UNIVERSITATEA DE VEST DIN TIMIŞOARA
FACULTATEA DE ECONOMIE ŞI DE ADMINISTRARE A AFACERILOR
www.tje.uvt.ro

Timişoara Journal of Economics

Volume 1 Issue 3 | 2008

ISSN: 1842-7340
EUV Editura Universităţii de Vest

www.tje.uvt.ro

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Editura Universităţii de Vest

Content

THE WESTERN ECONOMIC RECESSION – CAUSES AND CONSEQUENCES

Nicolae ȚĂRAN *

It is known that the current economic recession of the Western triad (USA, EU and Japan) started last August with the bankruptcy of some important banks in the real estate field of the American economy. Then, this dysfunction shattered not only the real estate field of the American economy, but also the whole banking and stock market system of the triad, a system that seemed indestructible. As a consequence, the US economy, the economies of the countries in the Euro monetary area and the Japanese economy simultaneously entered a state of recession in the second half of last year. Inevitably, this shock wave spread quickly, causing an important deterioration of the economic situation at global level.

There has been talked and written a lot about these events in national and international media. Apparently, until now there were enough opinions, data and information present in the media regarding the nature, causes and consequences of the current dysfunctions in the most industrialized countries of the world, as well as in the economies of other countries. But in fact, a lot of these data and pieces of information have a very low degree of validity. In national and international media, there are, unfortunately, too many mystifications and ideological omissions regarding the so-called „global financial crisis" and few rational-cognitive evaluations of the nature, causes and consequences of the general recession within the Western triad.

It is known that the evaluation of the nature, causes and consequences of economic phenomena necessarily includes, when possible, the usage of some formal analysis patterns. In general terms, the microeconomic and macroeconomic capitalist systems can be considered structural-functional systems, in which the following critical activities and functions can easily be identified:

- *marketing activities;*
- *research and development activities;*
- *production or operational activities;*
- *staff activities;*
- *financial activities.*

Obviously, these sets of functions are made up of interdependent and not independent activities. Starting from this fact, if financial dysfunctions appear within a certain corporation, these are determined by endogenous causes (the low reliability of the financial subsystem) as well as, especially, by exogenous causes (the low efficiency of marketing, research and development, production and staff activities). In other words, the financial feasibility of corporations represents an effect, rather than a cause of efficient or inefficient usage

*assoc. prof, PhD., Universitatea de Vest din Timişoara, Faculty of Economics and Business Administration, Management Department

of the production factors (work and capital). In this context, if the financial dysfunctions of the systems are determined by endogenous causes, these dysfunctions are easier to be mended, manifesting themselves on short term in money stringencies. But if the financial dysfunctions at microeconomic and macroeconomic level are determined by the inefficient allocation of the production factors, then their mending is much more difficult, in this case there is a solvency crisis. Therefore, the insolvency or the bankruptcy of economic systems actually involves long-term economic or multifunctional counter-performances, while financial crises usually involve short-term financial dysfunctions. Therefore the question to be asked is: what type of crisis are the economies of the most industrialized countries in the world confronted with? Money stringency or solvency crisis?

In general terms, the short- or long-term evaluation of the economic systems' financial feasibility requires the identification, quantification and monitoring of the cash-flow. In a national or international company, for example, with an operational field of activity, one can identify three essential cash-flow categories:

- *cash-flows from financing;*
- *cash-flows from investments;*
- *cash-flows from exploitation or operational cash-flows.*

When the company is financing its actual investments from its own capital and from loan capital, it is financially feasible as long as the cash-flows from exploitation or operational cash-flows (the net operational profit and the amortization of fixed assets) are at least equal with the value of the debt service (long-term credit reimbursements and credit interests) plus the value of the dividends paid to shareholders. In this case, the liquidity or solvency risk is negligible. But in an opposite case, the risk of, sooner or later, setting off a liquidity or solvency crisis becomes certain.

In a similar way, the periodic evaluation of financial feasibility at macroeconomic level involves a systematic analysis of the cash-flows from financing, from investments and from exploitation. From this point of view, national economies are financially feasible as long as the value of Gross Domestic Product (GDP) minus the value of long-term Debt Service (DS) and of Net Exports (NE) is at least equal with the value of Final Consumption (FC) and of Investments (INV) minus the value of long term Loans (LOA), contracted by population, corporations or state in a certain year:

$$PIB - SD - EN = CF + INV - IMP$$

In this case, cash-flow surplus (the saving) represents a non-inflationist resource of consumption, investment and public debt financing.

Analysing the long-term feasibility of the American economy in this way, one can find out that in the last three decades, the value of the GDP was systematically smaller than the final consumption and the long-term Debt Service at national level. *This is why the American economy was confronted with a chronic deficit of financial resources coming from saving. This deficit continually rose during the last three decades and was ultimately financed from internal resources (monetary issue) and external resources (actual or financial investments and bank deposits of non-residents).*

The financing, even the partial one, by the Federal Reserve (the FED) of consumption and investment credits, of the debts of the American govern-

ment, was an inflationist one, because the FED constantly issued an immense quantity of currency, which was to be reimbursed over long periods of time. But as there has been and still is an acute need for dollars at global level, this FED policy did not generate inflation, as predicted, neither in the US, nor in other countries. Furthermore, the immense external financial inputs diminished the inflationist impact of the monetary policy imposed by the FED. This is why the American economy „overheated", even though the gap between the growth of final consumption and debt service, on the one hand, and the growth of GDP, on the other, explosively multiplied, especially in the last few years. But the fact that the FED facilitated the access of population, companies and government to cheap financial resources determined a series of perverse effect, like the following:

- *the excessive growth of consumption credits to the detriment of research and development credits;*
- *the gradual deterioration of American companies' financial feasibility, as a result of the decrease of their competitiveness in comparison to foreign companies;*
- *the explosive increase of oil imports;*
- *the endless postponement of implementing non-polluting technologies in the chemical and energetic industry;*
- *the decrease of banks' and audit companies' exigency regarding the evaluation of financial feasibility of projects financed through bank credits;*
- *the transformation of the Western triad from a net creditor into a net debtor of the emerging triad (Russia, China, India).*

The moment when the proportion of these negative effects caused by the over-indebtedness of the population and the American government reached a critical limit, and the oil price became prohibitive, the companies' and the population's insolvency could not be „rolled over" through the cheap dollar policy promoted by the FED and the tax reduction policy imposed by the Bush administration. Consequently, the American financial system became non-functional, and the real sector of the American economy went into recession, a fact that also determined the same consequences in the countries dependent on the American real and financial markets.

In conclusion, the current financial crisis, that affects the world, started in the USA and in the G7 countries, as a consequence of commercial, technological, productive inefficiency and insolvency of the real and financial sectors of these countries' economies. The West didn't import, but exported the current financial crisis. The consequence is that the crisis' negative effects will be much more important in economically developed countries, than in emerging or economically underdeveloped countries. Finally, counterbalancing this crisis involves corrective and preventive costs, proportional to the nature and the intensity of the crisis. From this point of view, the ball is in the American court. The American economy's insolvency and recession can not be settled or diminished any more, like in the past, through monetary injections and transfusions. It is not possible to emerge out of recession as long as the main invalid of the current economic epidemic, the American economy, does not treat its disease. It is a disease with financial symptoms, but which is actually caused by the acute deterioration of productivity and of the production factors' *profitability, simultaneous with the over-indebtedness and the insolvency of companies, population and government. A disease that involves a treatment as difficult to endure as the one given to a drug addict who is weaning off drugs...*