Causes of Global and National Economic Crisis

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Abstract

The economic crisis is expected to bring a slow down, stagnation or decrease of the economic activity. The socio-economic crisis in Romania started in 1990 and it continues at present, being emphasized by the financial and economic crisis on the international market. From now on, the crisis exit door for Romania is possible only by operating the morals to all the domains, by unlocking the functional procedures of the financial-economic processes and by showing a performant management at all levels. The economic-political crisis in Romanian is a label crisis with no responsibilities, only with consequences. After 1989, society could no longer advance because Communists and Securitate people were still present and controlled structures and decision-taking systems through their connections and therefore turned the state into a dummy and they turned into a dummy even the president, elected and self-proclaimed a symbol of anti-Communist fighting. In Romania, the state started to be called the worst manager. Blamed and pointed at by everybody, the state initiated quick economic privatization and land retrocession and assets sales. Instead of increasing the responsibility of the management to ensure economic efficacy and efficiency of the all joint assets through mixed forms of ownership, the state initiated accelerated and reckless privatization. Instead of assuming social, political, economic and legal responsibility for the management of the national assets, our original liberalism caused generalized corruption and unjustifiably made rich a political minority well connected to the relevant people, and made poor the most of the population. After twenty years of reform, the national economy looks like a sick person that has undergone twenty years of therapy and is now dying. Doctors and relatives can see the patient is much worse than twenty years ago and instead of accusing the medical staff that prescribed the treatment, simply say: „It is God’s will”. Since the ordinary man cannot fight the Divine will, he continues living in this everybody’s vanity fair.

Key words: economic crisis, financial crisis, moral crisis, efficient management, liberty, responsibility, performance

1. Definition. Generally, the economic crisis reflects the difficulties of the economic activity, that is a slow down, stagnation or a decrease of the economic activities. It appears as a serious fracture of the macroeconomic equilibrium, especially of the equilibrium between production and consumption, between demand and supply, between the extent to which the production factors are used and the level of employment, between the level of prices and the purchase power of the citizens etc.

In terms of time graphics, the economic crisis starts from the moment when the ascending cycle incurs a turn and lasts until the descending cycle leaves room again to the sustainable ascending cycle. During this time, the governmental bodies and the management of the economic agents act in coordination in order to trigger quality changes meant to remove the causes that generated serious economic imbalance.
On the other hand, financial crises reflect serious malfunctioning of financial systems of countries, which are the significant deficits of the public budgets. Financial crises may appear as a result of accidents (significant reduction of money collected to the budget), unforeseeable shocks to the real economy (domestic and/or international unfavourable circumstances in certain branches or sub-branches of activity), of hasty decisions of the management that trigger exaggerated expenses, thus ignoring risks etc, as the case may be. Consequently, economic-financial crises are caused by crisis-generating elements that pertain to both categories and negatively influence both fields of activity.

Moreover, it is considered that "The current crisis started with financial turbulence, which have lost money, continued with economic one, where GDP fell, and generated a social crisis, which were million lost jobs. I would add that the current turmoil is the product of a crisis of Western cultural model, the crisis caused by removal of core values that led to the initial rise of the West".1(1)

The duration of an economic-financial crisis depends on the macroeconomic factors taken into account, whose representation can have multiple nuances, generated by subjective and political influences. 2

2. Main features. The crisis began in the U.S. and spread in the name of globalization, on the whole planet. Curse of cheap money also hit individuals and companies who wanted to get rich by speculative actions. The traditional principles of work, savings and prudence, were passed in great haste to leverage and greed, understood as short-term profitability. Events are financial crisis, economic and social, but it seems to have causes and origins beyond the financial excesses of the moral essence of consumer society, because. "Western values have migrated over time to focus put on working diligently and accumulation of wealth by social participation, leading ultimately to self-fulfillment absolutization guiding principle of human right. Thus witnessing the shift from collective to individualistic values sometimes went to extremes to alienation." 2(2)

The latest economic and financial literature is full of texts about the global financial crisis that started in 2007 and forced various economic branches into its devastating whirlpool. Many countries have lived an economic decline mainly caused by this phenomenon.

In Romanian, as well as in many countries in transition towards the market economy, the economic-financial crisis started in 1989, when the drastic political, institutional crisis began and when the entire system crisis began. Ever since, year after year, the main macro-economic indicators have known spectacular decrease, some of them justified by the effects of circumstantial crises like the crisis that began in 2007.

With no rational explanation, after the moment 1989, Romania switched from an economic growth based on industrial production and significant exports to a consumption-based model. Consequently, the goods production diminished significantly, as you can see in the table below:3

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>1989</th>
<th>2010</th>
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<tbody>
<tr>
<td>Employees (in thousands)</td>
<td>3 800</td>
<td>1 200</td>
</tr>
<tr>
<td>Steel (thousands of tons)</td>
<td>14 411</td>
<td>3 900</td>
</tr>
<tr>
<td>Copper (thousands of tons)</td>
<td>39 397</td>
<td>0</td>
</tr>
</tbody>
</table>

1 Basil Yuga, The long march of capitalism, Article, foreign Policz Romania, April to March 2012, p.36
2 Idem. P.39
3 Cf. Laurenţiu Gheorghe, Memoirs industrial, article, Forbes, 7 March 2011, p.14
Since, usually, comparisons are made between consecutive years, experts believe that if the GDP decrease in 2010 is less than 2%, it happens because of the positive contribution of the industry that has had a 5.5 % growth while goods exports have incurred a 28% growth.4

Agriculture in its turn has known deep transformation. Thus, if the experts in this field and actual European and global trends in this productive activity claim that efficient agriculture is strictly linked to the concentration of the agricultural areas in large production farms, in Romania „….rural property is twice more fragmented than between the two World Wars. As a result of the enforcement of the Land Law, the average area of the agricultural farm is 1.9 ha while two thirds of the farms have between 0.5 – 1.6 hectares. In addition, according to the data provided by the Academy of Agricultural and Forestry Sciences, these properties are further on fragmented into about 40 million plots of land, often located at significant distances from each other5. Thus, although we are able to ensure food for half of the European population, the Romanian agricultural production can hardly survive and a lot of the domestic consumption needs are met by importing products.

Most famous economists and sociologists insisted upon the need to combine the social mechanism with social responsibility. Any individual is in search of an existential direction in a universe restricted by rights and obligations, liberties and responsibilities towards one’s own person and social environment. The economic-social crisis in Romania is the result of the balance towards increased liberty and a blameable ignoring of one’s responsibility. Right after the moment 1989, the governments that ran, in turn, the country, did not hesitate to promise another kind of economic development, meant to ensure everybody a better and more peaceful life. Beyond any responsibility, the new governments involved to social majority into a deep reform, without taking into account the costs of the reforms and against the ideals of the reform. Consequently, the social reform performed so far has been characterized by increased poverty, de-structuring of the health system and of the educational system, serious degradation of the domestic production, loss of traditional international markets, waste of national assets, contracts mainly for consumption and for balancing the payments for significant foreign debt, unacceptable increase of unemployment, migration of millions of people to foreign countries for a job, often under humiliating circumstances etc.

The economic-political crisis in Romanian is a label crisis with no responsibilities, only with consequences. All suffering after 1989 has been masked by the shadow left by the emblem of a well-known ghost: Communism. Before 1989, Communists were acting upon the human being and were restraining any form of freedom while human beings had only obligations. The huge industrial plants that used to ensure jobs for thousands of people suddenly became heaps of metal scraps. The outcome of work during the Communist Era was actually expressed in lies of a generalized Communist Party propaganda. After 1989,
society could no longer advance because Communists and Securitate people were still present and controlled structures and decision-taking systems through their connections and therefore turned the state into a dummy and they turned into a dummy even the president, elected and self-proclaimed a symbol of anti-Communist fight. In Romania, the state started to be called the worst manager. Blamed and pointed at by everybody, the state initiated quick economic privatization and land retrocession and assets sales. Instead of increasing the responsibility of the management to ensure economic efficacy and efficiency of the all joint assets through mixed forms of ownership, the state initiated accelerated and reckless privatization. Instead of assuming social, political, economic and legal responsibility for the management of the national assets, our original liberalism caused generalized corruption and unjustifiably made rich a political minority well connected to the relevant people, and made poor the most of the population. After twenty years of reform, the national economy looks like a sick person that has undergone twenty years of therapy and is now dying. Doctors and relatives can see the patient is much worse than twenty years ago and instead of accusing the medical staff that prescribed the treatment, simply say: „It is God’s will”. Since the ordinary man cannot fight the Divine will, he continues living in this everybody’s vanity fair.

3. Algorithm of the deepened crisis. In 1989, there were few who could foresee such an evolution of the economic and social mechanisms. At present, after more than twenty years of structural reform, we can clearly see the developments that explain the precipice where our country lies:

a). A legal framework implemented that was meant to de-structure and deprive of responsibility. The basic concepts are represented by the Romanian Constitution itself, adopted in November 1991, stipulating that: the Romanian economy is a market economy. The state shall ensure: freedom of trade, protection of fair competition, creation of a framework favourable to all production factors, protection of national interests represented in the economic, financial and FOREX activities, enhanced national scientific research, recuperation and protection of the environment and ecologic balance, creation of appropriate pre-requisites to ensure life quality, protection of the property. The sub-soil, the infrastructure, the economic resources and the continental part of the country etc. shall be object of public property exclusively but shall be available for lease or concession. The right to work and to choose one’s job. Social insurance of the work etc. Starting from the Constitution, the governmental strategies and the whole range of laws acted in the sense of amending the property relations. Consequently, public property and co-operative property have been more and more protected until they became private property.

b). The management of public enterprises and organizations has been replaced with entities appointed according to political criteria. Consequently, the management of companies was removed from the control of the employees, the framework created to prevent frauds in public entities was annulled and the development of the private interest was encouraged. After the sad old model of „Mitrea Cocor“, professional management was replaced with the management loyal to a party while the economic outcome was becoming scarce. Corroborated, these factors triggered the systemic economic crisis that deepened as the global economy was hit by other crises.

c). Fragmentation, despite any economic criteria, of the huge public enterprises into smaller independent structures. What had been achieved as a result of concepts of centralized concentrated economy was later on destroyed because of more than blameable political ignorance. Thus, many economic enterprises that used to be competitive on
international markets lost their identity; the newly created structures started competing among themselves and their market was gradually taken over by foreign competitors. The result was insolvency and bankruptcy. For instance, big industrial areas like Electroputere, Tractorul, Uzinele 23 August etc. handed over their domestic and foreign markets to foreign competitors, and later on, their locations turned into suspicious residential or commercial areas.

d). Irresponsible initiation and development of financial blocking. Public enterprises were turned into commercial companies and autonomous régies with no economic justification. Left without any operational autonomy, with no initial cash flow, at least to pay salaries and procurement to resume production, placed most such enterprises in the position to ask for loans. At the same time, the irrational process of giving back the shares of about 30-33 billion lei (price at that moment), led to sudden loss of cash flow in these enterprises, generated inflation and seriously hit people’s savings and the economic processes of companies. Loans, whose interests gradually increased from 30-40%, to 150%, 180% etc, extended the financial blocking and involved even the high performance companies in this merry-go-round. After five years of economic reforms, the national production capabilities decreased to 40-50%.

e). Gradual depreciation of the leu against the dollar. From 60 lei, the rate exchange in 1990, the dollar was 3, 600 lei in 1996 and 4, 700 – 4, 800 lei in the exchange offices. The accelerated inflation seriously affected the purchase power of the population, strained the productive companies and helped a minority that was loyal to the political parties to become rich especially through financial fraud.

f). Acceptance of external circumstances as a fatality. While Romania complied, as an obedient student, with indications to conclude new treaties of free exchange with other countries, the Western countries were doing their best to protect their own products whenever it was possible. In addition, Romania always complied with the interdictions imposed by UN embargos for Iraq and the former Yugoslavia which affected the Romanian economy while Romanian received only promises that the los incurred would be recuperated. Moreover, once CAER market dismantled, although it was a fact whose justification was difficult to understand, the Romanian politicians were blocking the political and economic relations with former Soviet countries which allowed Western countries to enjoy easy access to such a huge economic market. Although experts have a different opinion, Romanian politicians are still condemning any large-scale economic relations with Russia and China, which has major implications upon the strategic action guidelines to stimulate exports and domestic production.

All these facts and the almost generalized corruption and the lack of efficiency of authorities at all levels forced Romania to live serious reduction of the GDP, poverty and social disillusion. All comparisons with the 1989 production show, in actual mathematics, that Romania is undergoing a deep economic, social and financial crisis. This situation can be also stated as it follows ,...to emphasize that the main feature of the 2009-2010 economic and financial strategy is an „appearance of confusion”, corroborated with “illicit group interests”. Without being definitely sure but taking into account the domestic situation and explaining through the evolution of the countries that underwent the crisis as well, I can state that Romania will still be affected by the deep crisis until June 2011; the trend will be reversed after this moment. It also depends on the 2010 budget analysis, on

\[\text{idem, p.69}\]
the coherence of the 2011 budget forecast and especially on the success in bringing the state powers along the right, operational, beneficial track.”

4. **Action guidelines for sustainable recovery.** Obviously, mathematical figures and expert analyses show that Romania is still under recession. Millions of Romanians are living in poverty, in some case below human acceptance. However, there is hope that 2011 may bring a positive economic trend which keeps hope alive in people’s mind. There are many ways to leave behind the crisis, claimed by politicians, national and international bodies, researchers, scientists, ordinary people. We consider therefore extremely imperative to act along the following guidelines:

1. **To activate moral values in all fields of activity.** Over the last centuries, people have started more than ever to project their lives by giving more importance to legal concepts and less to moral concepts. Consequently, the thief is not a thief, the murderer is not a murderer, and the liar is not a liar etc. until justice pronounces it so. Thieves, liars, murderers etc enjoy the rights of being not guilty and are free to walk among people in society, to the detriment of the law, while a whole range of lawyers will acquit them thus stirring the indignation of the citizens. Honesty, fairness, shame etc. have become values subordinated to legal actions; wrongdoers can defy citizens by arguing that the legal system made them justice and stopped their prosecution. In fact, the current economic and financial crisis, both global and Romanian, is a moral crisis. People have lost the compass of social action. The so called legal fairness allowed development of selfishness, greed, lack of good sense, freedom without responsibilities. Politicians reproach each other with horrible acts, without any shame or remorse; the administration have gradually become incredibly corrupted; the medical staff shamelessly asks for money although the medical services are said to be free of charge; teachers become more and more subjective when they give marks; mafia people reject any law and impose their mafia-type rules in their defy towards any law and moral norms etc. Not long ago, those who violated the moral social norms would be rejected by their groups and the rejection would be based on the strict enforcement of the laws. Any economic and social recovery plan will be useless if not based upon moral recovery of society. Moral health can remove corruption at all levels, can remove injustice, can limit greed, and can become the basis of a better life.

2. **To de-block operational mechanisms of the economic and financial system.** Basically, national economy operates as an integrated system of input, transformations and output that should ensure better and better conditions for those who take part in those processes. In our view, in order to de-block the operational mechanisms of the economic and social system, there is a need to make the political decisions-taking entities more responsible. Their political freedom must definitely be justified by moral and legal responsibility. When she analyzed the current economic and financial conditions, Angela Merkel, the German Chancellor, reminded of “…the co-responsibility of the politics for the community consciousness in terms of norms, ideas and attitudes. The ethical effort is a matter of survival for the modern state.” De-blocking through political and governmental responsibility may take into account: to encourage investments, to cut inflation, to cut useless expenses, to identify available markets, to modernize production, to impose a discipline of the work, to concentrate and centralize production, to correlate fluxes built up

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7 Constantin Anghelache, Macroeconomic diagnosis loses relevance if not lead to long-term solution, article, The Economist,, no 8, 14 March 2011, p.7
8 Apud Constantin Popescu, In România, reform failed, the economy died, article, The Economist, no 8, 14 March 2011, p.45
on economies of scale etc. how can these action guidelines become plans if no one in this
country knows what are the political functions and what are the administrative functions!
The lack of moral values makes people think of providential solutions. People wish to see
hopeful facts in industry, agriculture, health, educational system, administration, tourism,
justice, in all social mechanisms. Everything must be coordinated by morals.

3). Sustainable high-performance management. Management implies competitive
use of the available resources. High performance management explain why some countries
are rich and other countries are poor. In fact, there are countries with irresponsible
management although they are urged to act as Cicero asked in the Roman Senate in the year
55 B.C.: „National budget must be balanced. Public debt must be reduced. Arrogance of the
authorities must be moderated. Payments to foreign governments must be diminished if our
nation wants to avoid bankruptcy. People must learn once again to work instead of being
assisted by public means.” However, people can learn to work unless work is planned,
organized, trained and strictly coordinated so that the workers should not seem themselves
as working tools. Workers must enjoy a decent living standard. In the absence of material
incentives, most ambitious managerial goals will be doomed to failure since salaries
maintained at le level of minimal subsistence will entail sloppy work. Performance balance
in all fields of activity shall be based not on irrational and reckless cuts in salaries,
expenses, imports etc., but on managing performance of output, product, productivity,
and increased satisfaction in the transformation system. Such a management can
succeed only in an environment of moral values and responsibility, as it is the case of the
German society.

4). Reconsideration report individual interest - public interest. Excess ideology
made the public interest is considered to be communist interest and individual interest of
capitalist interests. Exaggerated faith in the liberal ideas of cultivating personal interests can
generate incorrect social behaviors that promote unimaginable a few people. That is,
currently, there are people showing revenues that exceed the revenues of states with large
populations. Consequently, without strait-laced personal initiative, individual, consider it
necessary, in any social construction, to rely on general interest of the community. This
requires structural reforms that would bring in a new light on the relationship capital, labor,
interest and money, to achieve general welfare standards, by reconsidering economic ideas
about tax policies and their correlation with sustainable development policies.

The four basic guidelines to fight the crisis start of course from the moral
cleansing, both at individual and group levels. If these commandments are not taken into
account, changes that we mention all the time in our speeches will only deepen the crisis.

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9 Ibidem