative impact on the balance of payments; and they are neither long-term nor stable. The greed for short-term profits of foreign direct investments is contrary to the principles of sustainable development. With subsidies, tax incentives and institutional privileged facilities, foreign direct investment is extremely expensive. And when the "advantages" of foreign investment are expected, then their purpose is almost defeated at the very start. There is no growth because the myth vanished.

With a drastic drop in interest rates on savings in banks, cash investment funds appear as a good alternative to bank deposits, with higher yields and daily availability of funds. Therefore, to the question of where to invest money today, one could unequivocally suggest to money owners to invest in government bonds, life and pension insurance, investment funds, stocks and rental real estate. But the crisis has taken its toll: only cash funds that invest in short-term debt securities and deposits are functioning normally, while the stock funds are marginalized.

The current application of various financial 'salves' to the wounds caused by the recession has led to a different use of fiscal rules: France and Italy have increased taxes, while Turkey, Spain and the United Kingdom have cut taxes. The Institute of Public Finances has announced that Italy and France have relied on tax increases in order to preserve debt, while Britain and Spain have resorted to austerity measures. However, the researchers criticized the intentions of responding to the economic crisis, as they have missed the opportunity to improve the efficiency of their own accompanying systems in terms of financial stability, economic recovery, economic growth and global equity. In that context, Professor Piketty with Paul Krugman, pointed out that the global distribution of income is no longer the same as the distribution of production, since the countries with the highest production per capita tend to appropriate some of the capital of other countries and earn capital income from countries with low-production per capita. This is the reason for inequality of labor income, especially earnings, even though economists think that the logic of economic growth reduces the difference between work and capital. Thus the Nobel Prize winner Stiglitz is correct when he concludes that economics, as a science, has shifted from a scientific discipline to mere cheering for the free market capitalism, more than economic experts want to believe. (Piketty, 2015).

Global inequality implies that wealth accumulated in the past increases faster than the pace of progress of production and earnings. And once the capital is created, it reproduces itself faster than the production increases. So Prof. Piketty proposes for tax returns on capital sufficiently high for private yield to fall below the rate of growth without compromising the incentives for accumulation. Progressive annual capital tax, in this context, allows avoiding the endless spiral of inequality while preserving competition and stimulating accumulation. (Stiglitz, 2012)

It is a membrane for the limitless growth of global inequality of wealth, which is unsustainable in the long-term and which already worries even the most passionate advocates of self-regulation of the market, religion of profit and neoliberal fundamentalism. (Stiglitz, 2015).

Also, economists finally agreed that inequality in income and assets has detrimental economic consequences, as increasing inequalities with an uneven redistribution in the income scale reduces aggregate demand that slows down growth. Attempts by monetary authorities to neutralize such consequences have contributed to credit measures that have led to financial instability. Therefore, inequality increases with economic instability, which, as a rule, reduces economic stability. In this context, inequality endangers sustainable development and social cohesion. Large inequality reduces total demand, and supply shortage limits economic growth. Therefore, the fiscal stimulus is the reason to increase the overall demand, although the "hawks of deficit" think differently (high deficits are always slowing growth); the debt was not caused by slow economic growth, but the slow economic growth caused a growth of the deficit. Although savings are self-multiplying, this leads Europe to recession and depression, and especially the American cooling by deregulation and structural transformation. Formally, saving measures are not a "fairy of confidence"

(Paul Krugman), magically compensating investors once they see that the deficit falls. (Krugman, 2012). The IMF-imposed saving formula has turned the crisis into a recession, and the recession into depression. In this context, financial policy must be rid of the myth that the "reduction of the deficit would rebuild the economy," because it is not possible to simultaneously create jobs and promote growth while laying off workers and reducing consumption. "The weakening of consumption - and this is what saving is - just discourages investment and employment." So, now, even the IMF recognizes that the fiscal support is needed: "We need to focus on public investments, which are labor intensive and generate high revenues. They complement private investment, which increase private income, and thus, simultaneously encourage the private sector." Short-term increased output and long-term growth can generate more than enough tax revenues to pay low interest rates on debt. The result is debt reduction, GDP growth and debt-to-GDP ratio improvement." Therefore, it is necessary to overcome the "fetishism of deficits", even though there is an alternative and less effective way of creating new jobs: increasing expenditures and taxes at the same time, in a balanced way increases GDP. And the amount for which GDP is increased from each dollar from increased taxes and expenditures is called "multiplier of a balanced budget“.

In this context, the private sector itself will not and cannot achieve a structural transformation of the necessary size, even when the FED maintains zero interest rates. "The only way for it to happen are state incentives, which should focus on creating the economy on prosperity activities (instead of preserving the old one) that will increase the standard of living, not risk and inequality. Finally, it is necessary to redirect banks from dangerous speculative activities towards lending, and thus create a vision for a new banking system that should function in the global economy, from the point of view of financial stability. “ (Stiglitz, 2012).

The mantra of deregulation was simply wrong and that is why now a high price is paid in terms of lost output, and growth is not just a question of increasing GDP, because it must be sustainable. And, growth that is based on environmental deregulation, the call to consumerism financed by borrowing or exploiting scarce economic resources without reinvesting profits, is not sustainable. Additionally, growth must be inclusive, benefiting the majority of citizens. Only a new form of production and consumption (or a new economic model) can solve this fundamental problem of society and economy, in which both profitability and the nation must contribute to the quality of living standards, reducing inequality, increasing efficiency and increasing growth. Mobile mega capital should no longer demand from the debtor concessions in terms of earnings, from the state concessions in the form of taxes, and from the banks concession in the form of interest.

That is why the Nobel Prize winner Stiglitz at the Economic Forum in Davos, January 2016, noted that the main problem of the global economy is "too much supply" and the rule of demand. It is not enough just to balance the budget, stimulating growth is also needed. Professor Stiglitz is worried again that the global economy could recede into depression, or so-called prolonged stagnation (Project Syndicate, 2015). The world continues to face senseless insistence on fiscal austerity, reduction of aggregate demand and growing inequality. Today's world suffers from "congestion by austerity" and from "fetishistic obsession with deficit". (Stiglitz, 2015). On the scene today, the only medicine left is the rise in aggregate demand, which implies an interactive transition from the growth model based on export growth to the growth model based on encouraging domestic savings, which, in fact, means that banks and financial institutions "are not forced" to pair long-term savings with long-term investment policies (Stiglitz), and also the state to public investments in infrastructure, education, technology, environmental protection and the implementation of structural transformation.[3]

2. Financial stability management

The financial sector of the global economy has imposed the idea that the market in itself leads to an efficient and stable outcome, stressing that monetary policy must focus on inflation, not on job creation, including hard focus on fiscal deficits. Also, the deficit cannot always be a problem; not if the money is spent on investments and especially if this is done while the economy is weak.

Central banks, due to the blind belief in financial stability, are focused, as a rule, on inflation; now, tardily, they are also firmly focused on economic recovery and financial stability, but not on unemployment and growth; because expansive monetary policy (so-called quantitative easing) is more committed to financial stability than to macroeconomic stabilization.

And when the US economy fell into crisis, the Fed lowered interest rates to zero to stimulate recovery. Now, through the program of quantitative easing, the Fed has pumped into the system as much as 4500 billion dollars in order to mitigate inflation and accelerate economic recovery.

Christine Lagarde, presenting the global economic plan for 2016, stressed the need for economic policy-makers to support spending, financial stability, structural reforms, investment, new employment and infrastructure. In this context, the latest IMF research has also shown that in advanced economies the increase in investment demand of one percentage point of GDP increases the average level of production by about 0.4% during the same year and 1.5% for four years after the increase in consumption.

In practice, there are already four proofs that economies achieve better results in certain labor markets and with lower inequality. Low salaries will not mean high profits, nor will low interest rates mean high bond prices. Therefore, the Fed was more skillful in achieving price stability, and much less successful in promoting full employment. But with the stagnation of wages, stronger dollar and inflation below the targeted two percent, only the high price of capital can be a support for healthy growth (even though banks are very reserved in terms of financing) and financial stability.

The increase in interest rates in the SPD and the slowing down of the Chinese economy instigate the increased uncertainty and unpredictability of the economic issues of the free economy, accompanied by the downward path of world trade and the fall in oil prices. This, however, means that global financial stability is not ensured, as financial risks are already rising in emerging countries. Growth is restricted by low productivity, high debt, low level of innovation, weakening of banks, and an increasingly older population. The Chinese transition to the new model of growth and the "normalization" of the US monetary policy contribute to this state of affairs. With a slight increase in the interest rate to 0.5% , the Fed continues trying to lure investors with low interest rates, to focus more

[3] Very interesting empirical analysis in the paper: Finansijska tržišta i privredni rast u zemljama centralne Evrope – pouke za privredu Republike Srbije; Zbornik radova Ekonomskog fakulteta u Kragujevcu.

actively on yields and take on financial risks in terms of growth in valuation of assets, government bonds and corporate loans. In this context, on the fiscal side, the IMF recommends increasing the space for fiscal stimulus, in order to encourage investment in the public sector and quality infrastructure. So-called *credible mid-term fiscal programs* remain a priority in the US and Japan.

With almost the lowest tax rates, high tax deductions and robust subsidies, foreign companies' tax burdens in our country are 5-6%, which means that the state budget looses about 0.5% of GDP annually. In the practice of advanced countries, it turns out that the level of taxation is not a key element in making investment decisions, nor a key factor in increasing the competitiveness of the offer.

That is why the initiated currency war, is first intensified in the import-export policy with open protectionist measures and hidden stimulus mechanisms, then moved from the real sector to the banking industry and the financing of new economies, mostly through a loan of "debts" and financial derivatives to "tear down" the financial stability.

Deregulation contributed to the financialization of the economy; a poorly regulated financial sector closely related to inequality, allowing manipulation of the "rules of the game". Financialization has, thus, become a crucial factor in increasing the instability of the economy. But the unjust tax system reformed the economy, causing greater inequality after tax deductions, greater instability and degradation of growth. The unimaginably seamless global tax regime has led to the impoverishment of the public sector, so that "America is no longer a country of broad opportunities." because countries with a high degree of inequality invest in public goods, such as infrastructure, technology and education that contribute to long-term economic projects, financial stability etc.

In the modern history of digital economy, the Internet is increasingly viewed as a technological form of modern capitalism, "making profits at every step without the presence of a tax form." That is why David Cameron was forced to introduce a "redirected profit tax" at a rate of 25%, while the French Minister of Culture tried to introduce tax on bandwidth (amount of transfer) of information in order to finance cultural excellence from that fund.

Innovative investment in education, world capital, and research across the entire investment chain is a macroeconomic imperative whose penetration would raise the level of productivity and competitiveness. Today's public and corporate financing, however, is focused on short-term funding, which is exclusively focused on short-term goals. Only public financing does not "work" with speculative investment capital; and most of the existential business (private) financing is too speculative and only short-term. And this, in fact, means an over-focusing of the real sector on short-term goals; by definition, it causes the design of a system of incentives to reinvest profit in production, development, research and innovation, as opposed to profits being "spent" for the purchase of own shares that affect their price growth. Through this "egoistic nonsense", companies have made nearly four thousand billion dollars of profits; and therefore, long-term financing should include state-owned commercial banks and specialized government agencies, such as in America and China.

In this sense, the public sector should take on key risks in the innovation chain, while strongly strengthening public institutions, as well as the capacity of public services. The public sector in partnership with the private sector would make the government more efficient. In that case, the government would change its "imprudent" approach to debt repayments. (Ristic and Ristic, 2016).

Namely, instead of the current exclusive focus on budget deficits, the government would inevitably devote itself to the public debt ratio: GDP, in terms of insufficient focus on a denominator called BPD and public investments that increase long-term productivity and infrastructure capacity. This, in turn, means effective investment in education, innovation, research, human capital, training and well-planned social programs, which contribute to economic adjustment, sustainable development and inclusiveness. Investment cohesion policy would incorporate the development of the green economy, and fiscal stimulus would also provide green development and transformation projects that are much higher than renewable energy sources. Monetary policy would still create an additional amount of money through quantitative easing, which would stimulate the green sector, instead of this money ending up in banks that do not give loans to the economy due to low interest rates.

Monetary policy, thus, ignores the economic code of the global economy that implies that cheap money goes into the real sector, i.e. production, and not securities, i.e. worthless papers and derivatives. Additionally, the dependence on austerity measures among the countries of the European Union and on the periphery of the eurozone contributed to the growing distrust of investors, and, consequently, to the slowdown in economic activity and retroactively led to a "corruption" of growth as a myth or cult.

On the fiscal plane, the OECD also turns over a new leaf: in 2015, a new deal was reached on new rules on profit taxation: companies will now be less able to transfer profits to low-tax and tax-safe ports, bringing an additional 250 billion dollars annually from tax revenues. The rules on the erosion of the principal and the transfer of profits are directed towards closing the legal loopholes and limiting the use of tax havens, in order to indirectly contribute to the fiscal wallet that creates the budget deficits. (Ristic, Komazec, Ristic, 2015).

This is clearly the global target of increasing tax revenue, which is reflected in the process of increasing the share of direct taxation of the rich by applying higher progressive income tax through a balanced ratio of direct and indirect taxation, through the organization of the taxation of dividends, interests, royalties and management fees, the reduction of losses in tax revenues due to globalization (capital movements increase the possibility of tax evasion due to limited capacity for the tax authority to check abroad the income of its citizens and due to the systemic concealment of relevant tax information from certain governments and financial institutions due to the diversity of tax regimes on the international plane, taxation and different treatment of income companies, due to increased concessions to foreign investors, due to the shifting of revenues from one country to another by companies that strive to reduce tax liabilities).

3. Conclusion

The current fundamental economic problem lies inside financial capitalism, which strives to surpass the famous industry sector in favor of financial market technology. Financial capitalism, as such, is a monopolistic one, creating bubbles instead of development. Economy, in this context, is based on financial speculation with illusions of endless growth, which is in contrast to the real sector. This is the path to abyss, in the context of globalization, which insists on privatization (and deregulation and liberalization) and on structural reforms. Sale of production capacities and reliance on foreign investments are mere economic nonsense even though they are represented as the famous ‘10 Divine Commandments’. That is why the policy of the IMF is absurd for the simple reason that it does not allow growth, but an increase in poverty. In modern economies, where GDP growth is determined by demand, and not by offering, austerity measures are wrong by definition because they reduce demand. Structural reforms, like notorious nonsense, basically hide the unequivocal long-term tendency of wage and pension indebtedness, the devastatingly narrowing scope of rights and ominous layoff of workers. Therefore, the global goals of the contemporary world are contradictory; they ignore economic recovery and employment, and force austerity and price stability.

Demographic analysis (Standard and Poor's) shows that the aging of the population forces governments to improve social programs, relying on a smaller number of working-age population, which worsens the state of public finances, budget deficit and public debt. In this way, demography creates the new picture of the world economy.

The upcoming decades are forced to promote an increase in the number of elderly relative to young employees. The IMF has, therefore, already pointed out that the consequences of a shrinking and aging population will be high from the standpoint of the distal burdens and costs, which increased with aging and are expressed as a percentage of GDP. Therefore, the gross domestic product could grow per capita, whereas the overall GDP would decline.

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KONTORVEZE EKONOMSKOG RASTA I FINANSIJSKE STABILNOSTI

Rezime*: U novijoj teoriji privrednog rasta postoji više objašnjenja za "silazni trend ekonomskog rasta", koji se već događa tokom poslednje decenije u razvijenim privredama i zemljama u usponu. Gotovo svi ekonomisti izbegavali su da istražuju "hipotezu o svetu bez rasta" da se pozabave Krugmanovom retorikom "sekularna stagnacija verovatna" ili da razmisle o Koen-ovoj retorici "oslobodite se zavisnosti od rasta". Kult rasta je usađen u ekonomske političke i socijalne glave tako duboko da je za svakog ponaosob rast imperativ života i smrti. U radu ispitujemo teze i kontroverze ekonomskog rasta i finansijske stabilnosti, te u tom kontekstu i razvoj ekonomske teorije u celini.*

Ključne reči*: ekonomski rast, finansijska stabilnost, ekonomske kontroverze.*