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## FICTITIOUS AGGREGATE DEMAND AS ECONOMIC FORM OF EXPANSION OF BORDERS OF REPRODUCTION OF THE INDUSTRIAL CAPITAL

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*Ластовенко М.Г. Фіктивний сукупний попит як економічна форма розширення меж відтворення промислового капіталу.*

Аналізується проблема формування фіктивного сукупного попиту як економічної форми розширення меж відтворення капіталу. Простежується вплив фіктивного споживання раціональних індивідів у вигляді фіктивного сукупного попиту на двофазний економічний цикл. Досліджуються особливості двофазного економічного циклу в сучасних умовах.

*Ключові слова:* фіктивний сукупний попит, фіктивне споживання, двофазний економічний цикл, відтворення промислового капіталу, системна криза

*Ластовенко Н.Г. Фиктивный совокупный спрос как экономическая форма расширения границ воспроизводства промышленного капитала.*

Анализируется проблема формирования фиктивного совокупного спроса как экономической формы расширения границ воспроизводства капитала. Прослеживается влияние фиктивного потребления рациональных индивидов в виде фиктивного совокупного спроса на двухфазный экономический цикл. Исследуются особенности двухфазного экономического цикла в современных условиях.

*Ключевые слова:* фиктивный совокупный спрос, фиктивное потребление, двухфазный экономический цикл, воспроизводство промышленного капитала, системный кризис

*Lastovenko M.G. Fictitious aggregate demand as economic form of expansion of borders of reproduction of the industrial capital.*

The problem of forming of the fictitious combined demand is analyzed as an economic form of expansion of borders of reproduction of capital. Influence of fictitious consumption of rational individuals is traced as the fictitious combined demand on a biphasic economic cycle. The features of biphasic economic cycle are investigated in modern terms.

*Keywords:* fictitious aggregate demand, consumption fictitious, biphasic economic cycle, the reproduction of industrial capital, a systemic crisis

The global crisis of 2007-2013 which began in the U.S.A. in the credit and banking system in the sphere of circulation of money and then covered the entire wholesale trade, stock exchange and trade and became a vivid manifestation of the crisis of industrial capital, productive capital, overproduction of goods and services, crisis public demand. Aggregate demand cannot absorb that old assortment, which is produced by social production. The old structure of social production; the total labor force is no longer able to meet the new demands and requirements. Economic balance has been violated. The global crisis confirmed the development of globalization of economic ties and interweaving of national economies, turning them into a single world economic system [1].

Now a separate state cannot own their economic ties. Only joint international institutions (IMF, World Bank, EBRD, etc.) under the force to solve the world financial crisis.

### Analysis of recent researches and publications

Problems of functioning and development of industrial capital in a systemic crisis remain relevant and require further development. This problem is the subject of many research works, both foreign and Ukrainian scientists, economists T. Veblen, J.M. Keynes, K.R. McConnell, St.L. Brue, S. Fischer, R. Dornbusch, R. Schmalensee, K. Marx, R. Lucas, F. Kydland, Ed. Prescott, P. Samuelson, M. Tugan-Baranovsky, M. Zveryakov, N. Kondratiev, Yu. Bazhal, V. Geyts, S. Mochernyj and etc.

However, representatives of different schools, concepts, economic theories have different approaches to the elucidation of the problems of cyclical development of the economy and problems in the functioning of consumer behavior of rational individuals.

First, in modern literature does not focus on the fact that the objective basis of economic cycles is the reproduction process of industrial capital. Second, from a methodological point of view of modern economic development processes require consideration reproduction of industrial capital as part of his economic nature, its inherent economic laws, and from the consumer behavior of rational individuals, the theory of consumer behavior. Until now, the economic literature is dominated by the concept of exploring the economic, industrial cycles as such, without regard to their bilateral development. And the problem is that the process of reproduction of

industrial capital as a whole to consider, both from the productive consumption, and on the part of consumer behavior, in terms of the subjectivist approach, the concept of marginalism, and then trace the laws of their development and forms of their manifestation. Third, we need to consider the problem of the influence of direct consumers to expand the limits of the reproduction of industrial capital and analyze the process of reproduction of industrial capital through the rational consumer behavior of individuals and the formation of fictitious and fraudulent consumer demand.

Tugan-Baranovsky tried to make a synthesis of the theory of marginal utility G. Gossen and labor theory of value Marx, and on this basis showed his vision of the causes and forms of development of the capitalist cycle that the market for capitalist economy can expand while reducing public consumption and public wealth can grow while reducing social income [2]. However, the author does not analyze the problem of formation and functioning of a fictitious utility, fictitious and fraudulent needs demand.

In the "General Theory of Employment, Interest and Money" J.M. Keynes justified consumption function, investment, savings, demand for money, etc., and showed a close relationship between consumption and income, hypothesized falling propensity to consume as they grow income. But there are not all economists agree with this hypothesis. Research of Kuznets showed that the relationship between consumption and income does not have a distinct correlation. Developing this direction M. Friedman hypothesized permanent income, according to which current consumption is divided into permanent and transitory consumption. He further justifies the permanent and transitory income, thus indicating that the latter does not affect the constant consumption or transitory consumption, and only changes the savings of individuals, and their wealth.

Further investigation of the consumption function obtained in the concept A. Ando, R. Brumberg and F. Modigliani. These scientists rational individual consumption function is closely related to the lifecycle of its revenue and expenditure and showed that economic actors throughout his life trying to evenly distribute their costs at constant fluctuation of their cash income. These authors do the function of M. Friedman consumption J.M. Keynes notion of the wealth. At the same time as John Maynard Keynes and other economists do not analyze the process of formation and functioning of a fictitious and fraudulent consumer demand.

So, K.R. McConnell and St.L. Brue consider the theory of consumer behavior on the part of consumer choice and fiscal restraint. When the problem is offset by budget constraints, the authors did not consider the deployment of demand [3].

Researchers S. Fischer, R. Dornbusch, R. Schmalensee, analyzing consumer behavior and market demand, do not pose a problem to trace the structure and volume of fictitious demand, although the problem affects consumer surplus [4].

Paul Samuelson, considering the demand and utility theory, focuses on under the law of gradual decrease of demand law of diminishing marginal utility, which determines the market price. The author analyzes the demand consistently towards the consumer and leaves aside the impact of the demand for capital and capital demand [5].

Most fully and brightly the problem of requirements and usefulness was analysed by T. Veblen in his famous work "The Theory of the Leisure Class" which covers in detail the doctrine of conspicuous waste, conspicuous leisure and conspicuous consumption. At the same time, the author introduces the concept of not fictitious demand and does not bind the excessive consumption of the economic cycle, which is the objective basis for the development of industrial capital [6].

World crisis has demonstrated the relevance of the study of unresolved problems development of industrial capital in a systemic crisis. Remain unsolved problems of the theory economic cycles: reasons generating economic cycles; problem of the functioning of the economic cycle; problems forms of economic cycles and their distribution in the economy; problems models of economic cycles. Also there are problems of volume and structure of fictitious demand and its impact on the reproduction of industrial capital. These and many other similar problems remain unresolved and require further study.

*The purpose of the article* is to study the fictitious demand as the economic expansion of the boundaries of reproduction forms of industrial capital in the functioning of the two-phase economic cycle: the crisis and depression; consideration of fictitious demand through the operation of the two-phase of the economic cycle.

### **The main part**

The current world crisis acts as a systemic crisis; the crisis is not only the relations of production, but also as a crisis of the whole relations of society: political, legal, economic and other forms of social consciousness. Remain relevant problem of general purpose personal development as opposed to unilateral its development, problems of self-expression and identity formation, spiritual problems, problems of philosophy, culture, ethics, aesthetics, etc.

Public process of capitalist reproduction, taken as a whole, can be represented as the whole social revolution of industrial capital. Circuit of industrial capital, considered in a continuous stream of his resume is his turn, is the unity of its production time and the time of treatment. In the process of capital turnover through three successive stages, where he took three resets and economic functional forms, each of which performs certain functions and tasks aimed at ensuring the process of capital accumulation. These are economic functional forms as money, productive and commodity.

In modern conditions of expanded reproduction of industrial capital every economic form receives relative independence and presented three forms of

capital: money capital, developing into a loan-capital; productive capital; trading capital.

In the process of industrial capital turnover is constantly faced with the need to overcome the limits of its movement. Turnover of commodity capital expresses the repetition of acts of buying and selling. For him, repetition turnover of industrial capital, which reflects the frequency and the resumption of the process of reproduction, including the process of consumption, acts only external condition. To ensure a continuous and rapid turnover of commodity capital productive capital must continually deliver goods and services to the market and buy them again. If the reproduction process generally can be slowly, then slows and turnover of merchant capital. Mediating turnover of productive capital, commercial capital reduces the time and cost of turnover of industrial capital.

Productive capital creates a border for trade turnover of capital and industrial capital in general. Production time is already so the natural limit of the capital, which he successfully overcome through the introduction of advanced technologies, new methods of management, scientific work and new forms of marketing; innovations allow him time to make working in a clean working period.

Further, in the process of reproduction, the industrial capital is faced with the next frontier of his movement – the limit, which puts him productive and personal consumption. The speed and size of the entire productive and personal consumption create border turnaround time as a commercial and industrial capital as a whole. Especially it concerns personal consumption, as the bulk of trading capital is ultimately the consumption fund. In some countries it is over 70% of GNP.

Productive, private, public consumption as a whole – these are the limits that are necessary whenever expand and overcome commercial capital to accelerate its turnover to ensure its steady growth. This process of expansion and rapid turn takes the form of general revival and prosperity, especially in periods of speculation (turnover between merchants when a merchant sells to another one and the same product), economic recovery and trade boom.

Commercial capital reduces phase purchase  $M - G$  and phase of the sale of goods  $G - M$  for productive capital, reduces the circulation of industrial capital turnover to zero. Thanks to the development of credit capital and its credit and banking system, it is possible to make extensive use of a significant part of the total money capital of the company, which is sprayed through credit and banking system is formed in the form of credit resources. And so the commercial capital can produce their purchases until the time when the goods purchased will be finally implemented. And in this case it does not matter whether the trader sells its products directly to consumers or other traders. Currently, more than 90% of world trade is carried out in the form of credit.

In an emergency the elasticity of the reproduction process of industrial capital, which can be displayed continuously at a given limit, in the production, he

finds no boundaries or only very elastic border. In addition to individual acts of sale of commodities ( $G - M$ ) and the purchase of goods ( $M - G$ ), arising from the nature of turnover is a dummy demand both individual and aggregate. Thus there is the formal cause of the crisis, as the sales process in time cannot be the same and, as a rule, does not coincide with the process of buying goods. This gap in the field of monetary turnover inevitably leads to crises which express the deepest causes of their appearance and reflect the crisis in the operation of industrial capital.

Movement of merchant capital, despite its relative isolation, the relative independence, is always, in fact, the movement of industrial capital in the sphere of circulation. Nevertheless, due to the fact that it is isolated and therefore the trading capital performs its movement within certain limits, regardless of the limits which it sets the reproduction industrial capital. Trading capital within certain limits and can make the process of reproduction out of their coasts. Internal and external dependence independence leads trading capital to this limit when the internal communication is regained by force, through crises and through crises. Therefore crisis – is an economic form by means of which the industrial capital establishes constantly being broken proportions between cumulative demand and the cumulative offer, between production and consumption, between the volume and structure of public requirements, volume and structure of means of production, cumulative labor, fund of vital means.

Crises usually first show up and do not arise in the retail trade, dealing with direct consumers, and in wholesale trade and credit and banking system that provides wholesale cash capital of the company. As a general rule, notes M.I. Tugan-Baranovsky, industrial crisis preceded the stock market crisis [2].

Cyclic development of capitalist reproduction happens through the four phases of the crisis, depression, recovery and growth. In modern conditions, this chain is broken, and there was a tendency to becoming a cycle consisting of two phases: the crisis and depression. After the depression crisis begins again. In the literature, this phenomenon is called – the second wave of the crisis. This phenomenon occurs under the domination of public-finance capital [7, 8]. The emergence of a two-phase industrial cycle has F. Engels pointed out, and M.I. Tugan-Baranovsky noted that "...the capitalist cycle is composed of three stages of industrial expansion, crisis and industrial stagnation. However, the crisis is not inevitable fazis capitalist cycle – lift can move into stagnation and gradually, without acute crisis. In this case, the capitalist cycle is composed of two fazes – rise and stagnation of industry" [2].

In modern conditions of a two-phase motion of the economic cycle of the global economy has found a new economic form overcoming boundaries. Fake aggregate demand expands at a certain time, the boundaries of capitalist expanded reproduction. Fake aggregate demand has a specific similarity with fictitious capital, which is represented in securities (stocks, bonds, checks, etc.) income to their owners

and make independent movement on stock exchanges and which is a kind of reservoir for excess industrial capital, credit capital. Fake aggregate demand also fulfills role of original reservoir but very particular reservoir demand. Specificity of fictitious demand lies in the fact it expresses the need fictitious utility benefits consumer starts to consume unnecessary goods and services, excessive in relation to the development of the individual as a person. It does not contribute to the harmonious development of the free universal wealth human nature for its own sake.

In modern conditions of economic development fictitious aggregate demand is represented graphically in organizing shopping industry various types of sales, shopping clubs, shopping tourism. Provides an entire business infrastructure, engaged in advertising, transport providing accommodations for more consumption, fictitious increase in aggregate demand. On the other hand, in countries where there is a surplus of consumer products, successfully operating company to provide services to restore order in the wardrobe. Typically, these firms face the fact that dozens of outfits and shoes are not used at all, are in the shopping package. Many residential properties are not fully used by tenants in such housing accommodations are unclaimed.

The situation is similar as well, and in the food market. Industrial capital is committed to continuously enhancing the range of food products. Simultaneously mankind emits millions of tons of trash waste benign food. All the forces of modern science in the field of psychology, law, in particular the introduction of juvenile law, aimed at what would childhood instill individual consumer characteristics, develop his general consumption, turn it into a car consumption. Healthy, natural human need is not able to overcome that and a lot of that range of consumer goods offered him a modern capital. When starts stimulate human consumption beyond its natural, healthy needs industrial capital there by expanding its borders functioning. And abroad, limit its functioning and development is the average rate of profit. Capital seeks to maximize profits and minimize their costs, and he succeeds at certain times and in certain sizes through the expansion and development of the fictitious aggregate demand. Only crisis stops the process and then it starts again, only at a higher level. In modern conditions of social production phases of economic cycles lost clearly defined boundaries, and a tendency to get a relative independence phase of crisis and depression. Also this situation changed during the operation of the economic cycle. Growing trend economic cycle gets in the shorter period of 2-3 years. In such circumstances, the economy dummy aggregate demand is an additional incentive for the development of industrial capital, and in certain periods of time, especially during the crisis, almost the only means of recovery capital.

According to the same laws and in this direction develops and jewelry market, the art market, the market for cars, smart phones, etc. The productive capital that directly produces goods and services that satisfy the needs and fictitious demand in fact is also

unnecessary and ultimately used inefficiently. Here the problem of effective and inefficient use of a social production, a problem of social and economic efficiency of use of capacities in the conditions of a capitalist way of production appears.

If aggregate demand represented as a mathematical formula, then to a certain extent it will overlap with the formula effective aggregate demand J.M. Keynes. However, the similarities with the Keynesian formula are only superficial. Indeed, J.M. Keynes does not allocate aggregate demand and to explore its relationship to the economic cycle, especially with the two-phase process of its development. Thus, a mathematical formula fictitious aggregate demand has the form:

$$FAD = D_{pc} + D_{prc} + \Gamma_{pc} + E_d, \quad (1)$$

where:

- FAD – fictitious aggregate demand;
- $D_{pc}$  – fictitious demand from personal consumption;
- $D_{prc}$  – fictitious demand from productive consumption;
- $D_{si}$  – fictitious demand state institutions;
- $E_d$  – fictitious demand from other government.

On this aspect of consumption and demand have pointed representative's theory of consumer behavior, but the brightest lighting problems fictitious consumption was given in the American economist and sociologist Thorstein Veblen founder of institutionalism. Thus, in "The Theory of the Leisure Class" Thorstein Veblen focuses on conspicuous leisure, conspicuous consumption, waste and utility imaginary. Investigates their institutional and economic forms and methods, allocates social groups and the whole classes of the people which main occupation is excessive, harmful, unhealthy consumption [6].

## Conclusions

Through free competition industrial capital provides its movement destroys the historical boundaries that hinder and slow down its proper development. Free competition provides free development of the capitalist mode of production, the economic conditions of its reproduction [9]. Free competition provides free development of production based on capital is the most appropriate form for the economic development of the social productive forces. Under free competition, individuals are not free, their freedom extends into the framework of freedom of capital and subordinated to it.

Fake demand individuals just aims at expanding the limits of the reproduction of industrial capital. And only a crisis of reproduction of industrial capital, on the one hand, reduces aggregate demand fictitious rational, optimal, on the other hand – it stimulates the development of all socio-economic conditions for the expansion of fictitious demand.

Thus, the industrial capital in the course of the expanded reproduction overcomes borders by means of expansion and development of fictitious aggregate demand. And he manages to do at certain times and in

certain volumes. On the other hand, is further developed itself fictitious aggregate demand, multiplying its structure and its volume. Industrial

capital stimulates fictitious aggregate demand and aggregate demand dummy acts as a form of economic expansion of the boundaries of the capital.

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