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Current Economic and Financial Crisis – New Issues or Returning to the Old Problems? Paradigms, Causes, Effects and Solutions Adopted*

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Abstract. *At the ideological level, the current crisis, as the others in history, has triggered an intellectual debate among several applicable ideas: ultra-liberal theory of the "invisible hand" of Adam Smith, Keynes's theory of state interventionism and even neo-Marxist theories. Globalization, with all its core components, generates a chain reaction when the phenomenon occurs, either positive or negative. The origin of the current financial crisis should be sought in the effects of massive cross-border capital flows and the use of more complex derivatives. Reaching the saturation of the three engines of economic growth worldwide in the period after the collapse of the socialist bloc is another important cause of all the failures that currently exist worldwide. Acquisition of toxic assets from bank balance sheets, their recapitalization and takeover by the state, but also the reinforcement of the prudential supervision of capitalization, liquidity and risk management system, improved transparency and speed the process of evaluating or reinforcing authorities' response to risk, can be considered short or long term anti-crisis measures, as appropriate.*

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1. Economic and financial globalization, "guilty without fault" in the current financial crisis

The financial crisis triggered in 2008 and fully covered almost the entire planet, turning into an economic crisis cannot be considered a novelty in terms of economic and financial theory. Adam Smith noted the possibility of agency problems ever since "Wealth of Nations", in 1776. Unfortunately, here it is found that, as Arthur Schopenhauer wrote, "the great obstacle to human progress comes from the fact that people do not listen to those who speak wise, but by those who shout louder." In addition, we must not lose sight of that, perhaps "the best proof that there are other intelligent life forms in the universe is that none has tried to contact us until now."

One of the concepts that deserve to be raised when discussing the current financial crisis is globalization – economic and financial. Since the Middle Ages, various elements have created preconditions of capital movements and interdependencies. From the historical point of view, one can remember the emergence of armies of mercenaries (whose training and maintenance required financial resources), the organization of the Crusades (often financed with loans that were to be repaid from the conquest), and the establishment of the first bodies with organizational and financial trans-boundary components (the Catholic Church, the religious order of the Templars). These elements are the motivation and also the support that is given for the first time on a European scale, for the movement of capital. From the age of the great geographical discoveries (roads to India, China, Japan and the Americas), the movement of capital extends beyond Europe. This movement is not only the engine for interstate trade but also the economic backbone that develops and reinforces colonial empires (British, French, and Dutch). Although colonization scores big time, finally promoting political and economic interests on a global scale, several features distinguish it from what we understand, currently, by the term of globalization. This is because, in the considered period, the role of the economy was rather an influential factor supporting the state and not one of its guidance.

In the fullest sense, one can speak of globalization widespread only after 1989, which marks the dissolution of the socialist bloc and the disappearance of the antagonistic ideological bases. With this, it opens the way for the natural tendency of expansion of the economy (Soros, 2002). A feature of the current economic globalization is its manifestation through the financial globalization, as its principal instrument.

The concept of financial globalization today is not objectionable, especially since the first truly global crisis in the history of the modern world is

a concrete evidence to support the validation of its existence. Years 1989-2008 are those in which globalization has become a defining aspect of social, political and economic life worldwide. Moreover, one can say that for the first time, this term has a meaning of its own, without exceptions. The term *globalization* brings together several concepts, such as the development of global financial markets, the increasing role of transnational corporations and their growing importance in relation to national economies. Taking place, as contemporary history confirms, under capitalism, globalization is dependent on its traditional battle cry: "*to conquer*" became "*to sell*"[(1)]. As a channel for rapid spread of economic interests, the movement of capital has come to identify with globalization as a phenomenon, so that today we can speak, identifying fully with one another by financial globalization. Its extraordinary magnitude is due to synergy of fundamental elements: technological innovation, financial innovation and culture innovation[(2)] respectively.

Technological innovation is, in fact, the sum of the same pillars of globalization: the development and popularization of mass media and the communication and action at a distance technologies (cell phones, credit cards, telephone banking, Internet), which offer the economic or political factors rapid means of information and coordination at a distance. They serve spatial dimension, to which temporal dimension is added: not only that rapid intervention is possible in any market in the world, from distance, but also opportunities for transactions became continuous: when European and American markets close, the Asian ones open.

Financial innovation ensures fluidity of capital flows. Thus, if we keep the previous analogy, the system becomes truly one of the communicating vessels. There are no more isolated regions or relaxation times of global financial market (because, since we accept the idea of financial globalization, the existence of global financial markets is self-evident – only the degree of integration varies). One element of this financial revolution (compared with a conservative approach in financial markets as simple intermediary of *tangible* goods, measurable in capital) is represented by the products of derivatives (forwards, futures, options). Essentially, through derivatives, everything is measurable in capital, at minimal costs, such as: contracts, currency values, deposit certificates, goods. Originally occurred as a substitute for insurance and need for a stable financial outlooks (by guaranteeing a minimum price for sale of products), derivatives quickly became the target of speculators, and so became betting tools.

The second core factor under which the financial innovation acts is the deregulation of capital markets, both in terms of restrictions on operations, control of associated risks and as well as eliminating political or regional

boundaries as a limiting factor of capital movements. Financial institutions, especially investment banks, take advantage of the elimination of many hedging rules, especially those prudential[3], one example being to repeal the law of separation of activities between investment and commercial banks, issued in the U.S. in 1933[4] and repealed in 1999[5]. These steps have improved the efficiency and competitiveness of the system, but opened the possibility of slippage. Free movement of capital has found significant support, at the global level, in the existence of tax havens, countries that attract significant capital through lower taxes or absent ones. Sometimes almost irrelevant as markets or production facilities, these countries cannot benefit from tax advantages, unless the absence of barriers to capital movements (repatriation of profits, for instance).

Finally, if the technological and financial innovations have provided mechanisms for constructing financial globalization, the *cultural innovation* is the one which put the whole mechanism in motion. It is the motivation and justification for the operation mechanism of financial globalization. First, cultural innovation occurs as a consequence of a fundamental element: the spread of information at planetary scale allowed not only the initiation of trading, but their acceptance as part of the way of living of mankind. It is even said that[6] "until now there has not been a human society", meaning that only today we speak of forms of association that are spreading throughout the world, and that until now all possible players have never been together at the same table. The world has become a single social system as a result of the development of interdependencies that affects every person. Social, economic and political ties that cross borders between countries have a decisive impact on those who live in each of them.

Therefore, mediated by the same technological innovation, the flow of information from all over the world led to the elimination of isolationist, autarkic tendencies, which often had psychological rather than real bases. At present, we can discuss also about media and behavioral globalization, about the spread of television, Internet and other forms of communication and the increased mobility of marketing ideas. All this neo-literacy, although not without some adverse side effects of this phenomenon[7], was translated into financial terms: if it was normal to buy products manufactured in other countries, economic players (but the issue is more imperative or individual investors) found natural to shift savings in other countries. It is therefore natural today for an investor to diversify their equity investments not only at local and regional but also at the global one. Furthermore, this new attitude is no longer just a singular phenomenon, but a global and even a country policy. In support

of this assertion, it suffices to mention the sovereign funds as state investment vehicles[8].

All this manufacturing, commercial, and financial interdependence (trade deficits are funded both through investments in financial instruments and foreign direct investment) manifests itself today as a huge flow of transnational capital. Even before the complete dissolution of the socialist bloc (in 1990-1991), daily trading volume reached an average of 900 billion dollars, equivalent to an annual GDP of a developed Western economy (France) [9]. In 2008, one bank (RBS) announced a loss of about 28 billion pounds, equivalent to 41.3 billion dollars (Thal Larsen, Croft, 2009): figures may be abstract, but the amount involved is approximately equivalent to the annual GDP of Kenya. This ever-moving tide of capital has created a continuous game of investment opportunities, arbitrage opportunities and sources of funding, to such an extent that private financial flows can impose political and economic consequences at the country level[10] (something unimaginable a century ago, for instance). The vision is confirmed by the words of Maurice Allais, Nobel laureate for economics[11]: "The world has become a large casino where the tables are distributed at alllongitudes and latitudes"[12].

2. Causes and mechanisms of the current financial and economic crisis

A current phenomenon still to be defined and understood is the economic crisis that has become obvious since 2007. We can say that the manifestation of the current crisis has its origins in the subprime loans, which covered the mortgage credits secured by the goods purchased, granted to US citizens who do not meet certain conditions of reliability. These loans, with a total amount around 1200 billion dollars, have been distributed primarily since 2000. Converted by securitization in bonds (CDOs - Collateralized Debt Obligation), they were then transferred to banks and investors worldwide. When real estate prices began to fall, these loans could not be repaid, thereby rendering abysmal losses for buyers of such securities based on subprime loans.

Financial market events have had a causal effect, creating congestion and leading to cessation of investment but perhaps to a still greater extent, they have established a very strong signal of the existing difficulties and remained hidden. These hidden failures came to light gradually, but it is difficult to predict to what extent the findings string ended.

On the other hand, opinions regarding the crisis triggers diverge even among recognized experts in the field. Without pretension to overcome their own point of view at a comparable level, we try further to explain some features of this worldwide phenomenon.

Thus, the current financial and economic crisis is primarily a smooth event that accompanies almost always, the reallocation of the political and economic roles worldwide. It defines not just the system change in the global economic growth, but the overturn of those growth engines. Even if the two situations, the pre-crisis and post-crisis, are stable in themselves, the transition from one to another can be particularly lively.

Let's point out, first, the degree of relativity of financial jam. Since most financial transactions (even loans) are zero-sum games (and the problem should not be viewed only from the parties directly involved in such transactions, but from the point of view of all economic players involved), the difficulties encountered for some of the players on the capital market are also opportunities for others. The huge losses of some people became earnings, also huge, for others. Even the collapse of the banking institutions that have relied on subprime credit derivatives has translated into significant gains for some hedge funds. Strictly from a financial standpoint, even the cases classified as losses or fraud are, in fact, redistribution of wealth. Of course, this does not in any way constitute an excuse for such errors, which are many of them illegal and immoral. The psychological and financial impact at the individual level, the emergence of personal tragedies, the new sources of inequality, and so on, should also be taken into account However, in purely economic terms, the sums of money remain on the market and do not disappear, only their perception change(13).

From our point of view, the crisis is, in fact, a different set of failures, but whose interdependence clearly illustrates the degree of economic and financial globalization in human society today. Consequently, one of the reasons is reaching saturation of the three engines of global growth in the period after the collapse of the socialist bloc: relocation, credit and consumption.

Therefore, *the relocation* guideline was to move its production facilities in areas with cheap labor, usually in less developed countries, poor or barely out of the system of socialist organization. Products shipment costs to developed countries were, in most cases, negligible(14) compared to the savings through the use of a cheaper labor. This has had beneficial effects on businesses that have relocated production, in that profit margins have increased (due to lower production costs). This gain return has allowed financing of what might be called "structural deficit"(15) of the domestic economies of players that are in the process of relocation to other regions: the increase in unemployment caused by reduction of jobs, a loss of economic autonomy for the domestic state and, last but not least, a loss of exclusivity of technological excellence.

Among them, unemployment has been disguised in what was called the "reorientation" of the economy and its center of gravity shifted from industry to

services (including financial ones that were among the most prominent). The loss of economic autonomy for the countries of origin has, in essence, weakened their strategic skills, as a result of overcoming importance of strategic security at the expense of profitability. For example, relocation of production capacity has resulted in establishing a relationship of manufacturing dependency to new manufacturing locations. In a completely homogeneous global economy, where competition would be the criteria that pertain to economic competitiveness, this would be irrelevant. However, as manifesting in times of crisis, the tendencies to return to autarky and the ultra-specialization in services has disadvantages because often they are seen as a highly profitable industry, but not essential. One of the paradoxes is, therefore, that developed countries are now more vulnerable to protectionist measures than the less developed and, therefore, less specialized. Finally, the relocation of production inevitably led to the need for technology and knowledge transfer. While developed countries have maintained exclusivity in certain sensitive areas (production and military research, robotics, certain software technologies such as encryption programs), the current economic interdependence makes exploitation of these benefits to be very difficult, even impossible, as in, for example, the rule in the military. Also on the same line, many of these areas of excellence, even exclusive, are present in a position to be considered overvalued in times of crisis.

This structural deficit could be financed by the new profitability derived from lower costs of production. The relocation still remains an important resource for growth, however it has lost, at least its inexhaustibleness appearance. First, after integration into the global economic system[(16)] of former socialist countries, Southwest Asia and Latin America[(17)], geographical expansion of the economy has reached its maximum size. Then, after a first stage when the globalization of production led to lower prices, and the subjects of developed countries have adapted their lifestyle to this premise, in a second stage, the trend has reversed: salaries in targeted states of relocation began to rise[(18)], even without reaching the level of home states, in conjunction with the difference in labor productivity, gains brought by the relocation, have been canceled. Classical solution would be relocation to new areas, but they were simply physically-demographic unavailable (Antarctica, Greenland), political (North Korea, much of Africa) or legal (Native American reservations).

The credit during that period became a substitute for wealth. This trend is easily explained by the following: one of the issues brought by the relocation of the developed economies has been the increasing asymmetry in the distribution of profits. If in the previous period the profits were distributed among the shareholders (as dividends) and employees (as wages) in the same state, the

relocation led to redirecting part of the profits that could be due to employees (however, in a smaller amount since labor is cheaper) from employees of member states of origin to targeted countries employees. In doing so, the population was largely devoid of direct contribution of the new investment. However, the increasing sense of wealth, far from decelerating, amplified. The credit allowed this substitute. The relaxation of lending standards and terms created the possibility of accessing them by a majority of the population who now could afford buying such expensive products, traditionally reserved for the rich. Coupled with some psychological issues that tend to favor the immediate satisfaction, the consumers in the home countries have not realized that, in fact, their purchasing power was no longer *the ability to purchase goods*, but the *ability to buy credits*.

For a good period of time, however, additional financial flows arising from the increase in profit margins through relocation led to inflation in some sectors of the economy. The most obvious of these is real estate. Availability of some economic players (mostly owners or shareholders of companies that benefited from the relocation) to acquire luxury properties has increased the price. The trend was reinforced by the preference of many of those who acquired wealth in emerging countries to acquire real estate in the developed countries both of business and sentimental reasons, but also political ones: these properties constitute refuges on a democratic field with almost fully respected human rights in the event of difficulties and conflicts with governments of their countries of origin. Finally, easy access to credit has reinforced the upward trend of prices. As long as these citizens were real estate owners (at least in the script, without taking into account the risk of mortgages and enforcement of bank guarantee) and the value of their market trading continuously increased, the amounts available through loan became increasingly higher, which allowed new acquisitions and, therefore, a further increase in prices. The trap of this practice, which was unnoticed and eventually led to the establishment of a real estate bubble, was that the price increase became self powered: the reinvestment of a part of the capital – became available after the relocation – to real estate, led to a price increase, but this financial resource was not sufficient to support a mass phenomenon. That capital was one of the few rational reasons to increase prices.

Consumption, the third engine of growth observed, benefited fully of this increase in price and augmented real estate values that could be borrowed, on one hand, by the fact that it supplied liquidity on the market, and on the other hand as a matter psychological known as the “hair salon paradox”(19). Funding was made not only for the consumption at the individual or business levels, but has become even country policy. This was accepted by both the states which

borrowed to sustain the tendency to consume and those who finance the deficit of this approach with their trade surpluses, depending on delivery market of consuming states. US and China's example is telling in this regard, the US debts being extremely large.

3. Paradigms and models of economic and financial crisis

Although the guideline for the explanations of discussed economical-financial crisis remains linked to the credit and "irrational exuberance" that the markets have gone from one bubble to another ("dot-com", "subprime/mortgage", "oil" "treasury bills"[(20)]), one of the fundamental questions that arises from an economic point of view and financial approaches attempt to answer is the degree of foresight and the "normality" of the crisis. Beyond the debate about whether the role of extreme crisis in the economy and their interpretation both as a confirmation of the ultra-liberal theories and as an argument for interventionism, we will consider further some of the traditional financial theories, the applicability of which we will comment in relation to financial and economic crisis.

One of the financial and economic theories is that of cyclical economy, on long term, or super-cycles theory in the framework of Kondratiev waves, which includes Juglar conjectural cycle. These cycles are defined as regular, sinusoidal, which is manifested in the modern capitalist economy, whose extension varies between 40 (20, according to some sources) and 60 years which is alternating periods of growth, stagnation and decline (recession), showing an inflection point in between the first two phases. The cycles identified by Nikolai Kondratiev (1925)[(21)] at the time were 1790-1849 (from the French Revolution to the Revolution of 1848), with an inflection point in 1815 (after the Napoleonic wars), respectively, 1850-1896, with an inflection point in 1873 (imposition of Germany as the dominant power on the continent). It also advanced the hypothesis that a new Kondratiev super-cycle started in 1896. In the XX and XXI centuries, there is an opinion (Joseph Schumpeter, 1961) that the third cycle (remembered by Kondratiev) had an inflection point in 1929 and ended in 1945 (along with the Second World War) and a fourth super-cycle would have overlapped the Cold War, 1949-1989, with an inflection point in the period 1968-1973 (Vietnam War oil shock). Extrapolating, one can consider that we are witnessing the fifth super-cycle, which began in 1990 and had an inflection point at the end of the decade '90, with the bubble "dot-com".

Juglar term cycle (Juglar, 1862) consists of four phases namely: expansion, crisis, recession and resume and has an average duration of 8-9 years.

If the period of expansion (low amplitude) is characterized by the development of the credit market due to increased production and incomes, the crisis is characterized by stagnation in the production and a change in the economic climate. Recession phase brings an acceleration of decline in production, income and phenomena arising from it: unemployment, inflation, growing of the interest rates, etc. (i.e. economic phenomena from the period 2008-2009).

According to the two theories, there are two downward cycles, and solutions to escape of this trend will require changes in the technical, economic, social, redistributing resources or finding new resources. Individual and collective economic behavior, repeated by each generation, according to Kondratieff's theory, can be held responsible for the current situation. When starting the crisis, if economic mechanisms and social protection are well in place they can mitigate the shock. Also, in any case, short-term economic benefits must be sacrificed for long-term social interests of society. The fiscal and budgetary policy of a country has a decisive role in the prevention, management and even overcoming of the economic crises.

In addition to the economic phenomena classification typology made by Kondratiev, we must take into consideration also the social changes, especially the perception and public attitude in accordance with them. Therefore, during the phase of expansion and growth, general attention is focused on the accumulation and innovation – leading to significant vertical social mobility. In the resting stage which follows, the attitude tends to change in that profiting from accumulated wealth, which inherently leads to a more relaxed and more inefficient attitude. Finally, during the recession, a social restructuring is developing, preparing the new action and innovation vector fields in the economy. Their coverage is also current for the modern society.

The fact that the current economic and financial crisis can be placed in such a cycle is, a posteriori, justified, the crisis marking the end of such a cycle (in fact, entering its last stage, namely the recession/depression). However, we are of the opinion that the prediction of a crisis on the basis of such an approach is difficult, even impossible, since it does not take into account the fundamentals, but supports an independent external manifestation. Of course, one can accept that the recession will eventually occur, but the location in time, a priori, of that moment is less predictable.

Another financial crisis theory was proposed by Hyman Minsky (1974) who has advanced the hypothesis that financial fragility is, in fact, an inherent feature of capitalist economies and it stems from the very assumption of profit maximization tracking. This level of fragility is dependent on the economic cycle's phases of development. Thus, immediately after getting out of recession, economic players are primarily directed towards the safest

investments. As the economic climate improves, investors tend to gain confidence and move towards speculative investments, on which, they hope, the profits gained will exceed the costs (usually with interest) made to make those investments. This phase marks the transition to economic self-sustaining, meaning that more of these loans lead to more investment, so the economy tends to rise further. Finally, confidence in investment success is so high that loans are granted even to those companies that are not able to pay, but *is expected to increase* their profitability to the degree to which placement becomes profitable. The stage when this attitude becomes widespread is called Ponzi financing schemes; being just a matter of time before entering in default. Once the risks are apparent, the loans are shrinking, which hinders the refinancing of those economic players with likely return. As a result, the financial crisis turns into an economic one. During the recession, attention is turning again to the safest investments, which marks the beginning of a new cycle.

This paradigm, although originally formulated in the context of a closed economy (the intervention of outside capital is excluded), gained world-wide applicability, in terms of economic and financial globalization. Furthermore, Minsky's theory provides an item that it has already mentioned, respectively the shift of the creditor attention from the debtor's ability to pay to the growth prospects of the collateral. From this point of view, the theory is applicable, without being general – for example does not take account of innovative investment vehicles, reconciliation, financial bodies' interventions, etc.

Another theory that must be mentioned in this context is the one of coordination games, developed by the American mathematician John Nash. These are games in which participants choose similar strategies. In case of economic models, they are manifested in the form of the positive feedback received by the economic players. This translates, among other things, through sudden changes of asset prices as a consequence of relatively small changes of economic fundamentals – for example the value of one stock can be maintained constant for long time until it reaches an avalanche multiplication of sales and the share price greatly decreases. A similar phenomenon occurs in massive withdrawals of deposits from the banks: depositors withdraw their money because they expect others to do likewise. A similar behavior can happen at the level of speculative operations – the speculative investors may decide to attack or not a particular asset on the basis of their *expectations* concerning the decision of other speculators.

This theory is manifested on the capital markets either in the form of bubbles, or in the form of crashes. Both situations, themselves, are economic equilibrium points: one in which participants invests in assets (stocks) because

their value is expected to grow, and another one in which the participants retire just because the price of those assets is expected to suffer declines. In the turbulent stock market history occurred predominantly after the second half of 2008, this theory retains its validity and its area of coverage is not limited to capital markets only. Generalized decline in US housing prices is another example.

Other related party paradigms, namely financial theories based on grouping models and models based on adaptation tries to explain the appearance of inflationary or deflationary spiral as *the information* (in the previous model of coordination games, it was about *expectations*) is transferred from one investor to another. For example, in this model, a type of asset that is subject to certain purchases by investors becomes attractive to other investors, not because it would increase its intrinsic value but on account of behavioral contagion. In other words, it forms the view that the asset is valuable since other investors are buying it.

The grouping models (Chari, Kehoe, 2004) assumed that investors are rational, but have only partial information about the economy. Acquisition of a particular asset is interpreted as a signal of the existence of a positive information on the asset (even if its nature is unknown), this event leading to more purchases of that asset. Reasoning, in itself, is logical, but may lead to over or underestimating of an asset because the evaluation is based on unknown information, so that the value of the asset cannot be assessed on fundamental considerations. In addition, the first investors' decision to purchase that asset may be, ultimately, a wrong one.

In adapting models is assumed a certain degree of investor irrationality in the sense that decisions are taken – logical indeed – just on the basis of recent experience (bounded rationality). Thus, if an asset price sustains increases on a period of time, investors' expectation is therefore that the price will continue to grow further (in a similar way to decrease). In other words, markets tend to create trends that are up to an exaggeration, in positive or negative values, and then turn to opposite trends.

Finally, a sociological type financial theory is proposed by the investor George Soros. He claims in his paper published in 2008(22) that, while future-oriented, financial markets cannot properly estimate its trend because their action ultimately influences the very trend that it seeks to predict. Such an interpretation is called the theory of reflexivity (Soros, 1988). This theory constitutes a counterweight to those theories built around the concept of efficient market, that it recognizes the emergence, as a consequence of reflexivity(23), of the dynamic imbalances (and lag informational efficiency). These imbalances are mostly violent and so may affect the economic

fundamentals. The paradigm contradicts the accepted traditional role of financial markets seen “only as barometers”. Without exaggeration, we can conclude that this phenomenon manifested itself in the context of current economic and financial crisis. However, the theory states that economic and financial events (and also the social ones) do not tend toward a steady point, but due to a positive reaction, are essentially characterized by instability and evolution is a sequence of disturbances. One of the paradoxes of the theory is that it recognizes the impossibility of the existence of a perfect individual knowledge of the truth(24) on any condition (economic, for instance), but does not admit – unlike the theory of information efficiency – the superior group intelligence (or “market”) and therefore do not exclude the possibility of gains by exploiting the opportunities offered by capital markets at a point in time.

In the specific context of the subprime crisis emergence, the theory of reflexivity is an example in the following manner (Lynch, 2008): the belief that some players had that they understand the mechanism of the market encouraged them to create CDO-type derivatives. The emergence of these tools has triggered a growing interest (and, later, a bubble) in relation to assets on which they were built, namely on housing mortgages. In this way, the direction of economic development has been influenced (for example, by focusing on real estate activities) by this financial product.

5. Solutions adopted to counteract the effects of economic and financial crisis

Since the primary elements of the financial crisis are known (uncontrolled expansion of credit), it is natural to look for remedies in the same category. For some of them attempts were already made to implement, while others are monitored by financial and regulatory bodies.

One of the first measures taken by financial institutions (the Federal Reserve and US Treasury) was implementing the TARP (Troubled Assets Relief Program), seeking to take over toxic assets from “weakened' banks” balance sheet and then auctioning them on the open market(25) to discover (and also validate) their fair price and to build a market for these assets. Although, at first, this type of operation was favored by the US administration (the first half, in amount of $350 billion, of the $700 billion bailout plan proposed by Henry Paulson has been dedicated to this purpose), it was abandoned due to the large amount of such assets, present in many financial institutions' balance sheets that would have risked setting a very low market price for those assets. However, this would have forced these financial institutions to assets devaluation and recapitalization operations. At this level, the main disadvantage would have

been the difficulties of attracting new private capital[26]. Another problem was that it would have led to high (public) costs, due to the large amount of such a toxic assets and would have favored the shareholders of those financial institutions, by eliminating the risk of bankruptcy, and also by the supplementary gain which the acquisition of toxic assets from public funding at a higher value than the market one (to avoid depreciation of assets) would be delivered to them.

As a result, an alternative approach was decided instead, namely to recapitalize banks and take over state participation in them. In contrast to the previous solution, this time, those who lost were the shareholders of those banks, the value of their shares being strongly diluted as a result of recapitalization. On the other hand, the creditors of those financial institutions were favored by the gain solvability of the latter. An unresolved issue, however, remained the increased (incorrectly founded and unfair in comparison with other economic players) of the market value of receivables held at that specific financial institution.

Finally, a third means of intervention used was to provide state guarantees for debts of poor quality. To prevent abuses, providing guarantees involves a certain cost: either as special taxes, as acceptance of stricter regulations, or setting up of a franchise by which losses had been further incurred to that financial institution. Other governments (i.e. French) have chosen for the creation of investment vehicles such as sovereign funds[27] that, although State capitalized, act mainly on independent bases.

At the level of the financial regulations, one of the measures taken was banning the “short sale” operations. For example, the US Security and Exchange Commission has banned on 19 September 2008, the sale of this kind of a number of 799 companies, to protect the integrity and quality of capital markets and strengthen investor confidence[28]. The measure, originally announced as being valid until October 2, 2008, was subsequently reconfirmed by a later date (October 17, 2008). Note that an explicit prohibition of such operations is not the only way to reduce short-selling operations. These operations become limited sometimes, because even the shareholders of ailing financial companies become reluctant, in case of a prolonged downward trend, to lend shares to the investors, who then take short positions, as they become aware that these operations will lead to depreciation in value of their holdings.

In addition to these measures, other reforms related to the financial system have been also proposed to improve its operation and remove the possibility of bottlenecks such as the current economic and financial crisis. Thus, the Institute of International Finance has proposed[29] the reconsideration of the risk management practices (corporate governance weights redefining,

risk culture, risk manager's role and complexity of derivatives and secured instruments), policies of compensation (by aligning the interests of shareholders to management company), assessment, credit and ratings granting and ensure transparency of activities, both in the financial instruments (standardization, harmonization of regulations, the adoption of common platforms and technologies, use and regulation of securities trading) and for financial institutions (establishment of codes of conduct, the obligation to publish the exposure of secured products, risk management strategy adopted). Along the same lines, the Financial Stability Forum presented to the finance ministers of G-7 and central bank Governors a report[30] which proposes five areas in which recommendations are concluded, namely: 1) reinforcing prudential supervision of capitalization, liquidity and risk management system (by setting conditions related to capital and liquidity management by taking into account off-balance sheet assets in determining risk, quality assurance, operational structure for derivatives), 2) improving transparency and evaluation process (the declaration of risks, standardizing the accounting and reporting of off-balance sheet assets, the widespread use of international valuation standards, securitization processes transparency), 3) reconsideration of the role and purpose of credit rating (improving the quality of marking, setting differentiated ratings for complex financial instruments, quality assurance data used in scoring, changing the perception of investors and regulators on the importance of ratings and their awareness of relativity), 4) reinforcement of authorities celerity (rapidity) of the response to risk (by defining procedures for immediate action by the outcome of risk analysis, enhancing mutual information between the various regulatory and control bodies, engaging them in setting international policy in the field) and 5) making sound arrangements for cooperation in case of emergencies in the financial system (the central bank, changes in reserve ratios against degree of solvency and liquidity of banks and the overall financial system).

6. Conclusions and perspectives

Although the opposite was long hoped regarding the financial environment, one can say today that 2010 has also started under the auspices of the global crisis. While the history of the past three years has been witness to numerous attempts to solve this problem and restore a rhythm of growth, the recession has affected several countries – and in others, the prospects are also, somber. Started first in the US, the shock wave has spread rapidly throughout the world. As we mentioned at some point, this global storm is a clear demonstration of the interconnections between economies of different

countries. What differs, however, is the impact on the economy of each country according to its peculiarities.

The most affected economies appear to be those where speculations had become normal before the crisis. Many banks have gone bankrupt because of over-indebtedness and lack of liquidity. Mostly affected by layoffs and unemployment were financial services and real estate sectors. The crisis itself appears to be the convergence of several economic weaknesses. First, the global financial crisis is expressed by the reduction and more expensive (in terms of interest rate) loans. This is the apotheosis of many years of "cheap money" when the loans were given without any query about the creditworthiness of applicants. US subprime crisis has its roots in the ease of loan[(31)]. Sudden rise in the price of credit has led to very rapid decrease in demand. Not only individuals saw their purchasing power diminished, but the banks themselves have felt a very tangible threat of bankruptcy. This translated into a vicious circle in which companies needed cash to survive for times when sales are falling and banks, which typically funded those companies, withdrew their support.

Secondly, the decreasing in the purchasing power and installing a quasi-generalized fear of spending has left many countries, which relied on exporting their products to other countries, without buyers. This gave rise to a sudden crisis of overproduction, similar to that of 1929-1933. Among the countries affected mostly by this crisis are China and Japan, whose economies were supported mainly by exports.

Thirdly, a bloated financial system replaced a significant part of the "real" economy in some countries[(32)], like Britain, Iceland, Switzerland and again, US. For several years it had become essentially a speculative environment, supported by continuous self-overvaluation of assets traded, thus the character-ristics of a bubble. This proportion has remained largely a foregone fact, first because of the abundance of cheap money (remember the Federal Reserve reference interest rate reductions after the incidents of September 11, 2001), and due to psychological reasons that the bubble will continue, supported by belief that banks are too important to fail and finally as sophisticated financial instruments (debt securitization as CDO, mechanisms for hedging, derivatives, etc.) have created such complexity that almost any analyst (including rating agencies such as Standard and Poor's, Moody's, etc.) failed to provide – in a convincing manner to the mass of investors – the danger.

Diversity of causes makes effects on each country to be also different. For example, the US struggle with double weight due to the inflated financial system and the years of the financial bubble, but still enjoys the presence of an important and highly competitive industry worldwide. Things seem to be more

difficult for Britain, due to the added effects of the devastating years of relocation and deindustrialization. Both countries pay tribute somehow to periods of economic and financial ultra-liberalism; debt policy known as "reaganomics" and "thatcherianism" and the spread in the whole economy, both public and private, resulting in deficits both ways, speculation and over-valuing power generation mechanisms of the so-called "smart money" to replace the traditional approaches of creating wealth (production, value-added services, etc.).

Among exporting countries, China is suffering because of how its economy is built up, with a relatively low domestic consumption and exports to the predominant orientation, with a specialization in particular in the mass production and medium quality, where the high-tech and design are less representative and a currency (Yuan), whose exchange rate is artificially maintained. On the other hand, Japan is not only dependent on exports, but must also cope with an ageing population and an overburdened social security system. In addition, this state of facts has led to a de-motivating behavior of the new generation, many of their members rather being in a state of waiting for future opportunities (bequests, grants, etc.).

Small countries are not immune to crisis: for example, Iceland's economy (and, partially, Switzerland) is crushed by the weight of over-extended banking and debts contracted by its own citizens. After years of mastering playing cards in financial services, it found itself in the vicinity of national bankruptcy. Problems are aggravated by the country's limited population that can not sustain huge debt resulting from the nationalization of banks. In addition, neither Iceland, nor Switzerland is supported by the European Union as a protective umbrella. Therefore, devaluation of their currencies tends.

Russia and oil exporting countries are put into the rapid depreciation of their main asset – the natural resources (for example, the most famous Russian economic giants in this field are: Gazprom, Lukoil, Norilsk Nickel, etc.). Although, on the long term, these countries should be able to overcome this crisis and return to see the benefits, they suffer from immediate emergencies: falling prices combined with reduced demand threatens to short-term bankruptcy. In addition, Russia has faced, from war with Georgia – taking place in a market already demoralized and panicked – with mass withdrawal of foreign capital that broke the Russian stock market. Collateral, this situation has generated multiple margin calls for many Russian businessmen that guaranteed with shares the loans taken from Western banks. Russia's situation was worsened by the fact that trying to maintain the purchasing power of its own citizens, the Russian Central Bank intervened to support the falling national currency, selling the currency and reducing this effect and thus reserves.

European Union (and, in particular, the Euro) has benefited both from the advantages and the constraints of a single currency. It can be appreciated, on a global scale, that its existence was a stabilizing element for the economy. The significant growth potential posed by the former socialist states which joined the EU or the Euro area, provides an application of products and services which, although relatively small, it proves a saving element. Due to the single currency, public deficits of EU countries, mainly made due to transactions with other EU countries, have not become as much a real economic problem (and no devaluation has occurred because of them) but rather grounds for punishment from the European Commission (let's note, however, that the EC has shown relatively flexible and understanding in relation to public deficits in this period of economic unrest – such postponement allowed to restore the balance of France's budget for 2014, although initially this had been requested for 2012). In particular, although affected by the real estate bubble, Spain benefits from membership of the Euro zone, the purchasing power of its citizens being preserved in the absence of currency devaluations.

In South America, Brazil is an example of the less affected by the crisis. Moreover, the country has had a good opportunity to increase their role in the global economy, manifested by the leverage in the WTO negotiations. In a world whose oil reserves are declining, Brazil almost universally uses its own propulsion technology vehicles based on the use of an alternative fuel - which makes it almost self-sufficient in terms of energy. In addition, a major oil deposit[33] has been discovered in the country's territorial waters, which positions Brazil immediately after the Venezuelan operations and export potential. To these are added the enormous potential of its territory, still poorly explored, in terms of agriculture and natural resources.

Finally, we conclude the example series with India, an economic power on the world scene whose importance is becoming increasingly mentioned. India is attracting a broad range of traditional financial flows generated by business from London or New York (Bombay is the most important financial center of India), takes benefit of the existence of a huge population (although still poor), that brings with it a significant potential for internal consumption, but also scientific and technical innovation. Among the less favorable aspects for the Indian economy one can indicate internal political instability (latent conflicts with various minorities, for example Sikhs) and tensions on the border with Pakistan (and, to a lesser extent, from the border with China) that are potential threats to country's economic future and tend to keep foreign investors away.

It can be concluded at this point that the crisis varies from country to country, although the common point is the presence of these effects in most

states. Possible solutions differ according to events. Thus, for over-indebted economies, stabilizing and reducing deficits seem to be priorities, which may be made possible by the devaluation of currencies. For those countries that have relied primarily on exports, the solution should be an increase in domestic consumption or an adjustment of production capacity (which will lead to redundancies and increased unemployment). Finally, the whole world seems to rely, more than ever, on future growth and development of emerging economies. The future consists of years of building infrastructure, improving living standards, and taking advantage of a still relatively cheap workforce. Combined with reduced financing needs (for those states that are not heavily indebted – as is the case in Romania), the premises shall ensure sustained economic growth.

At the ideological level, the current crisis, as others in history, has triggered an intellectual debate among several applicable ideas: ultra-liberal theory of the “invisible hand” of Adam Smith, Keynes's theory of state interventionism, even neo-Marxist, theories, and so on. The main debate focused around the idea of autonomous self-regulating market, namely whether or not this crisis invalidates this principle. From the economic point of view, an interventionist system or, at extreme, planned, leads to a significant cost: the extensive development of the state apparatus, the need for studies, the readjustment of the decisions and plans, the research and identification of social and economic priorities, etc. In other words, this type of system generates a predominantly administrative cost. On the other hand, ultra-liberal approach showed a reduction of these administrative costs, and proposed reducing the state's role to royal functions (external security, internal security, law defining and providing justice(34) etc.). Of course, funding the state apparatus is, in this case, the collection of taxes, but their values should be lower. Moreover, in addition to reducing administrative costs, such an approach creates the premises for optimum allocation of resources based on the principle that resources must be allocated to meet demand. However, an ultra-liberal approach creates a cost more subtle, systemic, i.e. the cost of fragmentation due to gaps emerging in the economic system. One of the platforms on which the system cost is incurred and supported is the economic mobility. This mobility in itself is what distinguishes interventionism/planning, which is founded on the basic stability of ultra-liberalism, which favors optimal reallocating. However, mobility in itself generates a cost – through promotions to attract new customers introduced by the lack of customer loyalty through continuous concern of employees to constantly seek a more profitable job, etc. It can be concluded that both systems: interventionist and liberal ones, generate costs, possibly comparable, but they are distributed differently between the public and private sectors.

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Notes

(1) It should be noted, in the context of relocation, as an aspect of globalization of production also the verb "to manufacture".

(2) A similar study is found in the work of Michel Albert (1991), but the pillars identified are innovation, internationalization and deregulation; the author proposes this new vision, more representative, since taking into account the elements of culture.

(3) But also those of the control, which has hampered the discovery of fraud, for example Madoff business (hedge funds could be forced to declare their assets structure only under certain conditions).

(4) It's Banking Act of 1933 or the Glass-Steagal Act as it is known the law in question.

(5) The Gramm-Leach-Bliley Act, a law adopted on 12 November 1992.

(6) "Until our day, Humane Society never existed..." (Worsley, 1997).

(7) Movements such as protectionist, xenophobic, etc.

(8) Some examples are: Abu Dhabi Investment Authority, Government Pension Fund of Norway, Government of Singapore Investment Corporation, etc.

(9) See Albert, Michel, "Capitalisme contre capitalism", Editions du Seuil, Paris, 1991, p. 213.

(10) It can remember the involvement of funds managed by George Soros in the devaluation of the pound and Thai baht.

(11) In 1998 for his contributions to the theory of markets and the efficient use of resources.

(12) Allais, Maurice, "La Crise mondiale d'aujourd'hui", Editions Clément Juglar, 1999.

(13) Even if the amounts involved would disappear from real financial circuit, this would be offset over time by trading price readjustment.

(14) Or quasi-zero in some areas such as IT.

(15) A more practical term would be "weak" or "erosion".

(16) In fact, none of these states had been absent from the global economic system, but here comes the new east global economic system, mainly based on financial globalization.

(17) Deliberately, some areas are not covered: Africa, a region of condominiums rather economic, and Antarctica, a protected area.

(18) A striking example of this is even Romania, where wages have increased, for example, 21.4% in Q4 2008 compared with Q4 2007, being exceeded by Latvia (an increase of 30.6%) and Bulgaria (with a increase of 21.8%), according to Eurostat.

(19) Known as the "Pigou effect" which can be summarized in words: when indexes rise, people often go to the hairdresser because they feel wealthier (formulation belongs economist Jacques Attali).

(20) The idea bubble "Treasury bills", which belongs to Warren Buffett, who indicated, in the annual report to shareholders for 2008 Berkshire Hathaway Inc. (published on 28.02.2009),

that the capital market has gone from undervaluation to overvaluation risk and their orientation towards government securities.

(21) According to Louca, Francisco, "Nikolai Kondratiev and the Early Consensus and Dissensions about History and Statistics", History of Political Economy, vol. 31, no. 1, pp. 169-205, 1999.

(22) See Soros, George, "The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What it means", Public Affairs Publishing, 2008.

(23) Reflexivity term expresses the interaction between cognitive function and participatory function.

(24) That concept, the impossibility of holding the ultimate truth, underlies the theory of "open society".

(25) A similar approach was implemented during the Savings & Loans crisis in the US (1980-1999) when a total of 747 financial institutions were put into bankruptcy. Public cost of the procedure was about 124 billion dollars.

(26) And political reluctance to allow sovereign funds acquired large positions in companies.

(27) The decision was made public by French President Nicolas Sarkozy, 23.10.2008.

(28) Press release of the Security and Exchange Commission dated 19.09.2008.

(29) Institute of International Finance, Final Report of the IIF Committee on Market Best Practices: Principles of Conduct and Best Practice Recommendations, 2008.

(30) Financial Stability Forum, "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: follow-up on Implementation", 2008, www.fsforum.org.

(31) This policy is to condemn as the applicants' creditworthiness was questionable from the beginning. The reasoning that prevailed can be summarized thus: it is true that the applicant is insolvent, but as housing prices rise, virtually the money the bank gives with loan will be used to purchase a property that will be worth more than ever; competition for market share led to the continuing undervaluation of risk and a general impression that prices will increase further.

(32) And beyond: absorbed also important intellectual skills.

(33) It's Tupi deposit, located 155 miles off the coast of Brazil, with an estimated capacity of 5-8 billion barrels.

(34) The Royal fourth function, namely to ensure economic sovereignty and the issue of currency, is sometimes challenged.

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