

USEFUL CRISES

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Abstract

The autumn of 2008 has produced, starting from the American and European mortgage credits crisis, the most powerful and deep financial, monetary and economic crisis, which last phases the most advanced states of the planet seemed to be experienced in the first half of 2009. As anything that happened in the life of humans, the economic crises have not only bad, negative sides, but they also have good, positive sides.

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“The rhythm” of the “most powerful worldwide economic ...crisis”

If there were to be a coordination of the financial and monetary crisis from the second part of 2008 – or maybe that this coordination existed –, it could not have been so perfect on both sides of the Atlantic.

In October 2008, the “financial experts” warned that “the US economy must face the most serious economic recession in the last 26 years”. Fed officials and the ones of the US Department for the Treasury had foreseen an economic downturn, yet they didn’t expect it will happen so fast; the economic downturn resulted in: losing the consumers’ trust, decrease in the number of real estate projects, reduced retail sales, low industrial production. Frederic Mishkin, a former Fed Governor stated: “The economic environment was much more affected than we had anticipated in the last few weeks (from October). Another “guru”, Alan Blinder, former Vice-president of Fed, *predicted that the United States of America would face a more serious economic recession than the one from 2001 or the one which took place between 1990 and 1991.* “The authorities must take the necessary steps to avoid repeating the 1982 experience” Mishkin said. Several experts estimate an increase in the unemployment rate from 6.1% in October 2008 to 8%. Fed officials opiate that it can reach 7.5%, a value recorded in 1992. “We’re facing the most serious post-war economic recession” said Larry Meyer, President of Macroeconomic Advisers and former Governor of Federal Reserve. “We’re heading in the right direction. The Europeans follow the same path, which is very important. However, we don’t know if it is enough until the results are visible on the market” added Mishkin.

On 5 December 2008, at the end of the bilateral Strategic Economic Dialogue, China and the US agreed to unblock 20 billion dollars to unfreeze the and support global trade (the US granted 12 billion dollars, while China's contribution amounted to 8 billion). They also agreed that the American and Chinese export and import banks supported the developing countries importers.

„The fraud of the century” was committed by American Bernard Madoff, using a Ponzi scheme. Aged 70, Madoff faced 11 charges for causing a 50 billion dollars damage to important figures from the United States. He was arrested on 11 December 2008. He paid the 10 million dollars bail and faced home detention until March 2009. Madoff pleaded guilty, aware of the fact that he could serve 150 years of imprisonment.

The ILO protection shield

1.5 billion employees worldwide – a quarter of the world's population, in other words, the entire active population – are facing hard times. The recession will result in increased unemployment rates. In 2009 20 million people more will lose their jobs, compared to the previous year. Also, “millions of people *had better be prepared*” for wage cuts. These gloomy perspectives have been made public and are included in the first global report on wages, elaborated by the ILO in November 2008.

According to the ILO experts, “human resource specialists”, a decrease in the economic activity by 1% results in 1.5% wage cuts. However, they cannot accurately predict the extent to which this model is applicable in the current recession. Still they warn on a decreasing general consumption which will deepen the recession and delay the economic recovery.

ILO's first global report on wages reads that men are better paid than women by approximately 10 to 30%. ILO supports the introduction of the minimum wages/economy as an initiative to eliminate income gaps.

The European Union economic recovery plan

On 26 November 2008, the European Commission presented the EU Economic Recovery Plan amounting to 200 billion dollars which covers: granting an advance from the structural funds, tax exemptions, securities and state grants. The Plan does not only focus on short term solutions to help the EU Member States face the recession, but also to long term solutions contributing to the post-crisis development. The following aspects are encouraged: energy saving, large-scale usage of renewable energy, fiscal incentives for accomplishing the afore-mentioned objectives, such as VAT relief on the “green” products and services in constructions field or reduced VAT for “intensive work” services; the beneficiaries are small repair shops, barber and hairdresser's shops, as well as housekeeping and assistance firms. In point of the energy saving measures, the European Commission grants direct or indirect subventions for the purchase of environmentally-friendly vehicles or to stimulate energetically efficient constructions.

The Commission will help the Member States to develop and implement great infrastructure projects. Here also the Commission proposed a fiscal stimulus, namely the reduction of the SIC paid by the employers that offer employment to

the unskilled workers or funds for professional retraining programs. The Member States will have to elaborate operational programs having as main target the unskilled workers or the vulnerable categories of the population.

The business environment is the main beneficiary of the Economic Recovery Plan. The firms and companies as well as the public authorities must advance projects. The European Investment Bank supplemented its financial package for loans granted to the SMEs from 10 billion to 15 billion euros yearly, meaning 30 billion for a 6 years period, covered by ERP. The European Commission also announced the grant of 1,5 billion euros for re-teehnologizing the small European companies and their transformation into “green companies”; the foundation of such a company will take only 3 days, with zero expences. The generic purpose of ERP is attracting the investors, a thing that will lead to keeping or creating working places, and also the grant of same taxing adjustments that can lead to an increase of the public and individual consumption.

State grants

A report of the European Commission from November 2008 underlines that the Member States use to a great extent the possibilities provided by the EU rules on state grants, as revised. In 2007, the EU Member States allotted 80% of the grants intended for various objectives, compared to approximately 50% in mid 90, increasing the research and development funds and the environmental protection – focused grants. Facing the actual financial and economic crisis, the coordinated action of the EU Member States and the Commission ensured the rapid mobilization of the mechanisms supporting the financial sector, according to the EU norms regarding the public assistance. The European commissioner for competition, Neelie Kroes noted: I appreciate the effort of the Member States regarding the directing of the public assistance. Compared to the '90, when 50% of the public assistance was directed to the horizontal objectives, the current 80% shows a positive evaluation. In case of an economic decline, the grant of public assistance is even more important.

In the last 25 years, the total state grants level allotted by the EU Member States has decreased from 2% of the GDP in the '80, to approximately 0.5% in 2007. Stressing the Member States trend to focus on horizontal objectives, the statistics indicate though that, on the financial crisis background, in 2008, the restructuring grants were on the increase in some Member States. The Member States and Commission's coordinated approach enabled the rapid implementation of proper support mechanisms in order to cope with the financial and economic crisis, in compliance with EU rules on state grants. The special situation of the markets and the great number of received notifications constitutes a significant challenge of the Commission that has to rapidly solve these cases, making sure at the same time that the measures are proportional and undiscriminating for the companies. As a consequence of a good cooperation with the Member States, and also of the rapid implementation of the unitary measures, the Commission succeeded to answer the notifications and to take decisions in no time, sometimes in less than 24 hours.

Following the reforms implemented through 2005 Action Plan on state grants, more and more assistance measures are now exempted from the Commission's ex-ante control, either by means of the minimise regulation or of the General Block Exemption Regulation, GBER). In 2007, before GBER, the block exempted assistance measures represented 65% of the total number of measures, compared to 40% in 2002, although this aspect is not yet reflected the same way in points of expenses – 13% of the state grants were allotted by block exemption in 2007 (compared to just 6% in 2006). Now, GBER makes easier the granting, by the EU Member States, of the right type of assistance and loosens the access to financing, especially for the SMEs, allowing a more efficient approach of the actual financial and economic crisis.

The statistics also indicate the progress made in point of recovering the illegal and incompatible grants. At the end of June 2008, there were 47 recovering decisions waiting to be executed, compared to 93 at the end of 2004. More than that, 7,1 billion euros have been recovered, and 2,4 billion euros representing interests. This thing means that almost 90% of the total value of the illegal and inconsistent assistance has been efficiently recovered by their beneficiaries by the end of June 2008, compare to 25% by the end of 2004. The Commission considers that ensuring the implementation of the legislation regarding the public assistance by the national court is important for the general system of controlling the public assistance.

Accepting the 3% budgetary deficit

At the beginning of December 2008, the European Commissioner for Monetary Affairs, Joaquin Almunia, mentioned in a press conference the Member States budgetary deficit limits in 2009, accepted by the European Commission – a few figures above 3% for a year, under severe economic growth decrease conditions. “I won't give a particular answer for one country, because we have to analyse the economic situation of each Member State”, he said. The Commissioner emphasized that “all deficits exceeding 3% are excessive unless meeting the following conditions – the economy of the respective country undergoes a dramatic decline, this situation is temporary – not more than one year; the budgetary deficit value remains nearly 3%.

When asked whether the budgetary deficit may reach 4%, the Commissioner replied that the Member States should send the convergence plans (for the states outside the Euro Zone) or the stability plans (for the Euro Zone states) covering the financial packages, the facilities granted and the budget expenses.

The Ecofin Council consisting of the ministers of finance of the EU Member States, convened on 4 November 2008, adopted a 10 page document focused on the improvement of the international financial system initiated by the EU French Presidency. An extraordinary European Council was convened on 7 November 2007 by the French President, Nicolas Sarkozy, to set the European position at the G20 reunion in Washington from 15 November 2008.

The institutions covered are the International Monetary Fund and World Bank. It is crystal clear that the European Union aims at the financial system improvement, while the United States of America, the leader of world economy,

focuses on its consolidation. The current financial system established at Bretton Woods¹, in 1944, requires fond “adjustments”. The International Monetary Fund will improve its governance and financial capacity. It is amazing though the reaction of the main industrialized states of the world which, at the end of 2008, implemented a massive state interventionism strategy to adjust the financial and banking system.

Scepticism deepens the crisis

Theoretically, the current recession seems to be the post World War II longest crisis. The first signs of economic recovery emerged at the end of 2009 and development may reach a normal level in 2010, according to Blue Chip Economic Indicators, a survey highlighting in January 2009 the opinions of 52 economists within important financial firms and companies. Most interviewed people saw the end of the third trimester of 2009 as the end of the recession, marking thus the longest recession period after the Second World War.

What would have been the situation if the interviewed persons had been more optimistic and believed that the recession would be over at the end of the first semester of 2009? Such positive perspectives would have induced a positive economic and financial trend. Economy and finances are, more than we can imagine, the algebraic total of all the individual operations quantified or not by the strategies, the sum of the individual options of the consumers trapped in the web of the respective transformations. There’s a different thing between the negative algebraic sum and the positive one. The actual development depends on the successful economic stimulation measures in progress or to be adopted by the respective government. We mention that such measures – essentially positive – cannot be adopted by negative people! We add to all these the faith of recovery, common to all the citizens of a certain state.

How do you explain the fact that the economic recovery appears if it is induced – subjective – to all the citizens. Study the survey and observe that the recovery is induced by real or made-up information, communicated or suggested. What is the general basis of the human thinking and action? The perception of the reality. On what is based this perception? On representations, but also on own/induces sensations. But what beats all creations is the fact that in the “informational society”, in the “Knowledge society”, the representations and sensations are induced, not produced. The common citizen needs a certain safety, but he cannot obtain it by his own.

According to the Eurobarometer survey conducted in spring 2009², the Europeans are deeply concerned about the economic crisis effects. This worldwide concern affects the economy at all levels on short and long-term. 58% of the

¹ The Bretton Woods system sets the rules of currency and trade relations between the world states and is the first example of totally negotiated monetary order, meant to govern the monetary relations between nations

² Claudia Pârvoiu, Eurobarometer: 58% of the European citizens are negative on the economic crisis www.EurActiv.ro, 21 April 2009.

European citizens feel insecure, while 56% are concerned about their future. In Romania, the negative people percentage reaches 79. At personal level, the negative perspective affects Greece (89%), Hungary (86%) and Lithuania (77%). The lowest values were recorded in Denmark (15%), Finland (27%) and Holland (28%).

At the EU level, 90% of the respondents believe that the financial crisis consequences are important for the European economy. The highest values were recorded in Greece (99%), Belgium and Slovakia (96%). The lowest, yet high values were recorded in Portugal (81%), Romania, Poland, Italy and Bulgaria (86%). The Europeans are in favour of the crisis-fighting coordinated actions. Only 44% considered that the Member States reacted at national level and 39% believed that the Member States took a coordinated approach. On the other hand, 61% think that they would enjoy a higher protection level, if the Member States adopted a coordinated approach. Great Britain (41%), followed by Romania (36%), Denmark and Austria (33%) are in favour of the national decision-making. With respect to the most efficient body to fight the crisis, 17% of the European citizens are confident in the EU authorities, while only 14% trust the national governments. Most of them (25%) choose the G8 authority and only 15% see the United States of America as the most suitable power to fight the crisis. The opinions vary from country to country. Great Britain (65), Sweden (8%) and Denmark (9%) have the least confidence in the European Union, unlike Greece (28%), Cyprus (27%) and Poland (26%) who sees the European Union to be best capable to fight the crisis.

Conclusions

The attempts to adjust to the economic, social, political and cultural realities, the “protection shield” and the recovery strategies including the state grants are meant to diminish the direct effects of the economic crises which generate other types of crises. Mankind is still not ready to adjust to the ever-changing challenges. Scepticism must be replaced by optimism.

The state, through its institutions and strategies must help the citizens understand the positive aspects of a crisis. The state must induce its citizens the idea that a crisis “removes” the useless parts of an ailing body, allowing it to regenerate. A new educational and spiritual model, at individual and collective is represented by the people rapidly adjusting to the permanent challenges, irrespective of the economic and social development stage.

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