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Brief Note on Financial Crisis

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Description

Financial crisis, inability of the state to bridge an insufficiency between its expenses and its tax revenues. Financial crisis are categorized by a financial, economic, and technical dimension on the one indicator and a social and political dimension on the other. The latter measurement tends to have the more significant consequence for governance, especially when a fiscal crisis needs painful and frequently simultaneous cuts in government expenses and growth in taxes on people, families, and companies. A financial and economic crisis will have a tendency to arise from a fiscal deficit if government debt levels fund to a loss of market confidence in a national economy, reflected in turn in unpredictability in currency and financial markets and stagnation in domestic output. A political and social crisis will have a tendency to arise if both the fiscal deficit itself and the necessary corrective measure effected to eliminate that deficit result in further losses of employment and output, decreasing living standards, and increasing poverty.

The theory of a fiscal crisis first came to importance in both developed and developing markets during the early year of 1971s, largely as a significance of the breakdown of the Bretton Woods international economic order, the October 1974 Arab-Israeli war, and the causing oil crisis. Those measures combined to produce inflationary world energy and commodity prices, resulting in decreasing output and increasing unemployment and an immediate demand for higher government expenditure at a time of falling government revenues. The theory of a fiscal crisis of the state arose in relation to this fall in government revenues.

James O'Connor, a political economist influenced by Karl Marx, debated that the capitalist state was in crisis since of its need to achieve two fundamentals but inconsistent functions, specifically accumulation and legitimization. To encourage profitable private capital accumulation, the state was required to finance expenditure on social capital—that is, investment in schemes and services to improve labour productivity, decrease the reproduction charges of labour, and thus increase the rate of profit. To promote legitimization, the state was requiring financing expenditure on social expenses, notably on the welfare state, and thereby maintaining social harmony among the workers and the unemployed. Still, because of the private assumption of profits, the capitalist state would practice a growing structural gap, or fiscal crisis, between its expenses and incomes, which would principal in turn to an economic, political, and social crisis. O'Connor declared that the fiscal crisis of the state was actually a crisis of entrepreneurship, for which the only permanent solution was socialism. Although the increase and decline of the mid-1970s failed to deliver the downfall of capitalism, it did lead to a political crisis for the Keynesian social democratic welfare state. The growing incidence of budget deficits became connected with the idea that government had become loaded, that full employment was not a legitimate objective of macroeconomic policy that the state had become excessively influenced by powerful interest groups, notably trade unions in the public sector, and that civilization had become ungovernable. The corrective action proposed was that the role of the public domain of the state should be rolled back, to thereby reduce the popular expectations on government, and the role of the private domain rolled forward, to enhance economic freedom and unleash the creative energy of the entrepreneur.

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