

**STRENGTHENING THE ROLE OF THE STATE IN THE REGULATION  
OF ECONOMIC PROCESSES IN THE CONTEXT  
OF A CATASTROPHIC ECONOMIC DECLINE**

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**Abstract.** The Global economic crisis has already forced developed countries to move away from liberal models of economic regulation and return back to the more conservative models, which went out of fashion in the 70s of the last century. Almost everywhere significant government spending has become one of the main tools to support the economy during the acute phase of the crisis.

**Keywords:** role of the state, economic crisis, economic regulation, support tools.

It is been six months and it is still a never ending story – “It was the coronavirus that started a crisis!” Citizens, let's wake up! The crisis has nothing to do with COVID-19. This crisis has been coming inexorably and slowly for years [1]. The pandemic has only spurred it on and made it more evident. Nothing more than that.

We have been talking about this situation for a long time; the forthcoming crisis was obvious [2]. And now the global hysteria around the coronavirus is the perfect disguise for the collapse of the world economy into a global depression. As a result, today we face the fact that is absolutely pointless to argue with: the Great Depression №2 at hand will be comparable to the Great Depression of the 1930s.

Why are we sure that the Great Depression №2 is coming? It is all about the unemployment rate. In the 30s exactly the unemployment rate was a key reason for the worst economic downturn. In 1933 it reached 25% in the United States (17 million people).

Most likely, and this is evident from the frightening and often contradictory reports - we will probably face a similar indicator in the nearest future [3].

For example, Nobel Laureate Nouriel Roubini notes: "Neither during the Great Depression, nor during the World War II, nor during the global financial crash in 2008, a significant part of the economy in the United States, Europe and China never simply stopped. Any previous crisis pales beside the impact of COVID-19. All elements of global demand: consumption, investment, and exports are now in free fall motion." [4].

And today there is a clear understanding that countries have suffered in varying degrees. In the leading countries of the world industrial production has significantly decreased, business development has slowed down, some organizations have closed, and the number of jobs was reduced. However, some states have already started to rebuild their economies. For example, China quickly recovered from the epidemic and in its economy remained positive indicators. Although the GDP growth rate was decelerated, in China it is still positive. But in other leading countries the situation is much more deplorable [5].

Let's look at the chart that shows the change in GDP in the second quarter of 2020 compared to the same time period in 2019.

For example, due to the decline in the construction industry and in the number of transport operations, Singapore's GDP fell the most significantly (by 42.9%), while among the EU countries the UK experienced the most serious economic decline - a drop of 21.7%. The US economy fell by a record 33% compared to the second quarter of 2019. The Russian economy, according to Rosstat, fell only by 8.5%. The Central Bank of Russia previously predicted a fall of 9-10%.



Figure – Changes in the economies of some countries (according to Bloomberg, Rosstat and Eurostat) [5]

We emphasize that the world's leading economy (the US economy) lost almost \$2 trillion compared to the first quarter, if we recalculate the fall for the entire year.

According to analysts, even the Great Depression of the 1930s did not cause such a strong fall in the economy (experts also note that the American economy will recover slowly than the economy of the European Union).

What does the IMF say about this? For many countries "the risk of the worst outcome prevails" the IMF emphasizes. The IMF estimates that the coronavirus could cost the world \$28 trillion. [6] And more recently, the IMF stated that the total loss of global GDP for the period 2020-2021 from the crisis caused by the pandemic could amount to about \$9 trillion – this is more than the combined economies of Japan and Germany [7].

As for such a severe economic downturn, it was, unfortunately, inevitable. And at the moment we all need to focus on how to get rid of its consequences as fast and less painful as possible.

And today the Global economic crisis has already forced developed countries to move away from liberal models of economic regulation and return to more conservative models that went out of fashion in the 70s of the last century. Now almost everywhere significant public spending has become one of the main tools to support the economy in the acute phase of the crisis. And in fact the crisis in many countries has not become even deeper only thanks to it. Of course, such programs are not infinite, and when there are appearing hints that such tools will soon be phased out, investors start to get seriously nervous.

Strengthening the role of the state in the regulation of economic processes is a Keynesian approach. The main idea of it is that in a crisis the state must hire 100 people to dig a hole, and then another 100 to cover it up with dirt. This will help reduce unemployment, launch industrial excavators, dump trucks and the petrochemical industry that fuels them, and eventually allow people to earn money that they will spend on buying goods. The state's costs will be returned in the form of taxes. Of course, it is not necessary to say that the hole itself is not needed by anyone.

Fiscal tools have a greater impact than monetary ones, since in this case money can be addressed directly to households and businesses. In addition, fiscal tools better provide targeted assistance to those who need it the most during a crisis, such as the unemployed people.

At the same time Central banks, which were initially created as opposed to the government's desire to collect more taxes, can help to increase people's purchasing power only indirectly - by manipulating the cost of borrowing money (in other words, the key rate).

In the current crisis situation world governments should use fiscal policy not only to achieve short-term goals, such as lifting the economy out of depression (as in Keynesianism), but also to achieve long-term goals (as in neo-Keynesianism).

But if the role of the state in the economy continues to increase, it will only harm the humanity. We have already seen how this policy is implemented in the current environment: states issue vouchers that can be used for visiting restaurants, and those citizens who decide that it is worth the risk to get infected fuel the second wave of the epidemic.

There is another point of view that the strengthening of the state role in the economy helped to overcome the crisis only indirectly. The main economic incentive that allowed the United States not to slide into an even deeper "depression" was the World War II. The state tried to take on the role of the main actor and wanted to get the economy moving again through the state orders. But if the war did not occur, the United States would never escape from the Great Depression.

And no matter how cynical it sounds, it was the military orders that helped the country to recover during that difficult period. In the West, those who believe in the neoliberal school are well aware that neither the government nor the Central Bank do not sow, plow, build, or create any real GDP. All this is done by people, so they need help first, and only after that people themselves will raise the economy with their productivity and taxes. And they will return all the funds that were spent on targeted assistance.

It has already become clear that the economic development of the countries is characterized by complete ambiguity of goals and the need to experimentally solve problems in all possible spheres of human well-being at once, measuring the contribution to each project with the constantly changing needs of people. In this case the state is a poor manager who is not equipped enough to anticipate risks and manage large and complex processes.

That way we have some food for thought.

Here we emphasize that any crisis or war is always based on economic reasons. The current political and economic crisis between the US and the EU, the US and Russia with China will be initiated by the Americans. "Euro-Atlanticism", once a solid cement with anti-Soviet, and later anti-Russian sentiments, that connected the United States with Europe, suddenly literally cracked. Even now, along with the growing crisis, there is a powerful economic, political, social and national disintegration of individual European countries, which pulled the rug out from under the traditional political parties and elites.

Turbulent events are also taking place in the United States. From a formal point of view, the crisis processes in the United States are caused by internal political contradictions, the struggle for power between Democrats and Republicans [8].

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