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The Global Crisis and Cyclical Theory

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Abstract. *The dynamics of social development shows that, throughout history, economies have experienced periods of boom and crisis, which were repeated at short, medium and long term, which induces the idea of cyclicality. The effects of the crisis were experienced in terms of investment, output, aggregate demand.*

Keywords: crisis; boom; cyclicality; stagflation; recession; anti-crisis measures.

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In the evolution of the society, crises can be defined as a situation characterized by pronounced instability, accompanied by volatility and uncertainty growing, contradiction (economic, political, ideological, military, etc.). The economic crisis is a phase of economic cycle in which a relative surplus of goods is formed in relation to the limited purchasing capacity of the population, leading to decreased production, bankruptcies, unemployment. In crisis situations we are in a constant state of anxiety and uncertainty of the future, fear or even panic, disorder state of the economy, the expression of a breach of the necessary correlation of the business. Its onset marks the start of qualitative changes in the economy for a new upturn in economic activity. By the early nineteenth century were typically underproduction crisis caused by natural phenomena (drought, floods) or socio-political special circumstances (epidemics, wars).

Market economies are characterized cyclical crises of overproduction, consisting in the fact that the offer is greater than demand, the goods produced not finding creditworthy buyers, which requires bidders to reduce output.

National Bureau of Economic Research (NBER) defines crisis as "a significant decline in economic activity for several months reflected in lower GDP, lower individual income, reduce employment levels, reducing industrial production and consumption." Economic crises can take the form of stagflation, a recession or economic depression, and sometimes can lead to economic collapse.

The economic depression is a severe economic crisis, a sustained drop of one or more national savings, a rare but extreme form of recession, characterized mainly by an increase in "unusual" unemployment rate, restricting credit, major restriction of industrial output and investment, evaporation of liquidity, price deflation, hyperinflation, numerous bank failures, significant trade reduced, a highly volatile and unpredictable exchange rate, mainly the trend of devaluation and is considered to arise when there is a decline in gross domestic product (GDP) of more than 10%. We are talking about an economic depression when we face a negative growth of gross domestic product (GDP) for at least two quarters. Some experts classify these crises in the social crisis (inflation, growth, unemployment, poverty), financial crisis (sharp volatility in capital markets, falling stock markets and their spectacular return), political crisis (which may degenerate into wars), local or international crises, crises caused by natural disasters or generalized economic crisis.

It is difficult to make judgments when a financial crisis becomes an economic or an economic crisis generated a financial crisis or vice versa. In

principle we always talk about an economic crisis generated by financial, political or social reasons. The financial crisis is a manifestation of the economic crisis which reflects distrust in the financial system, a significant decrease in the volume of transactions on stock exchanges, disruption of market mechanisms, stock market is the business barometer of the economy dealing business in different sizes and from different sectors. The financial crisis is a situation in which money demand is greater than the supply of money (available), ie low liquidity is readily available because the money is withdrawn from banks, thus forcing banks to either sell their assets and investments to cover their needs or to collapse.

Financial crisis can lead to an economic crisis.

When the market suffers from disturbances or major corrections these are reflected in the profitability of listed securities business and consequently the price of financial assets (stocks or bonds) that depend directly on investor expectations. Panic increase the magnitude of these corrections and to induce new uncertainties in the economy. From here and until the reduction of appetite for savings and investments and then to increased market interest is only one step.

We speak about a crisis when its effects are manifested on a large number of people/companies. But crisis may exist in a latent state. Crises are not hard to predict (their causes are quite clear).

Economic crises do not fall into a certain pattern. Modern economic theories reject the idea of a general theorizing financial and economic crisis, according to which they can be incorporated into a valid general model, considering that each financial crisis is unique, in fact, each representing a historical accident, caused by specific factors in a particular socio-economic and political conjuncture. According to these theories crises can not be anticipated, so that their negative effects to be brought to a minimum. However, history shows that while financial and economic crises do not arise within the parameters and they do not produce identical effects, they are closely related to the cyclical nature of economic processes.

The business cycle and its phases

Cyclical form is a natural, normal form of evolution of economic activity. Economic life is a cyclical trend, undulating, generally upward. There is not a general pattern of business cycle or two cycles identical in length and configuration phases, even in the same country or in different countries. Cyclical developments (fluctuations) are nuanced and complex.

Cyclical evolution has an objective determination, but traders and governments promote measures to mitigate the economic cycle and in particular

waves of recession and the negative effects it generates. Cyclical causes are numerous, but the decisive role has the specific mode of development effectiveness (efficiency) use of production factors.

The business cycle is the period from the beginning of a contraction of overall economic activity until the beginning of next.

In the cyclic movement takes place the following phases:

- expansion (boom) characterized by increased production, national income, employment level of employment, wages and profits, businesses thrive and cheap credit, growth of rate securities. In the expansion phase has been an increase of economic efficiency resulting from the introduction in the economic cycle of significant technological innovations.
- depression, state of the economic climate characterized by economic imbalances (supply> demand), reduced productivity, reduced rate of profit, turnover and lower rates of securities, higher credit, restricting loans and investments.

Overcoming the crisis takes place by modernizing the capital stock, increasing the capital which increases the rate of employment in industries that produce goods production, implicitly leading to increased demand for consumer goods. It initiates a new phase of expansion, followed by another contraction marking the transition to a new economic cycle, representing an improvement from the previous one.

Economic cycles can be short, medium and long term.

Short cycle is a wave motion for a period of about three years, falling within the environmental cycle, and includes two phases: expansion and contraction is influenced by the formation mechanism stocks, specif of the market, and by offer for agricultural products.

Long cycle synthesize long wave, 40-60 years periods, development of economic life and has two phases: ascending, descending. The first phase is characterized by the predominance of years of prosperity and relatively high growth rates of national income, investment, production and sales, including sustained rise in living standards. In the downward phase there is an economic slowdownand emphasizing the persistence of negative phenomena in the economy due to profound changes in the behavior of economic agents, branches and sub-structure, in the structure of consumption. The main cause of the secular cycle is the cyclical evolution of scientific research and technological innovation.

Dean cycle with a duration ranging from 4-10 years to 5-12 years consists of four phases: expansion, the upper turning point of the recession (depression) and recovery. Dean cycles are carried out amid the secular cycles.

Over the time the global economy has faced numerous economic crisis.

The economic crisis of 1929, as the territorial scope, duration and economic and political effects, also known as the Great Depression, proved to be most severe. Initiated in the United States of America, preceded by a period of 9 years (between 1920 and 1929) of economic development, had the support the increasing on money supply in circulation by the Central Bank of America Federal Reserve (FED) and a relaxation of credit policy and interest rate reduction. Following this monetary and financial policies of the FED, the population has bought massive action, which saw a steady increase the stock market, until September 1929, when occurred the great stock market crash on Wall Street. FED occurs by tightening monetary and credit restrictions, and the result was the production of bankruptcies in all sectors: agriculture, industry, banking. National production has fallen by half and the unemployment increased. United States of America has adopted a policy to restrict imports through protectionist measures, which led to the spread of the crisis in Europe. In return, European states have adopted measures against US exports prohibitive. After World War II until the early 70 years for 25 years industrialized economies have experienced strong growth, due to favorable economic and political factors (maintaining a correct ratio between demand and supply, by promoting economic policies of full employment of labor, creating a stable international institutional framework).

After this period of strong economic development of most countries of the world in the early 70s, began a period of recoil, which lasted 10 years, known as big stagflation, characterized by rising inflation and falling economic growth and gross domestic product. Underlying these economic troubles have spent a number of circumstantial factors specific to these period: the adoption by the US inflationary macroeconomic policies, in 1973 triggering the first oil crisis. During this period labor productivity in industrialized countries has declined and unemployment rose, which had the effect of reducing revenues and easing inflationary increase in prices. Rebound period ended with the triumph of central banks (US, German and Japanese) that have passed stringent anti-inflation policy.

Another major international financial crisis occurred in the late 90s in Southeast Asia. The determining factor of this economic and financial crises with devastating effects was the massive withdrawal of capital by foreign investors, who in the early 90's invested billions of dollars in this market due to weakening investor confidence in the banking and financial system of countries in this area. The effects were devastating for all countries in the region: in 1998, for example, South Korea's GDP decreased to 33% of the GDP in 1997, the GDP per capita in 1998 decreased by 42% in Indonesia, 21% Thailand.

Crisis from Russia (1998): was induced, according to experts, by the crisis from South Asia, occurred due to the drastic decrease of oil and gas

exports (and other raw materials) to this region (which Russia was strongly dependent) and also due to non-payment of taxes by a significant proportion of companies in the energy and manufacturing industry.

All these examples show that there is a history of seizures. Moreover, the current crisis differs in his magnitude from other crises because she is currently affecting a large number of countries. If until now were mainly affected developing countries, now they have been involved in the current crisis the developed countries.

Lack of understanding and consensus of views in the majority of professional economists on the issue of financial and economic crisis explains why they could not anticipate the financial turmoil in Southeast Asia from 1997, especially how was possible the current financial crisis.

Some economists have studied how the crises occur.

Milton Friedman, Nobel Laureate in Economics in 1976, promoter of the theories about the market economy and to minimize the state's role in coordinating economic, argued that as economic actors are always rational in a market economy speculation are not possible, and so-called “speculation” is trying to protect investors against irrational actions of governments.

Charles P. Kindleberger in his book “Anger, panic and crisis: a history of financial crises” shows that even if we would accept the rationality of individual investors, history has repeatedly demonstrated that markets sometimes behave irrationally, the best explanation of “mania” being offered by financial “crowd psychology”: although the individual economic actors may be rational, financial speculation is a mass phenomenon, the rational action of several individuals irrational consequences.

Kindleberger considers financial crisis as an inherent feature of international capitalism.

Hyman Minsky argues the theory of “financial instability” as a factor in producing the financial crisis. According to this theory, financial crises are an inevitable feature of the capitalist system and follows a predictable course. The first sign of a future financial crisis is an external shock on the economy. This powerful exogenous factor leads to increased profit opportunities in one of the major sectors of the economy and reduces economic opportunities in other fields. Increase the chances of profit in a particular economic sector attract funding sources, creating an explosion of investment. The investment fever is driven by substantial growth of bank credit and also by attraction private funds and investment firms. The expansion of credit increase the impulse to speculate, manifested by higher assets and property of high demand. In the next stage, some investors notes that the market reached a maximum and seek to transform their overvalued assets in cash or as assets. Subsequently, more and more

investors notes the risks and seek to sell their overvalued, risky assets, leading to a collapse in prices. After the crisis in investment follows a credit crisis caused by the fact that banks are not extending credit. Bankruptcies are triggered in a chain, and the economy may enter recession or even depression. In the final the state of panic calms down, the economy recovers and the market returns to a state of balance, but with a very high price.

The current financial crisis, which started in the USA, erupted in 2007, ten years after the last major financial crisis in Southeast Asia. She represent the end of a decennial cycle (environment) or business.

The effects of the international financial crisis extended to the Romanian economy.

However, in terms of direct impact, the banking system was less affected because it was not exposed to toxic assets, and because National Bank of Romania adopted some prudential and administrative measures over the time.

Indirectly, however, the international financial crisis and its obvious consequence – recession in developed countries – has expanded in the romanian economy. Commercially, we note that exports decreased, and on the financial plan we observe the restriction on foreign funding, who is generating difficulties in the private external debt service. Reduction of external funding was reflected in the national currency's depreciation.

Keynesian philosophy and anti-cyclical fiscal policy

In essence, the objective of anti-cyclical fiscal policy is to stabilize the economy by managing aggregate demand so as stated by John Maynard Keynes, a british economist who lived in early twentieth century. Turmoil in the housing sector, transferred in the financial sector led to a decrease in investments and the anticipation of a low level of demand has led to reduced industrial production. As a result of this situation, consumption fell and unemployment rose, events who exacerbated the fall in aggregate demand. When economic activity falls below its normal, Keynesian theory argues that in the absence of government intervention the downward spiral will increase until it reaches an equilibrium point lower than the level at which previous work. For this reason, some governments, from developed economies and from emerging economies who had entered in the recession or affected by a slowdown in economic growth, considered that the efforts of anti-cyclical monetary policy interventions should be coupled with robust fiscal level. Accordingly, they adopted a series of programs designed to stimulate consumption and investment, either through public spending (financed by increasing budget deficits), or by a temporary reduction in tax burden.

The overall impact of financial crisis on the real economy was strongly felt, and the economy as a whole was affected by a substantial slowdown in growth, which affected people, businesses and jobs.

After bursting US housing bubble, the economic development of the euro area decreased by approximately 8% per year, the largest decrease from 2001 to present. As credit conditions have become more stringent, europeans also became more cautious, reducing consumption and investment; being threatened by unemployment, they preferred to save and protect their income by keeping them out from the financial and banking system. One of the main promoters of economic development, capital investment, was stopped abruptly.

The crisis started in America in 2007 had complex effects on european economies, strongly felt on the capital market and labor market. Financially they were materialized by:

- direct effects on financial institutions: bankruptcies, restructurings, companies and financial institutions, takeovers and mergers, direct financial support to large funds.
- effects on volume and stock quotes: volume of stock transactions decreased, but the biggest impact the crisis had on the volatility (risk) and over the stock yields most closely associated with variable income instruments.
- effects on the market investors, who have left more and more from the capital market by radically changing their investment options, which had direct impact on the cost of capital and financial interest.
- effects on capital market regulations (enhanced control over the remaining areas outside the jurisdiction of central banks or supervisory committees of the capital markets).

On the labor market we are witnessing a global crisis of jobs, a dramatic decrease in wages, according to report published by the International Labour Organisation (ILO) in late January 2010. Among the macroeconomic indicators, unemployment is directly reflected in the daily lives of people affecting their living standards.

Consumer and investor confidence has been affected, which led to the adoption of measures to stimulate domestic demand and stabilize the labor market, respective stopping the increase in the number of people laid off, aiming to support disadvantaged groups.

In support of national economies, many countries have resorted to borrowing on domestic and foreign markets, which boosted the public debt. The debt burden press at the same time on public finances and on the capacity of banks to lend private sector. Although in the present moment the popularity the expansionary fiscal policy among government authorities is hard to contest,

their foundation and their chances of success are extremely questionable. The explosive growth of budget deficit reduction fund due to the cutbacks of tax revenues requires massive funding from private sector. This funding of public deficit was achieved through state loans, internal or external, which would increase the public debt-an increase in future tax burden on taxpayers. Payment of loans in the future will mean a reduction of funds for investment and lower economic growth.

Regarding monetary policy, central banks have sought to protect the payment system and to prevent deflation as a result of the collapse of banks and financial lending institutions. A crisis in the banking system as a result of bankruptcy of major financial institutions would have the effect of loss of depositors' savings, which is why most countries have increased state guarantees on deposits. Excess money is only one monetary policy errors made by central banks in the current crisis.

Avoiding a monetary deflation means in terms of monetary equation MV = PQ, M maintaining the level of money supply M in terms of a decrease in money velocity, V. Monetary stabilization is the subject of monetary policy in conditions of crisis, and its exercise must not mean rewarding inefficiency of a financial institution or another. A particular bank may go bankrupt and its assets to be taken up by other shareholders, without monetary circulation to be affected. The stability of the monetary system is not ultimately dependent on the fate of any company/private bank and the competitiveness of financial institutions should not depend on the exercise of discretionary monetary policy. These should be the framework in which the relations of production and exchange from real economy takes place.

The most important effect of fiscal interventions is blocking the waste of capital made in the pre-crisis period. The solution to overcome the crisis is the microeconomic adjustment made by governmental authorities, based on optical aggregated macroeconomic models.

Anti-crisis measures are based on:

- conclusions made by economic science;
- knowledge of economic interdependence;
- prompt and effective information on developments in business.

They concern monetary, budgetary and fiscal policy, based on their differentiated application in the two phases (states) of the economic cycle. Under conditions of extended boom, monetary policy aims braking consumer demand and investment by raising interest rates, restrictions on credit, and by making a more rigorous control of money supply. In the recession phase is intended to stimulate production and investment by reducing interest rates, increasing the amount of credit and money supply growth.

Public expenditure policy seeks to allocate funds from the budget, during the recession in order to boost production, global demand, allowing the recovery of economy. Public expenditures are focused on state purchases, cultural and social investment, investment in public enterprises. The investments made allow to overcome depression and moving to a new upward phase of the economic cycle. In the boom phase the public expenditure is reduced. As for the fiscal policy, the state reduce the tax burden during the recession, thus stimulating consumption and investment, and during the boom phase, increased taxation, in order to build up funds to the national budgets.

Conclusions

In order to minimize the effects of crisis, states have designed countercyclical programs called “mix policy”, based on promotion of differentiated monetary measures (who concern the dynamics of prices and inflation) and budgetary measures (which aims business volume and the coverage of the budget deficit by issuing credits and not money). Thus, depending on the economic situation through fiscal, monetary and fiscal policy the state stimulate or reduce demand and supply. Anti-cyclical economic policies provide a stability to the business processes and also the reduction of the negative effects of economic cycles, because they are based primarily on influencing aggregate demand and supply.

Global economic growth will not reach the level of recent years too soon, because it is necessary massive rebalancing of the balance of payments. Simultaneously, credit conditions remain restrictive despite improving liquidity in money markets and the massive bond issue. Tightening financial conditions is affecting economic growth and weak economic activity led to an increase in bankruptcies.

Very severe negative consequences crisis has especially for export-oriented economies. Many emerging economies have been unprepared to absorb the structural shock of low demand for export.

Currently the majority of world states are facing a crisis that respects the canons of large-scale rotation.

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