TRIGGERING THE GLOBALIZED ECONOMIC CRISIS. EFFECTS AND INSTRUMENTS TO FIGHT IT

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ABSTRACT: *The economy of decline, with the type of problems that characterised a big amount of the economic activity of the 1930s, aspects that have not been met until now, has made a forceful comeback, taking into consideration the fact that 15-16 years ago nobody would have thought that the modern nations would be forced to suffer the severe effects of this recession, only for fear of the currency speculators, and that the big advanced nations will find themselves incapable to generate sufficient expenses to maintain the workers and economic agents employed. The world economic system has proven to be much more dangerous. The financial crisis of the United States has spread in the states of Asia, Europe, etc., as a consequence of the economic globalization, and not only.*

KEY WORDS: *crisis, recession, decline, stock exchange, bank, market, credit, financial system, employment*

1. TRIGGERING THE GLOBALIZED ECONOMIC CRISIS

As Daniel Dăianu said in 2004, "the decline of the stock exchange in the USA started in the late 2000, it could be anticipated because economy cannot avoid fluctuations, despite certain interventions of governments to willingly stabilize it"[1]. History records similar situations, when periods of stock exchange ascension (euphoria) were followed by massive falls, panic and trust crisis), with considerable loss for a lot of investors. The impact of stock exchange fluctuations on the incomes (wealth) of an important part of the population is big in the present-day context as compared to the one two decades ago, taking into consideration the weight of the ones who own stock exchange shares, which has almost tripled.

The great boom of the real estate market in the United States started to deflate in the autumn of 2005, but only at the end of spring 2006, did the world start to realise the weaknesses of the market, when the prices started to fall, slower at first, than faster and faster. The first moment of truth came in the early 2007, when it became visible

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that the substandard loans were in trouble. This practically meant that anyone who had bought a house in the top years of the speculative balloon, even if they had paid an advance of 20%, would end up with a negative capital - with a debt bigger than the value of the mortgaged house.

"As the severity of the real estate crisis made way in people's conscience, it became clear that the creditors will lose a lot of money - as will the investors who had bought promissory notes guaranteed with mortgage receivables. But why would we sympathise with these people, and not with the real estate owners?"[2]. The end of the real estate balloon will bring about losses of trillions of dollars borne by the house owners, while the investors' losses - who triggered the collapse of the banking system from the background - will be a lot smaller.

The event that triggered the crisis seems to be the fall of investment bank Lehman Brothers, on 15th September 2008. When Bear Stearns, another of the initial five big investment banks, had got into trouble in March 2008, the Fed ("The Federal Reserve" with the short name "Fed" or "the treasury secretary"; The American equivalent of a finance ministry, is the Treasury Department, run by a secretary) and the Treasury had intervened - not to save the company, which disappeared, but to protect the company's "counter-parties", meaning the entities to which Bear Stearns owed money or with which it had closed financial transactions. Almost everybody had hoped that Lehman Brothers would benefit from the same treatment. But the United States Treasury decided that the consequences of Lehman's bankruptcy wouldn't be so severe, and allowed the company to sink without offering protection to its counter-parties.

"It became clear within few days that this movement had been a disastrous one: trust fell further, the asset process collapsed from a steep top, and the few crediting channels left working ran dry. The de facto nationalization of insurance giant AIG, a few days later, did not manage to stop the panic" [2].

This is the financial aspect of the crisis, which envisages nothing good for the "real economy" that of the work places, of salaries and production.

The decrease of the home prices has a direct negative effect on employment by diminishing the construction activity, and tends to cause a reduction in the consumption expenses, through the harder and harder access to crediting, based on the guarantee represented by a house; these factors have a multiplying effect while the employment reduction leads to new decreases in the expense volume.

Nevertheless, the economy of the United States held on quite well in the beginning against the collapse of the real estate market, mainly due to the dollar frailty, which led to export increase, thus compensating the construction decline.

Thus, intensifying the credit crisis after the fall of investment bank Lehman Brothers, the sudden crisis from the emergent markets, the collapse of the consumers' trust, they all indicate the most severe recession in the history of the United States, and of the world as a whole, starting with the 1980s onwards. The recession of 1981-1982, which pushed the unemployment rate over 10%, was, more or less, a deliberate option: the Fed followed a policy of the expensive money to cut the inflation, and then the head governor of the Fed was again the one who decided that the economy had suffered enough, and it had to be resurrected.

Unlike the recession of 1981-1982, the endeavours of the governors to resurrect the economy are forceless, which makes us remember Japan in the 1990s and 1930s. The world economy is surely in a decline economy, but not in an economic depression (for the moment). During the last decades, the stress of the economic thinking deviated constantly from demand to offer, in economy. This deviation was partly the result of the theoretical disputes in the field of economic science, disputes that propagated gradually and blunted in the general interest discourse. Succinctly, the source of the theoretical disputes was the following: "in principle, the aggregated demand deficits would heal themselves if the salaries and prices fell rapidly against unemployment" [2].

2. EFFECTS AND INSTRUMENTS TO FIGHT IT

Paradoxically, if the theoretical drawbacks of the demand economy are a reason for which the return of the problems specific to decline was not noticed, the practical successes of theory represent a second reason. During all those decades in which the economists contradicted one another, some saying that the monetary policy can be used to get an economy out of recession, and others that it cannot, the central banks went ahead of them many times and this is exactly what they did, so efficiently that, in fact, the idea of a prolonged economic depression due to insufficient demand became unlikely.

On the short term, the world is stumbling from a crisis into the next, all of them having as the crucial core the problem of generating enough demand. Japan starting with the 1990s, Mexico in 1995, Thailand, Malaysia, Indonesia and Korea in 1997, Argentina in 2002 and almost the whole world in 2008, one country after another, went through a recession which, at least temporarily, cancels whole years of economic progress and discovers that the traditional solutions of public policy seem to have no effect. The question of how it is possible to create enough demand so as to use the economy capacity has become crucial again.

The emergency measures that arise to save the crisis situation are the responsibility of the governing policies representatives in the entire world, and they refer to [2]: Re-starting crediting; Stimulating expenses.

The first task is the hardest, but it has to be fulfilled as soon as possible. Crediting loosening must be done through any means at hand, without thinking that the interference to save the financial system smells of "socialism" (socializing capitalism).

"The spread of the financial crisis to the emergent markets makes the global saving effort for the developing countries to represent part of the crisis solution" [2]. Beside the re-capitalization component given to the banks, other components are put into motion: loans given more easily by the International Monetary Fund (FMI) to certain countries whose economies are in difficulty.

With all these financial system saving operations, capable to revive the credit markets, the global decline that accumulates inertia can be saved through the **tradition Keynesian fiscal stimulus** [2].

The United States tried this stimulus at the beginning of 2008 as a plan of economy "forced start", but the results were discouraging. First, the stimulus was too small (a percentage of the PIB - Gross Internal Product), and then the stimulus was in the form of tax reductions, out of which many were rather saved than spent. “The next plan should concentrate on supporting and extending public spending – *support*, by supplying help to the state and local authorities, and *extension,* by financing road, bridge and other infrastructure objectives projects” [2].

Japan did the same thing in 1990, creating a fiscal incentive through expenses on public works, which stopped it from falling into a real depression. Moreover, “we have reasons to believe that the stimulus for public expenses would function better in the United States than it functioned in Japan, if prompt action is taken” [2].

In Romania, the economic crisis is conceived as a tsunami wave started in the United States of America and which sweeps the countries of Europe and the whole world one by one, advancing km by km. A more careful look can notice that the economic troubles started by the crisis in the USA are just a “facet of a much more complex reality which combines external economic factors with other factors that belong exclusively to the Romanian environment” [5].

The present-day crisis can be used as an opportunity, as it was done in 1997-1998, when Romania accelerated the transition to market and the European Union, using instruments of crisis control, such as *the state budget or the anti-crisis program.*

“This has to be clear: it was not the international crisis that induced the economic crisis in Romania. This latter one has deep own causes. But, undoubtedly, the international crisis adds to, increases the internal crisis, which would have manifested anyway, and increases its impact and consequences, and it certainly hardens its overcoming. That is why the crisis in Romania will be more severe that in the countries where the international crisis burst, and it will probably last longer. Anyway, overcoming the crisis will be more difficult and further in time in Romania” [4].

The main factor that affected the business environment in Romania is the demand decrease. This has to be seen as part of a complex assembly interdependent on factors, among which the most important ones are: credit availability, the exchange rate volatility, the appearance of debts and liquidity problems, etc.

All these are the effects of certain public policies adopted and of the voluntary reduction of personal private consumption as a way of protection against the effects of the crisis. In the context of the world present-day crisis with financial – economic character, it is possible “to deepen the structural crisis in which Romania entered by deindustrialization, by reducing the number of employees to almost half, and by the dependence on imports for assuring food of 21.5 million people [3].

The demand decrease reached historical rates, according to the managers' perception. The BNR market position bulletin from January 2009 mentions that 51% of the questioned managers consider the decreased demand the main cause of production limitation. The crisis affects the activity fields selectively. The companies in the metallurgic industry, of metallic constructions, the means of transport industry, construction materials, chemical industry, textile industry, the construction sector (affected especially by the lack of crediting) are affected.

“The financial – banking sector is probably among the most affected by the economic crisis, being influenced negatively by all the crisis factors” [5]. The reference interest rate increased from 7.5% in January 2008 to 10.25% in September 2008, at present being reduced to 9.5%. Moreover, the compulsory reserves rose both in lei and foreign currency. The credit level has fallen spectacularly starting with November 2008, being maintained until now.

The crisis placed its print on the workforce as well, thus the number of employees started to decrease slightly in November 2008, after a relative stagnation at the half of 2008. In the last years, a continuous increase of this indicator had been recorded, even if it was not a spectacular one. “Referring strictly to Romania’s case in 2009, over which 19 years have passed since its change in 1989, the statistics and real life show that the average economic situation of the country and of the great majority of its people has not improved, but on the contrary it has worsened” [3].

Although until now the crisis is not reflected in statistic data, it is estimated that the impact is bigger than the statistic data, the Public Employment Office (ANOFM) announcing major redundancies and an unemployment rate of up to 8% at the end of the year.

It is but the beginning of a difficult period for the unemployment insurance budget, reduced drastically in the last years, fed by less and less people and a decreasing tax rate.

Under these circumstances, a major deficit source appears in the public finances, coming from an area considered quiet, during the economic growth period.

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According to the opinion of the specialists of the Romanian Academic Association, 2009 is marked by searching solutions to the world economic crisis, thus it is useful to know which are the tendencies with significant impact for the dynamics of the economy, but the environment of 2009, characterized by high volatility, creates insecurity regarding the significant estimations of certain economic indicators.

A group of economic experts of the Romanian Academic Association, who took part in the elaboration of *The Annual Report of Analysis and Forecast, suggested a set of* measures meant to reduce the social costs of the crisis and to re-launch economy, such as:

- tightening control on the public expenses, especially the current ones, with a view to maintaining the budgetary deficit under 4% of the Gross Internal Product (PIB);
- the need to conclude an agreement with the International Monetary Fund (FMI), in order to finance the current account and budgetary deficit;
- the priority of the public investments whose destination is: the transport (road) infrastructure; house policy (including the program of thermal rehabilitation of blocks of flats);
- the acceleration of spending of EU funds;
- stimulating the crediting of economic agents, especially the ones in the IMM (Small and Medium size Enterprises) sector, by the recapitalization of certain state banks and supplementing the instruments of credit guarantee.

According to the Report, "SAR (The Romanian Academic Association) warns people not to expect miracles from instruments such as the state budget or the anti-crisis program: the capacity to put them into practice is small, and the fiscal policy, after it was compromised in the last years, is hard to be re-launched and cannot solve all the drawbacks of 2009 economy" [5].

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