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THE IMPERATIVE OF IMPROVING THE FINANCIAL REGULATORY FRAMEWORK UNDER CRISIS CONDITIONS - A CONTRADICTIO IN ADJECTO OF THE NEOLIBERAL PARADIGM

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Abstract. *The global financial crisis has caused massive interventions by monetary and fiscal authorities, such as the rehabilitation of failed banks, insurance companies and other financial institutions and insertion of huge amounts of money into the financial system, with a view to their rescuing and preventing further spread of the crisis. Such an environment has challenged the basic postulates underlying neoliberalism as the ruling economic doctrine of the 1980s. In this regard, the question is whether the imperative requirements for improving the financial regulatory framework have caused a substantial relativization of the hitherto dominant neoliberal paradigm.*

Key Words: *neoliberalism, global financial crisis, financial regulatory framework.*

INTRODUCTION

The global financial and economic crisis has highlighted the need for a systemic approach to regulation and supervision of the financial sector, taking into consideration that the costs of the financial crisis are very high and that price stability is not sufficient for achieving financial stability, as well. In such conditions, it became necessary to revise the basic postulates of neoliberalism as the prevailing paradigm. Starting from the basic postulates of neoliberal paradigm, the analysis was performed in this paper to determine whether the imperative demands for financial regulatory framework improvement caused a substantial relativization of the hitherto dominant neoliberal paradigm. Has the time come for the promotion of a complex economic theory that would result from connecting separate parts of different economic theories, manifested in the historical development, which would allow the emergence of synergetic effects of the complexity economics? The paper is not intended to fully outline the complex economic theory, but its aim is to

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analyze the financial regulatory framework in order to indicate possible directions of research. The basic postulates of this theory would be: 1) Appreciation of global trends, but also of the specific problems of individual national economies; 2) Every economic theory and economic policy should ensure the economic growth and stability at the same time.

1. NEOLIBERAL PARADIGM AS A RULING ECONOMIC DOCTRINE

The neoliberal paradigm, based on the neoclassical economic theory, was created after World War II, and since the end of the seventies of the 20th century, precisely when Margaret Thatcher came to power in the UK and Ronald Reagan in the US, it has become the ruling economic doctrine. Created in response to a major crisis of Keynesian economics, this paradigm is based on the theory of free trade and free market and opposes state intervention in the economy, protectionism, high tax rates and the like.

The realization of the ideas of neoliberalism began after 1989, when John Williamson introduced a package of neoliberal economic recommendations called "Washington Consensus". It is the following list of suggestions: 1) Fiscal policy discipline; 2) Redirection of public spending from subsidies to industries towards policies for economic growth and support of the poor population; 3) Tax reform in the direction of lowering taxes; 4) Financial liberalization; 5) Competitive exchange rates; 6) Liberalization of the trade regime towards lifting or lowering taxes and duties on imports; 7) Openness to foreign direct investment; 8) Privatization; 9) Deregulation and 10) Protection of property rights (Rodrik 2008, p. 143).

The implementation of these proposals in developing countries was conducted with the support of the group of developed countries, along with the mediation of international financial institutions, the International Monetary Fund (IMF), World Bank (WB) and the World Trade Organization (WTO). While the IMF and the WB stipulated lending to developing countries by the acceptance of neoliberal policy, the WTO was bringing trade rules especially in those areas in which the developed countries had better predispositions of growth (Vrzić, 2008). Hereby, the neoliberal reforms were being implemented in a very discriminatory manner, in conformity with the principle of "one rule for the wealthy and powerful countries, the other for the poor and weak countries". Inclination towards the rich and powerful countries is not surprising, given that the structure of decision-making in the IMF and the WB is determined according to the share that a particular country has in the capital of the Fund, on the principle of "one dollar, one vote". In addition, the voting system in the World Trade Organization, although organized on the principle of one country - one vote, was in practice inclined exclusively to the interests of a small number of rich countries. While the developed countries were, through the aforementioned international institutions, promoting neoliberal paradigm in developing countries in order to further amass their own wealth, they at the same time relied precisely on the interventionist policy in their development policies. Hereby the awareness has spread that "the developed have never done what they advise the underdeveloped", and the recent crisis event has once again confirmed this statement.

The global financial crisis that marked the first decade of the 21st century has triggered a massive intervention by monetary and fiscal authorities in most developed economies, thus challenging many postulates of the neoliberal paradigm. Namely, the criticism of neoliberalism, although actualized with the new crisis event, stems just from the elements that formed its basis. Stabilization, privatization and liberalization facilitated market manipulation and speculation, contributed to the development of some countries to the detriment of others, and finally led to growing inequality in the society. This has created a system in which "an ever smaller number of individuals disposes of ever higher national income".

Faced with the fact that every country that relied on the neoliberal paradigm in its development generated lower economic growth rates compared to those that were achieved in the era of Keynesianism, the leaders of 20 most powerful countries (G20) met in Seoul for the enactment of new rules that will reject neoliberal conception, propagated by the Washington Consensus (Kovačević, 2012, p. 42). The adoption of the Seoul Consensus made a shift from market to state intervention. In order to ensure a dynamic, stable and sustainable growth, the action plan was adopted which identifies six basic principles[1] and eight key areas[2], where each country needs to shape its development policy in accordance with its own national characteristics (Dušanić, 2011).

The severity of the financial crisis highlighted the need for a systemic approach to regulation and supervision of the financial sector, bearing in mind that the sector of financial services has a far greater impact on economic activity than it was previously thought. In order to increase the stability of the financial system, and hence the economic system as a whole, a new "re-regulation" trend was recognized. The expression "re-regulation" emphasizes that the current system of financial regulation is based on the ex-post concept, i.e. that it has insufficient preventive capacity. In this sense, it is rather informative, as it explains what has already happened. Significant costs of the financial crisis conditioned that special emphasis is put in the work on the basic components of the regulatory framework to preserve the stability of the financial system, which exhibited different characteristics in specific anti-crisis strategies.

2. Regulatory Framework with a View to Financial System Stability

The regulatory role of the state and its institutions in the financial market is needed to the extent to which it contributes to the smooth functioning and development of financial markets. Banks as specific financial institutions are subject to a special regulatory regime that is intended to preserve the solvency of banks, to protect depositors in a situation where the bank is not in a position to meet its obligations, and to prevent the possibility of a systemic risk occurrence (Bhattacharya et al., 1998). Due to the increasing number of European financial institutions operating abroad as well, financial regulation has come into prominence as a useful instrument of market integration (Mašić, 2009).

Since banks are the institutions through which numerous mutually conflicting interests are refracted, regulation of the banking sector contributes to the increase of clients' confidence in the bank; control of cash flows and fair distribution of financial resources are achieved in order to accomplish broader national economic objectives, such as a higher employment rate and a lower rate of inflation; the risk of bank investments is

[1] More specifically, these are the following principles: 1) Focusing on economic growth; 2) Global partnership in the field of development; 3) Focus on issues of systemic character; 4) Participation of the private sector; 5) Complementarities, and 6) Focus on concrete results.

[2] As the key areas in which reforms are most needed, the following were singled out: 1) Infrastructure; 2) Private investment and job creation; 3) Development of human resources; 4) Trade; 5) Availability of financial services (financial inclusion); 6) Economic growth along with ensuring stability; 7) Food safety; 8) Mobilization of domestic resources, and 9) Knowledge exchange.

limited, and ultimately the probability of bank bankruptcy is reduced (Bašić, 2012, p. 190). Past experience has shown that the state, through a series of its measures, plays a key role in defusing the banking crises and preventing the spread of their adverse effects on the rest of the economy. The Swedish model of crisis management in the 90s of the 20th century, through the establishment of public institutions to support banks (Bank Support Authority, Crisis Management Authority) and massive government intervention, confirmed the importance of the role of state in easing the banking crisis. The global financial crisis that marked the beginning of the 21st century has also caused massive government interventions and the establishment of public institution for supporting banks and other financial institutions.

Thus assumed, banking regulation is indisputably directed towards a safer and more stable banking business. However, as banks are primarily institutions that are guided by the maximization of profit, they have often been forced throughout history to introduce numerous financial innovations, in order to "bypass" current regulations[3]. This practice of banks was identified as a form of "informal" deregulation (Krstić, 2003, p. 167). However, as the emergence of new financial instruments requires the creation of a new or modification of the existing regulatory framework, it launches a vicious circle in which regulation encourages search for ways to circumvent it through the introduction of new financial instruments. In such an environment of continuous alternating between regulation and deregulation, it is necessary to ensure effective financial intermediation which will have economic growth as its purpose. This requires the creation of an appropriate regulatory framework that will not sacrifice the economic growth to ensure financial stability and prevent the outbreak of crisis.

Excessive regulation and the pursuit of international harmonization of banking regulations may lead to unification of banking activities, thereby suppressing the initiative and creativity of banks and endangering their competitive capacity (Bašić, 2012, p. 194). In addition, the mere application of new standards and regulations and their harmonization create numerous costs and require an overall adjustment, and in that sense regulation remains justified as long as its benefits (establishing financial stability) outweigh the costs it creates.

The stability of the financial system implies its resistance which must be designed in advance. In this regard, concern for financial stability requires the design of an appropriate regulatory framework that includes a variety of institutions, rules and procedures (Marinković, 2004). Accompanying the life cycle of financial institutions as its unavoidable components, the following were singled out: banking license policy, i.e. the rules of bank entry into the system, the function of lender of last resort, deposit insurance, rules and procedures governing intervention in the banking sector and the rules of bank exit from the system.

2.1. Banking license policy

Banking license policy defines the rules of bank entry into the system, i.e. the requirements for obtaining a license, namely: minimum cash capital required for starting a bank, credit worthiness of the founder, the procedure of establishing a bank, the scope of the banking license, i.e. permitted types of transactions, and other issues related to the policy of bank establishment.

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[3] Well-known examples are the introductions of financial innovations associated with the Regulation Q in the US (money market funds, transferable deposit certificates, NOW arrangements, etc.) and with the process of securitization that took place intensively both in the US and in Europe.

As banks are the key financial institutions in most of the financial systems, the control of their operations is extremely important. In the process of business internationalization of financial institutions, the need emerged for an international harmonization of banking regulations. The highest degree of harmonization of banking regulations has been achieved in the field of solvency regulation, as the majority of banking systems apply a unique framework devised within the Basel Committee on Banking Supervision[4] (Marinković, 2008, p. 238).

The reduction of the capital base of a large number of banks around the world during the seventies and eighties of the 20th century resulted in the adoption of the first international agreement on bank capital (Basel Capital Accord), known as Basel I. It introduced a unique way for calculating capital adequacy ratio, expressed as the ratio between the capital and the credit risk weighted assets of a bank. Although these regulations were legally non-binding, they were initially accepted by over 100 countries around the world, indicating a positive attitude of the countries towards such standards. Despite the indisputable benefits that are reflected in the increase in the capital adequacy of internationally active banks, the strengthening of competitiveness of banks at the international level and the increased discipline in the process of capital management, specific shortcomings of Basel I standards were manifested after a certain period of time. Namely, the emphasis was placed only on credit risk, while other risks (e.g. market and operational risks) were ignored; in the credit risk assessment, no difference was made between debtors of different ratings; balance sheet items were evaluated at book rather than market value; and there was no adequate valorization of both modern financial instruments and risk mitigation techniques.

Due to the poor adaptability of Basel I standards to changes and innovations in the financial market, the Committee issued a Revised Framework in June 2004, and its comprehensive version followed after two years in the form of Basel II standards as a new approach to capital management. It is based on three pillars, namely: a) the definition of minimum capital requirements for credit, market and operational risk (Pillar 1); b) the introduction of internal capital adequacy assessment (Pillar 2); and c) strengthening market discipline by introducing minimum requirements related to the disclosure of information on banks (Pillar 3).

After the outbreak of the global financial crisis, weaknesses of the financial systems were identified and changes were initiated in the field of capital regulation, in terms of tightening regulatory requirements, particularly in the part that relates to the regulatory capital (the numerator of the indicator). In addition, minimum standards relating to the required liquidity were introduced for the first time, as well. The above changes were published within the standards of Basel III in June 2011 (Basel Committee on Banking Supervision, 2011). The countries represented in the Basel Committee have started with the implementation of new standards from January 1, 2013 (Matić, 2011).

Regulatory standards for capital adequacy and liquidity of banks, alongside with their positive impact on financial stability, also have their negative effects which are reflected in the reduction of banks' profitability. In fact, by increasing their capital ratios, many banks reduce crediting and other placements, which are usually the main streams for forming the bank profits. For these reasons, the regulatory authorities have to be careful

[4] *Basel Committee for Banking Supervision* (BCBS) was established by the Group of Ten (G10) countries in the late 1974, hosted by the Bank for International Settlements.

when passing new regulations, in order to establish a proper balance between stability and profitability of the banking sector.

The very essence of the neo-liberal paradigm gives rise to the imperative of freedom of capital movements, full privatization and exclusion of the state from both the real and the financial sectors. As a result, transition and post-transition economies have relatively stable and developed financial systems, but at the same time, the same economies have insufficient or negative rates of economic growth and high unemployment rates. In particular, in the Serbian banking system, 21 of 29 operating banks are with foreign capital, whose share in the equity and total assets of the banking sector of Serbia is dominant and, according to the data for the III quarter of 2014, amounts to 60% (National Bank of Serbia, 2014). The assertion is well known that "the type of ownership has no significance", be it domestic or foreign, but the practice has shown that, when it comes to a crisis, foreign owners of domestic banks give priority to solving problems of their home countries. Furthermore, a short-term orientation of such banks and their lack of interest in the economic development and balanced regional development of the states in which they operate, as well as a reduction in lending activity are also known facts. In this sense, after the escalation of the global financial crisis in the second half of 2008, the question arose whether the banks from Western Europe that have subsidiaries in the emerging markets in Central, Eastern and Southeastern Europe (regions) would abandon these markets. The problem lies in the fact that these banks are systemically important in these markets, so their departure would deepen the already existing systemic crisis. For this reason, on a proposal from the European Bank for Reconstruction and Development, the key international financial institutions established in January 2009 an international framework for coordination and cooperation in crisis management - the Vienna Initiative. Since it was founded, the Vienna Initiative has been adapting to new risks and circumstances in the financial sector in the region, setting as its primary objective the preservation of stability of the financial sector in the markets of Eastern Europe, or the stimulation of cross-border banking groups to maintain their exposure in these markets, while ensuring an adequate level of solvency and liquidity of their subsidiaries. In addition, the problem of implementing an effective monetary policy was also noticed, being that national central banks have to optimize the interests of the domestic financial sector and the financial sector of the countries of bank capital origin in its designing. For the above reasons, it would be opportune that the regulatory framework sets a time limit on the participation of foreign capital in local banks to below 50% (in terms of the number of banks), for example, in a defined number of transition years (5-10 years).

2.2. Lender of last resort function

The function of lender of last resort represents an inevitable component of the infrastructure of financial system safety, although unlike other components it does not contain elements of obligation (Marinković, 2004). The lender of last resort function stands for a system of bank liquidity control and a system for support to banks with endangered liquidity, which are typically organized by the central monetary institution. The position of the central bank as the "bank of banks" entails its specific responsibility towards the members of the banking system (Krstić, 2003). The precondition for its intervention is by rule a systemic illiquidity of the banking sector and not problems of individual banks.

The global financial crisis and concerns about the liquidity of not only banks but also the entire financial system have contributed to the re-activation of the central bank's function as a lender of last resort. This form of liquidity support should be arranged in the form of short-term loans to illiquid but solvent banks that have reliable collateral and are ready to pay a penal interest rate. However, as it is necessary to act quickly in the atmosphere of crisis, and since it is very difficult then to assess the nature of the problem with which the bank is faced, this kind of support is being arranged mainly under preferential conditions (Frexias, et al., 2003; Krstić and Jemović, 2009).

2.3. Deposit insurance

Deposit insurance is an essential institutional component of banking and overall financial system, given that it preserves the confidence of depositors and prevents the run on banks in the conditions of their insolvency. Namely, deposits, and above all demand deposits, are an important component of the financial potential of banks. Being that, from the standpoint of the bank, these are extremely unstable sources of funding and therefore treated as risky liabilities, the need emerged for their special treatment in the form of protection of deposits. Thus, through the deposit protection, the banking system is indirectly protected as well.

Since banks are the financial institutions with an exclusive license to perform deposit-lending operations, their membership in the deposit insurance system is mandatory. As such, they are obliged to insure deposits of their clients and pay the insurance premium as required by the Law on Deposit Insurance. On this basis, a system of deposit insurance guarantees depositors the payment of deposited funds up to the insured amount if their deposit bank fails. When the net claim of the depositor is higher than the insured amount, the difference is compensated in the bankruptcy or liquidation proceedings.

The operationalization of the deposit insurance system requires solving a number of questions: what scope of protection should be provided, what should be the deadline for the payout of deposits, what should be the structure of financing deposit schemes, what should be the responsibility of the institution that provides deposit insurance (a place just for the disbursement or also for the treatment of insolvent institutions), etc. (Ćirović, 2007, p. 425).

Deposit insurance as a component of the system for preserving the financial system stability is especially gaining importance in the conditions of frequent banking crises. In fact, guaranteeing payment of deposits to the depositors up to the level of the insured amount, deposit insurance prevents a "run" on the bank, and at the same time increases competitiveness in the banking sector, providing the possibility for small and newly established banks to operate under the same conditions as larger and already existing banks. Deposit insurance covers the category of small depositors, because it starts from the assumption that small depositors are insufficiently informed about the current state of affairs in the bank. This is not the case with large depositors who will be the first to withdraw their deposits in case of disruptions in the operations of the bank, owing to inside information. In this sense, the deposit insurance system is reasonably directed to small depositors. However, the global financial crisis required a timely response in the sphere of deposit insurance, too. Specifically, as the previous insurance threshold proved insufficient, changes were made in the deposit insurance system in the direction of increasing the insured amount (from 50,000 to 100,000), including some other categories of depositors in the system of protection, as well as shortening the time limit for the payout of deposits to only one week.

2.4. The rules governing intervention in the banking sector and bank exit from the system

The rules for bank exit from the system and procedures governing intervention in the banking sector are inevitable components of the financial regulatory framework at the end of the life cycle of financial institutions. Specifically, as the degree of solvency is also used as the main criterion for the license revocation, i.e. the bank exit from the system (Marinković, 2008, p. 239), in a situation where the solvency of the bank is significantly undermined it will be assessed whether a more favorable alternative would be to revoke the license of a particular institution or to apply one of the measures of the banking sector restructuring aimed at further existence of such institution.

The rules and procedures governing the intervention in the banking sector represent special regulations in the majority of legal systems, due to specificities of those institutions in relation to non-financial firms. Being that the insolvency of banks and other financial institutions poses a serious threat to financial stability, bankruptcy procedures must be implemented as soon as possible. A credit institution may be terminated in a regular procedure, or the competent authority may decide on a forced liquidation if it concludes that the situation can not be improved and there are no grounds for bankruptcy. If the liquidator finds later that a reason for bankruptcy has appeared, it shall terminate the compulsory liquidation and declare bankruptcy.

Financing of interventions in the banking sector is an important item which, in the absence of a special fund for this purpose, as well as with the insufficient amount of the assets of owners and creditors, is ultimately being funded by taxpayers. The current crisis has confirmed this, which is why it is proposed to establish a special fund that will administer the intervention in the banking sector.

3. Comparative Analysis of the Regulatory Framework Role in Most Significant Anti-crisis Strategies - Negation of the Neoliberal Paradigm Essence

Since the beginning of the financial crisis, central banks of leading developed countries have taken a number of measures to mitigate the adverse effects of the crisis and curb the tension that prevailed in the money market. This resulted in a significant increase in total assets of the central banks, with the largest increase recorded in countries that were most affected by the crisis, that is, in the United Kingdom and the United States. A significant increase in the total assets of leading central banks was also accompanied by substantial changes in the structure of the balance sheets of leading central banks, due to the implementation of many new instruments (non-standard policy measures) for combating the consequences of the crisis (Carpenter et al., 2013).

Non-standard measures in support of liquidity can be divided into two groups: the first, directed towards the banks, and the second, directed towards key market segments. Although many of the instruments were abolished, due to the improvement of the functioning of financial markets in late 2009 and early 2010, in the following text we will briefly present the arrangements applied hitherto by the US Central Bank (Fed) and the European Central Bank (ECB).

In its anti-crisis strategy, the Fed applied different arrangements in the situations when liquidity of financial institutions or liquidity of financial assets were threatened, given the fact that the very concept of liquidity has two dimensions[5].

After the appearance of financial institutions with vulnerable liquidity in the interbank market in August 2007, within the measures for supporting liquidity of financial institutions, the Fed modified the existing and introduced new instruments closely related to its traditional role as a guarantor of liquidity of depository institutions. The maturity of this loan agreement was extended, while the borrowing costs were reduced. However, as the borrowing from the discount window exposed deposit institutions to considerable reputational risk, they opted to borrow in the interbank market rather than to use the easy terms of the discount window. For these reasons, only a few months after that, precisely in December 2007, the Fed introduced a completely new instrument, Term Auction Facility (TAF), which rendered support to liquidity through an auction mechanism. It pre-determined the amount of funds that can be borrowed, as well as the maturity of the arrangement (initially 30, and later 90 days). A broader list of asset forms that meet the prescribed criteria was used as credit protection. Despite its temporary nature, TAF has proved to be quite a successful instrument, as demonstrated by the data on a large number of participants in the auction and on the total auction value. Three months after the introduction of TAF arrangement, in order to enable access to the discount window to a wider range of institutions, the Fed introduced two groups of measures: (a) Term Securities Lending Facility (TSLF) which is based on replacing less liquid bonds that are kept by primary dealers in their portfolio for more liquid bonds of the Ministry of Finance, and (b) the Primary Dealer Credit Facility (PDCF), providing the possibility to all financial institutions (banking and non-banking) acting as primary dealers to borrow from the Fed's discount window against a wider range of collateral. Hereby, for the first time in history, the Fed expanded its direct lending to investment banks which are beyond its control (for example, Bear Stearns).

In the context of measures for supporting liquidity of the key market segments, in late 2008 the Fed encountered a significant systemic risk, due to the growing instability in the commercial paper market. On that occasion, the Fed provided additional USD 540 billion to purchase commercial paper issued by companies. This was the first time since the Great Depression that the Fed indirectly credited activities of the private non-financial sector. For these purposes, the Fed introduced easy payment terms when buying high-ranking commercial paper (Commercial Paper Funding Facility, CPFF); money market mutual funds (Asset Backed Commercial Paper Money Market Mutual Funds Liquidity Facility, AMLF); as well as securities backed by student loans, auto loans, credit cards (Asset-backed securities, ABS).

Like the Fed, the ECB started relaxing its monetary policy after the first signs of the crisis. The worsening of the crisis and increasingly serious consequences that it brings along have conditioned a coordinated and immediate response of the central banks of most developed countries. The ECB and the central banks of Sweden, the United Kingdom and Switzerland have lowered their reference interest rates and turned to the

[5] Liquidity may refer to the institution, when we talk about the liquidity of the fund i.e. institution (funding liquidity), or to the assets, when we talk about the liquidity of the market, i.e. assets (market liquidity). In analogy to the generally accepted view that the assets are liquid if they can be converted into a legal instrument of final payment with economically acceptable costs and in economically reasonable period of time, the institution will be liquid if it has more of such assets compared to liabilities.

relaxation of monetary policy (Kilibarda, et al., 2011). In such conditions, lacks of capital and trust have made loans less available and more expensive. The resulting situation required the implementation of more drastic measures, which would help improve the system liquidity and restore the shaken confidence and prevent, to the extent possible, the continuation of the financial crisis and its spillover to the real sector. It was decided to allocate a sum of 1.700 billion euros for this purpose. The measures have referred to: capital injections in order to increase the liquidity and solvency of financial institutions, guarantees for interbank loans and guarantees on private savings of up to 50,000 euros per year. The high flexibility of the European Union monetary system, despite the lack of a centralized fiscal authority, enabled the European Central Bank, with minor changes in its system of work, to maintain liquidity of both individual financial institutions and asset markets in the first year of the crisis.

After the bankruptcy of Lehman Brothers in September 2008, there were significant disturbances in the Eurosystem's money market, which imposed the need for a radical change of the existing system and the introduction of non-standard measures to support liquidity. For the purpose of more efficient support to the liquidity of commercial banks, the ECB switched in mid-October to the so-called fixed rate tender procedures with full allotment, according to which the interested institutions could borrow desired amounts with the payment of fixed interest rate determined in advance by the ECB. As a complementary measure the ECB introduced the possibility of a long-term loan secured by different types of assets as collateral. Significant liquidity is also provided by the conclusion of currency swap contracts, most often with the Fed, as well as by the purchase of private bonds as the primary sources of bank financing. With the first signs of improving the conditions in the financial market, it was decided to start with the gradual abolition of long-term refinancing operations and currency swaps, and to further perform tender procedure for the three-month long-term financing operations at variable rates.

Previous arguments clearly show that, after the outbreak of the crisis, the Fed and the ECB appeared with a rather aggressive anti-crisis policy. A significant drop in reference interest rates alleviated the terms of conducting monetary policy, while the introduction of non-standard instruments provided necessary liquidity both to individual institutions and key market segments. Anti-crisis policy of the ECB revealed, however, certain specific characteristics in relation to the anti-crisis policy of the Fed, due to its focusing exclusively on the banking sector liquidity support (Ponce, 2010). Although different in their application, both anti-crisis strategies were aimed at improving the financial regulatory framework. Given that the current crisis scenario extorted increased state intervention, the question arises whether the imperative improvement of the financial regulatory framework challenges the basic postulates of neo-liberal paradigm, and whether the solution should be sought in a convergence or in a synthesis of past and current paradigms.

4. IS THE SOLUTION IN THE SYNTHESIS AND SYNERGY OF PAST AND CURRENT PARADIGMS?

The current financial crisis has denied the principle of laissez-faire based on market self-regulation, and re-actualized the need for government intervention. Specifically, with the deregulation of financial regulations, banking institutions as key financial intermediaries entered the competition with a heterogeneous group of non-bank financial institutions. A wave of disintermediation, i.e. reduced participation of banks in financial intermediation in the 1980s, imposed the need to introduce a range of financial innovations, which should enable them to maintain their market position. In such circumstances, banks introduced the securitization of mortgage loans, having entered high-risk operations with financial derivatives. A high level of financial leverage, in the absence of adequate control of all participants in the securitization mechanism, led to huge losses in balance sheets of banks.

In such an environment, government intervention is absolutely necessary, given that the market mechanism has proved to be inadequate as a coordination mechanism. In the book by N. Serra and J. Stiglitz, entitled "The Washington Consensus Reconsidered", it is emphasized that, in the conditions of growing integration in the areas of IT, production and civilization in the 21st century, distrust of state interventionism is impermissible (Drašković, 2009, p. 139). The point here is primarily the need to regulate the financial services sector, whose volume of transactions increased several times and exceeded the volume of transactions in the real sphere. However, although state intervention in the financial services sector is utterly indispensable indeed, the question is what the optimal level of intervention would be. One of the misconceptions of the financial crisis is that it is the consequence of inadequate regulation. It should be borne in mind that the concept of financial globalization is based on the model of crisis management. The most important segment of crisis management is the regulation at the international level, in order to alleviate the negative effects arising from different degrees of financial deregulation at individual national levels. But, deregulation effects are so large that they are getting out of control of both national and international regulators. Namely, economic and financial, as well as political power of global players has increased, and they do not allow any restriction of their activities. Therefore, the expectations from a tightening of regulation are unrealistic, because the changes have a posteriori and cosmetic character, thus ensuring the status quo for global players. Moreover, the regulatory changes are formal and of extremely quantitative range. The inability to exert a prospective effect on increasingly complex and risky operations of banks is compensated by stipulating large number of complicated procedures. It is interesting to mention the fact that the Glass-Steagall Act (GS Act) of 1933 had only 37 pages, which did not prevent it to provide financial stability all the way to the end of the twentieth century. In contrast to this, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 has 8,500 pages and over 20,000 additional pages of supporting documents, specifying the members of this Act.

There is no universal recipe for interference of the state in the financial services sector, but it must be adapted to the specifics of a particular national economy, as well as its internal and external environments. However, the fact that excessive regulation hinders functioning of the market, while on the other hand deregulation contributes in causing the financial system to be prone to crisis incidents, seems to lead to the synthesis and synergy of past and current paradigms. Has the time come for the promotion of a complex economic theory that would be the result of mixing individual parts of different economic theories, manifested in the historical development, which would allow the emergence of synergetic effects of the complex economic theory? In this sense, an efficient market with sufficient and adequate regulation is a key assumption of exiting the current global financial and economic crisis and of normal functioning of the financial and real spheres of economy.

We believe that the development of economic thought so far provided enough economic theories and models to formulate a universal theoretical paradigm that would, on the one hand, have a preventive effect on the occurrence of the causes of crisis, and at the first sign of crisis undertake an anti-crisis action, through the involvement of international and national institutions, on the other hand. Accordingly, it is time for a *civilization synthesis*, which would be underlain by the *universal economic-theoretical paradigm*. In fact, the change in the ruling paradigm would also enable a change in the political situation in the world and, based on that, a change in the operation of global institutions, on the one hand, and a change of national economic policies, on the other hand.

At least two conclusions may be drawn from the above statements:

1) Future economic paradigms will be less and less ideologically burdened, given the current trend of relativization of the ideological conflict between capitalism and socialism, because socialism accepts market economy as well;
2) Former competition between socialism and capitalism will be transformed into a competition of different variants of the market economy, because there is a process of convergence of social and economic systems as a result of, among other things, economic and financial globalization.

In this sense, the *balance between market and state* is essential. This would mean that the state should act in a corrective manner relative to market dysfunctions, that is, to correct mistakes and regulate the market in the pre-crisis period in order to avoid the crisis, or eliminate market deficiencies when the crisis occurs. When it is said that a balance of market and state is needed, it does not refer to the mathematical or absolute balance, but to a dynamic equilibrium that is based on the functional balance. Functional balance allows relatively stable and acceptable rates of economic growth, in the context of sustainable development, as well as an acceptable level of social justice. Considering the advanced stage of the globalization process, the balance will be established on two levels: 1) global and 2) national levels. Although globalization involves the harmonization of social, economic and financial institutions, instruments, mechanisms and principles, it does not necessarily mean that the international (global) institutions condition their economic and financial assistance to certain economies on their absolute acceptance of global rules of functioning. For example, developing countries and countries in transition cannot be expected to implement the concept of a fully independent central bank whose primary goal is the minimum rate of inflation, and that the same is not required of developed countries that manage these global institutions, and so on. This means that global institutions such as the IMF, WB, ECB would have at their disposal a wider range of possible measures to be applied to particular countries, depending on the specifics of their problems. At the same time, global institutions would take into account the specific form of balance necessary for a particular country.

Having regard to the previous stage of equilibrium, the second one would be established at the level of national economies. Weights of the importance of market and economy in the equilibrium model would depend on the phase of the economic cycle and the condition of the social and environmental dimensions of society. In thus devised equilibrium model, an optimal ratio is established between different dimensions of man: homo economicus on one side, and his social and environmental dimensions on the other. In the conditions of economic prosperity, high rates of economic growth provide the realization of all the human dimensions by relatively small state interventions, meaning that the equilibrium model would be based on a greater weight of market significance. In the case of economic recession, where market dysfunctions are increasing, the equilibrium model would involve an increased weight of state participation in the re-establishment of optimal relations between different dimensions of man. Thus understood, the equilibrium model involves an interactive relationship between these two - global and national levels of balance.

CONCLUSION

The current financial crisis has denied the principle of laissez faire, based on the self-regulating market, and re-actualized the need for government intervention. Here it is primarily the issue of the need to regulate the financial services sector, whose volume of transactions increased several times and exceeded the volume of transactions in the real sphere. Considerable costs of the financial crisis caused that special emphasis is put in this work on the basic components of the regulatory framework for preserving the stability of the financial system, which exhibited different characteristics in specific anti-crisis strategies. Since the current crisis scenario extorted increased state intervention, the question raises whether the imperative improvement of the financial regulatory framework challenged the basic postulates of neoliberal paradigm, as well as whether the solution should be sought in a convergence or a synthesis of past and current paradigms.

A universal recipe for state interference in the financial services sector does not exist, but it must be adapted to the specifics of a particular national economy, as well as of its internal and external environments. However, the fact that excessive regulation hinders operation of the market, while on the other hand deregulation contributes to the inclination of the financial system to crisis incidents, seems to lead to the synthesis and synergy of past and current paradigms. In our opinion, former development of economic thought has provided sufficient economic theories and models to formulate a universal theoretical paradigm which would, on the one hand, exert a preventive effect on the occurrence of the causes of crisis and, if the first signs of crisis appear, take an anti-crisis action by involving international and national institutions, on the other hand.

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IMPERATIVNO UNAPRERĐENJE FINANSIJSKOG REGULATORNOG OKVIRA – CONTRADICTIO IN ADJECTO NEOLIBERALNE PARADIGME

Globalna finansijska kriza uslovila je masovne intervencije monetarnih i fiskalnih vlasti, poput sanacije propalih banaka, osiguravajućih društava i drugih finansijskih institucija i ubacivanja u finansijski sistem ogromnih količina novca, a sve u cilju njihovog spašavanja i sprečavanja daljeg širenja krize. U takvom ambijentu, dovedeni su u pitanje osnovni postulati na kojima počiva neoliberalizam, kao vladajuća ekonomska doktrina od 80-ih godina 20. veka. U tom smislu postavlja se pitanje da li je imperativnim zahtevima za unapređenje finansijskog regulatornog okvira izvršena suštinska relativizacija do tada dominirajuće neoliberalne paradigme.

Ključne reči: *neoliberalizam, globalna finansijska kriza, finansijski regulatorni okvir*.