

PRESENTATION OF THE IMPACT OF ECONOMIC CRISIS AND THE EXPOSURE OF THE APPROPRIATE ANTI – CRISIS STRATEGIES FOR ROMANIA

Cristina BURGHELEA

Hyperion University, Bucharest, Romania

crystachy@yahoo.com

Cristiana TINDECHE

USAMVB, Bucharest, Romania

tindeche_cristina@yahoo.com

Abstract:

The world has suffered in various economic crises periodically since ancient times, these periods being called in the beginning periods of social panic and then they had a certain frequency there have been developed terms such as: economic depression, financial crisis or recession, reaching a point of maximum complexity in the current economic and financial crisis.

States affected by the recent crisis have opened the subject of theoretical disputes for decades, disputes based primarily on state interventionism.

When banks, investment funds, insurance companies fail to collect rates from customers, they can't carry out their activity and enter into bankruptcy, it is time that is in the stock market and banking the panic installs.

In Romania, the crisis begins to manifest through: lack of demand on the market, followed by reduction of production and thereby reducing the amount of manpower.

Summarizing we can say that this article outlines the impact of the economic crisis and exposing possible anti-crisis strategies suitable for our country.

Keywords: *economic crisis, anti-crisis strategy, causes, impact.*

JEL codes: G01, M29, O49, P49.

1. Current economic crisis

Today the world faces a situation similar to that created after triggering the crisis of 1929-1933. Most States (including Romania) are

concerned with the establishment and application of solutions to mitigate the effects of the crisis that began in 2007 and since has not been overcome [1].

The current economic crisis began in 2007 when the insolvency (bankruptcy) of the renowned American investment banks, Lehman Brothers and the dramatic fall in shares on the stock exchange. Banks and stock exchanges in South America, Belgium, Tokyo, Frankfurt, London, Paris, Luxembourg, Dublin had gone through a difficult period, and the population began to go through an economic and financial downturn of proportions.

In 2007, the crisis that triggered U.S. real estate credit market has been felt in all countries of the world. After a year, which was originally defined as being just some temporary financial turbulence has become a world economic crisis in full development. At the time, in 2008 it was noted that it would be the biggest slump after that recorded in 1929.

The financial crisis triggered in the U.S. began by creating the legal framework conducive to the construction of homes and buildings as well as granting loans for housing for people with low incomes. Thus, many banks, investment funds, insurance companies, have offered huge loans for buying houses for clients who did not have the financial capabilities to return loans.

When banks, investment funds, insurance companies fail to collect rates from customers, they found themselves unable to carry on the activity and enter into bankruptcy, it is time that is entered in the panic in the stock market and banking.

In Romania, the crisis begins to manifest itself through: lack of demand on the market, followed by reduction of production and thereby reducing the amount of manpower. The population is plagued by an unemployment rate ever higher, investors do not dare to invest during this troubled period, economic activity thus falling below the level of potential gross domestic product. As a result of these actions, governments have adopted a wide range of programs to stimulate consumption and investment.

Although people see the crisis as a negative thing and there are reasons to look optimistically into the future, as Albert Einstein presented the crisis as a good thing for everyone, because it entails improvements. He considered that in situations of crisis, great discoveries emerge, because man influenced by needs will be looking for new ways to satisfy them.

1.1. The main causes of the current crisis economic

The main causes of the economic crisis may be disclosed through the analysis of the evolution of the capitalist economic system in the latter part of the twentieth century and early twenty-first century. So we will highlight in this analysis:

- Primarily a tendency to maximize profits derived by a tiny minority, through amplified speculative operations at the expense of the

real economy, increasingly bloated the sphere of nominal economy, like a soap bubble, and thus a major crisis in 2007;

- Secondly, continuous amplification of nominal economy through exacerbation of speculative operations, accelerated even more the imbalance between the real and the nominal economy. In the early part of the twentieth century, most of the money were used for performing activities in the field of the real economy, speculative operations subsequently became prevailing within the nominal economy, leading to a rift between the two spheres of economic life, thus generating the economic crisis.

- Thirdly the economic crisis that began in 2007 has been generated by promoting economic policies inspired by neoliberalism and employer unions (IMF, WB, WTO) which focused on growing markets and limiting the role of states both within each national economies as well as in the world economy. These policies have had as main objective to promote the expansion of large firms and to maximize profits for them. The effect of these policies led to the accumulation of numerous failures in most national economies and in international economic relations.

Among the three causes there is a close connection. The determining role is played by the tendency to maximize the profits obtained by the globalized capitalism exponents because the manifestation of this trend has led to a rise in the imbalance between the nominal and the real economy and imposed economic policies focused on exaggeration of the role of markets and unnatural limiting of the economic role of States.

1.2. Possible anticrisis solutions

After we presented in short which are the causes that generated the crisis we include several anti-crisis solutions:

- The first solution would be to avoid absolutization of profit maximisation in the conduct of economic life [1]. Since the end of the twentieth century there is evidence that economic efficiency should be harmonized with the eco-efficiency and social efficiency. The solution would be that in the evolution of each national economy and international economic relations to achieve a transition from the maximising the profit trend to achieving the triple efficiency (economic, social and environmental). Thus, the objective base for amplification of speculative operations could be eliminated, would be ensured adequate correlation between nominal economy and the requirements real economy and would be provided the correlation between economy, society and nature.

- The second solution consists in returning to a normal relationship between the real and the nominal economy. This implies that the real economy should have a decisive role in which the nominal economy to adapt to the requirements of healthy development of the real economy.

- The third solution would be to merge the roles of markets and of the role of states in the functioning of the economic life of each country, but also in the conduct of international economic relations.

The three possible anticrisis solutions would provide not only mitigating some effects of the current economic crisis, but also to prevent such crises in the future, because such solutions are aimed at eliminating the main causes. These three anti-crisis solutions must be assimilated by states and international economic organizations (IMF, WB, WTO) and applied consistently across a broad cooperation. The G20 in Washington showed that the adoption of anti-crisis solutions consists of a long and difficult process.

1.3. Similarities and differences between the current and previous economic crisis

The similarities between the two crises are:

- ❖ Both the crisis in 1929 and that which started in 2007 have started in the United States of America, on the financial market as a result of the fact that investment banks went bankrupt and the actions of the American Stock Exchange have fallen.

- ❖ Both crises were worldwide-spread, and have affected most countries of the world.

- ❖ So the previous crisis and the present one have affected all sectors of economic life.

- ❖ In both cases, crises were triggered after a period of prosperity and were long-lasting.

Differences between the two crises

The economic crisis triggered in 2007 is carried out in historical conditions far different from those in which the crisis of 1929-1933 took place. Historical conditions that markedly differentiates the two crises are:

- ❖ The first condition refers to the coverage of the capitalist system in the world. It has been considerably expanded, both through the path followed by the majority of countries which have gained independence after World War II, and the collapse of Soviet-style socialism and the orientation of the countries in which it was imposed this system to capitalism. The current economic crisis has a much broader manifestation than the previous crisis in the 1930s.

- ❖ The second condition concerns the development of the international division of labour. On the basis of extremely fast scientific-technical progress at the end of the 20th century, economic relations were

boosted increasingly, the interdependence of national economies have been emphasized and of the globalisation of markets was achieved, in favor of multinational companies and some developed countries.

❖ Another fundamental condition is determined by the current state of the economy and nature. Industrialization of the majority of the countries seriously affected that relationship by imposing stringent measures to protect the natural environment and the perpetuation of life on Earth. The relationship between economics and nature in most countries is far more damaged than in the years 1929-1933, and it represents a more restrictive space, including for the current economic crisis.

1.4. Anticrisis strategies appropriate for Romania

The concerns of the decision-makers to attenuate the negative effects of the current economic crisis felt in the Romanian economy, target in particular a series of temporary measures. These concerns must include achieving objectives and conducting what would generate long term growth accompanied by favourable effects on the social and environmental plans. In this regard we would define two objectives that should be reached [1]:

- Speeding up the modernization of the county and communal roads. Most of the villages in Romania have access only to the county and communal roads. In the whole grid of roads in Romania, county and communal roads are prevailing. In 2008, the county and communal roads category accounted for 80% of all roads and their grade of modernization was 12%. In the period 2000-2008 nearly 3,000 miles of county roads and public utilities have been upgraded, which means an average of about 300km/year. So if this pace would be maintained for the entire modernization of the road network, it would take 180 years to achieve this modernization. There are possibilities of speeding up the modernization of county roads and communal roads:

- sufficient building materials from local sources;
- Romanian industry has the capacity to provide the necessary equipment;
- there is labour available;
- funding sources could be from the Romanian State, from some Romanian citizens, a share of the funds allocated by the European Union;

For capitalization of the conditions available for upgrading road networks and municipal services would be require the creation of an appropriate organisational framework. This could be represented by a company with a design department and execution sites.

Speeding up county and communal roads modernisation would spur growth in many lines of the Romanian economy, for a long perspective. At

the same time, this process would facilitate economic and social development of most villages (boosting tourism by default) and many small towns, would curb the demographic decline in many localities.

- Provision of drinking water and sanitation in all villages within a reasonable period. For every village, town and providing drinking water and sanitation are vital utilities. In 2008, the number of villages that have network for drinking water distribution was 17%, and the number of villages with sewerage system reached 5%. Thus it would be appropriate to extend the water supply and sanitation in all villages in about 50 years. Romania has all the necessary conditions to accelerate the process of securing vital utilities in all villages by means of:

- Possibility to ensure materials and equipment needed by some branches of domestic industry;
- Possibility to ensure the workforce;
- Provision of financial resources from the inside (through State allowances, contributions from the citizens on income/household) and externally (through funds allocated by the European Union, in particular for rural development).

Providing the two vital utilities in all villages would contribute substantially to improving the health status of the rural population, as well as preventing infestation of water sources (by the lack of sanitation) and also would boost activity in the branches involved in this process, would contribute to the improvement of the kitchens and bathrooms of every rural household. These social and environmental effects would make life in rural areas to become more attractive for many young people, thereby ensuring a normal demographic evolution in most villages.

2. The economic crisis. Implications for Romania

The international financial crisis and especially its obvious consequence especially-the recession in developed countries - has been extended to the Romanian economy on multiple channels. Commercial channel has reduced the growth of exports and financial channel has limited access to external funding and thus the volume of crediting small generating difficulties in private foreign debt service [2].

In Romania, the response to the adverse effects of the crisis may not be similar to that of some European countries or the USA. There are a few differences between the Romanian economy and these economies, which do not allow simply copying packages of measures developed there. In essence, it's about the fact that the Romanian economy has a large current account deficit, which indicates its dependency on external financing. We have a choice between reducing the deficit or reduce the market's present

Final consumption	10.3	8.9	9.4	9.6	8.7	- 7.4	- 1.3	1.0	1.5	0.3
- Actual individual final consumption of households	13.0	9.6	11.6	10.3	8.9	- 9.1	0.2	1.4	1.5	0.3
- Actual collective final consumption of public administration	- 9.9	2.3	- 11.5	2.5	6.2	9.5	- 13.7	- 3.0	0.7	0.0
Gross fixed capital formation	11.0	15.3	19.9	30.3	15.6	- 28.1	- 1.8	7.7	3.8	- 1.3
Exports of goods and services	14.1	7.6	10.4	7.8	8.3	- 6.4	13.2	11.6	- 1.5	8.2
Imports of goods and services	22.1	16.0	22.6	27.3	7.9	- 20.5	11.1	10.5	- 0.2	- 0.1
Gross Domestic Product	8.5	4.2	7.9	6.3	7.3	- 6.6	- 1.1	2.3	0.6	2.2
The total gross value added of which:	8.5	3.6	7.8	6.9	7.5	- 5.8	- 1.8	1.9	0.3	2.8
- In agriculture, forestry and fishing	18.6	- 17.2	3.4	- 15.3	20.7	- 3.3	- 5.5	14.0	- 24.6	11.9
- In industry	7.6	2.6	7.2	5.4	1.8	- 1.4	4.0	0.4	- 1.2	3.9
- In constructions	9.4	11.2	23.4	33.9	26.2	- 9.9	- 4.5	- 18.7	1.9	1.0
- In services	6.4	8.8	6.8	7.0	5.4	- 7.4	- 3.6	5.3	4.6	1.4

Source: www.insse.ro

As shown in the table above were the most challenging 2009 and 2010 when the impact of the economic crisis on GDP of Romania was devastating. The year 2011 has been the first year when GDP grew after the decline recorded during the crisis. This result indicates the resumption of economic growth, which is heavily promoted by the country's leadership. For 2012, 2013 the trend is ascending showing a sustained economic growth.

2.1.2 Industrial production index

Industrial production fell by 1.2 percent in February 2012 compared to the same period of the previous year due to declines in two of the major components of this sector: mining and manufacturing. Industries that have risen in the period under review are: the production of means of transport (increase of 29.1 percent), tobacco products and textiles. An important indicator in the analysis of industrial production is the index value of the total turnover. It takes into account including secondary activities of enterprises with industrial profile. At the level of the whole economy, this index recorded a decrease of 1.7%, while labour productivity decreased by 3.7% industry-wide.

Construction market was among the worst affected by the economic crisis. The resumption of growth in this sector is an indicator of the economic stabilisation trend because it reflects the increasing confidence of Romanian and foreign investors in the Romanian economy.

Construction works involve important financial efforts and developers are not likely to be involved in such projects during tough times from the economic point of view. Thus, increasing with 7.4% of the construction works from February 2011 represents a favourable aspect. The growth trend has manifested itself both in the industrial buildings and residential buildings [5].

Less significant increases are also recorded at commercial and service activities (+ 1.3% compared to February 2011). In this category services rendered to households and those rendered to enterprises have evolved in different meanings. Services rendered to enterprises have registered increases in the numbers of businesses, which supports the idea of national economy recovery, but the category of services provided to population have experienced a decrease of 5.3%. One of the main reasons is the reluctance of banks to grant loans to households for consumption, credit conditions remain harsh and during this period.

2.1.3 Indicators of labor market

Unemployment rate refers only to people without job registered as unemployed in the database of the Agency. The evolution of this indicator reflects a number of important issues relating to the economic and social situation of the country. The following graph shows the evolution of unemployment during the period 2008-2012

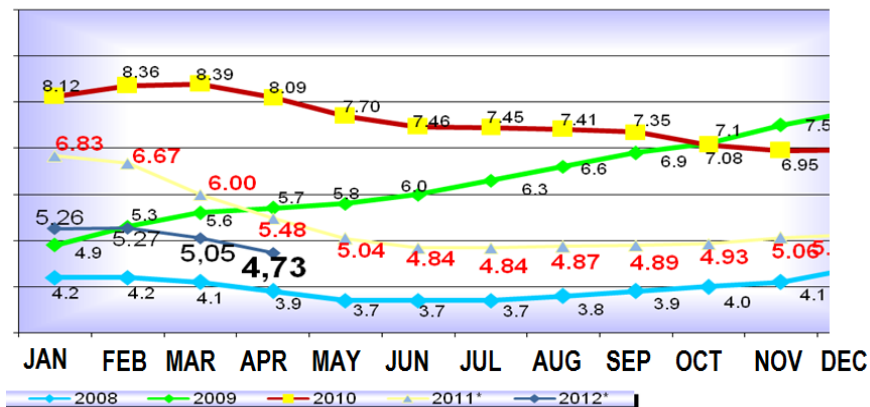


Figure 1 Evolution of unemployment rate

Source: www.anofm.ro

On April 30, 2012 the unemployment rate registered at national level was 4.73 percent, down from April 2011 with 0.75 percentage points. From data published by the NEA can be seen that the highest levels of unemployment were reached in 2010 (765285 registered unemployed in March 2010). Beginning in 2011, the unemployment rate has declined gradually, but is still above the level recorded in 2008. [4]

Reducing the rate of unemployment indirectly influences consumption. Rehiring individuals who became unemployed during the crisis will lead in time to increase the consumption from this segment of the population as well as to an increase in demand for loans.

For the month of February 2012 nominal net average earning was 1,472 Lei. This amount represents an increase of 4.1 percent compared to February 2011.



Figure 2 Average gross wage

Source: www.insse.ro

Salary earning has fluctuated significantly in the period under review, which indicates a certain degree of instability in the job market. Correlated with the evolution of unemployment rates over the same period it can be seen that this indicator has evolved inversely to the unemployment rate. In the period from January to March 2012, the gross average wage has increased by about 100 ron.

2.2. Impact of the crisis at the micro level

The crisis has been felt strongly in late 2009, early 2010. Each individual citizen was hit by the crisis, has felt the effects of it and carefully and has taken safety measures. Ousted lived from savings and have drastically reduced consumption. This was one of the measures most widely implemented. The priority list of purchases during the crisis were only the products and services of interest, only the essential items, giving up to satisfying any whim that could produce "holes" in each one's budget.

Young people in Romania have experienced economic crisis in a greater proportion than the rest of the adult population which fears employment and unemployment rather than a low income. Almost half of Romanians aged between 18 and 35 years are affected by the crisis, which is explainable by the fact that 37% of young people have as their priorities and career and money earning [6].

In the same line, three-quarters of the young people want the state to provide them with jobs and the chance to promote professionally, only a third expecting authorities to provide them with housing.

The number of those who claim that the state should guarantee a better education is very low, the percentage recorded in this case being only 14%.

Also civil servants, teachers, retirees and doctors are just within categories of people who felt on their own skin what the economic crisis means.

Bonuses for budgetary employees were cut, teachers and pensioners have not received the promised income increases and thousands of workers remain still jobless.

With regard to doctors, the situation is quite worrying, given that more than half of doctors in Romania are unhappy with the wages and salaries which they charge monthly.

In addition, over 60% of them would prefer to look for employment in another country than Romania for better living conditions.

The situation in Romania, the balance of lifestyle, is still in a constant imbalance, which worries the authorities and demonstrate once again that this state of chaos, collapse will still take a good period of time.

3. Conclusions

The crisis in the U.S. was just trigger the global financial crisis. The causes were both of macroeconomic and microeconomic nature. Abundant liquidity meant that certain microeconomic causes combined and lead to financial crisis today.

After the downward curve of the economic activity was evident in the United States of America, the phenomenon was installed very quickly, but with special features in each of the economies of the states of Europe, powerfully hitting the principles of liberalism. Accentuating gaps between countries, the reduction in national income, the sharp rise in unemployment, but also disrupting international economic relations increased distrust of liberal doctrine. It is thus concluded that the intervention of the central authorities in economic affairs is fundamental, just so that it can ensure the well-being of citizens and the return of economies to normal functionality.

The causes of economic crises can be represented by the unfavourable evolution of the macro-economic framework, weak governance and unprudent behavior of banks and government involvement in credit decisions by banks, that is the mixture of political factor in an activity which must be carried out essentially on economic grounds.

The most important of the effects of financial crises are as follows: decrease in GDP and industrial production, increasing the number of bankrupt firms, increasing unemployment, the decrease in the share of jobs in construction and blocking real estate market, the reduction of investment, housing and prices of various goods and services, reduced incomes and thereby, reduced consumer spending and the explosion in the number of customers which cannot repay bank loans and their forced execution.

How a country responds to the crisis depends on available resources, institutions and instruments that can be used.

The lack of so-called toxic assets has diminished the effect of spillover of Romania. However, the country has been affected indirectly because of general decline in consumption and foreign direct investment at international level. These two factors have resulted in a strong economic contraction in 2009-2010. This year marked the beginning of a period of stabilization, the main indicators of economic growth showing upward trends. Positive results have been achieved through sustained efforts on the part of the authorities and of the National Bank for the management of fiscal and monetary policy. The existing main threat at the moment for Romania is the cessation of the process of economic growth. This can occur either because the wrong sense of relaxation of control over the economic system, either due to the fall in global consumption.

For the other countries of the European Union, the impact of the crisis was felt because of the strong ties that exist between European and American banks. The share of toxic assets and bad loans in the portfolio of the banks resulted in important issues and, in many cases, the need for State intervention as a lender of last resort. Each State has its own package of crisis measures and, although there has been a correlation at the European level, the results are very different in the case of national economies.

For the entire European Union, the crisis has revealed certain errors in the international financial system and destabilized the classical conceptions that some institutions are too big to fail. Dependence on European economic sector of the financial and banking system was the one that prompted national governments to intervene in order to avoid the adverse effects of more powerful in the future.

Economic cyclicity is a phenomenon that has been known and proven in multiple rows. The lack of a set of anti-cyclical measures, that can be implemented in similar situations is a major weakness of the European economic system.

Bibliographical references

[1]. Adumitroaiei. I., D., (2009), *Criză economică actuală 2007...?*, Ed. Noel, Iași.

[2]. Cristea, E., V., (2007) *Criză economică în România. Influența crizei mondiale și situația economico-socială a țării noastre*, Bucharest, Ed. A.S.E, Bucharest.

[3]. Starke, L., (2008), *Starea lumii. Inovații pentru o economie durabilă 2008*, București, Ed. Tehnică.

[4]. Vidrașcu, P. A., Iacob, O. C., Volintiru A. M., *Unemployment – the global issue of contemporary world economy*, Conferința Internațională : Probleme Actuale ale Economiei Globale, Ediția a X - a, 31 Mai 2013, Constanța, publicat în Economic Science Series, Volume XIII, Issue 1, Ovidius University Annals, Editor Ovidius University Press, Iunie 2013, pag. 673 - 681.

[5]. Buletin Statistic Lunar, Februarie 2012, INS, pag. 8.

[6]. [http://: Financiarul.ro](http://Financiarul.ro)

[7]. www.anofm.ro

[8]. www.insse.ro