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OCCURRENCE AND EFFECTS OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

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Abstract:

"The biggest economic crisis since the Great Depression is not a natural phenomenon but a man-made disaster in which all play a role"

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1. Introduction

The year 2007 meant for all mankind, the global financial crisis, which has turned into a strong economic crisis. It was when central banks had to intervene to provide liquidity to the banking system. Referring to the disastrous consequences of its financial reputation appreciate George Soros: "We are in the midst of the worst financial crisis since the 1930s". In some respects, it resembles other crises emerged in the last twenty-five years, but is also clearly distinguishable from them: the current crisis marks the end of an era of credit expansion, with the dollar as the international currency of reference ¹, it is a result of while imposing and maintaining the paradigm that financial markets tend towards equilibrium, outside any system of national and international regulation and supervision.

2. The economic situation

From then until now the world economy has experienced a dramatic decline in key benchmarks, thousands of bankruptcies led to slowing economic activity, increased unemployment and lower living standards dramatically. To avoid global disaster, the main countries of the world have made major financial efforts in order to give new hope ongoing economic development. As the BBC² reports: on 6 august 2007, American Home Mortgage, one of the largest independent housing loan companies, went bankrupt after he fired most of the staff. The company said that it is a victim of the U.S. housing market crash, crash that led many lenders and borrowers of subprime³ credits with high risk. On 9 august, short-term credit market froze after a large French bank, BNP Paribas suspended three of its investment funds worth 2bn euros, citing problems in the U.S. subprime

¹ George Soros, *The New Paradigm of Financial Markets*, International Letter Publishing, Bucharest, 2009, p 7.

² BBC News, "Timeline subprime crisis: How did the subprime crisis?" [Http://news.bbc.co.uk/1/hi/business](http://news.bbc.co.uk/1/hi/business) accessed on 10.11.2011.

³ Subprime credits - those loans to people who either have a bad repayment history, or have poor financial potential in terms of conventional banks, are common in countries with developed financial markets from the point of view of the instruments operating in these markets, especially the United States and Western Europe. http://www.4women.ro/index.php?module=news&news_id=757844 accessed on 15.03.2012.

mortgage sector. European Central Bank made an infusion of 95 billion euro area banking system to move more easily than subprime crisis. U.S. Federal Reserve and Bank of Japan took similar measures. On 10 August, European Central Bank has provided banking funds still 61 billion euros. U.S. Federal Reserve said it would provide the shortest time how much money will be needed to tackle credit. On 13 August, the European Central Bank pumped 47.7 billion euros in financial markets, the third injection in as many days. Central banks in the U.S. and Japan have also raised over amounts previously granted. Goldman Sachs, the world's leading investment banking market, said it would provide \$ 3 billion to support a hedging⁴ fund hit by the credit crisis. On 16 August 2007, Countrywide Financial, the largest mortgage business developer, withdrew its entire credit line of \$ 11.5 billion. Australian mortgage lender Rams admitted also that it has liquidity problems. On 17 August, the American Federal Reserve discount⁵ rate halved to help banks solve credit problems. On September 13, it was discovered that Northern Rock, the largest British mortgage bank was almost insolvent. This situation triggered for the first time in the last hundred years in the UK, a rapid migration of customers to other banks. The crisis came with slow steps, but it could be anticipated since the end of 2000. Thus, the Federal Reserve decreased the federal funds rate several times, from 6.5% to 1% in only three years, ending in July 2003 to the lowest rate in the last half century. Cheap currency has created a housing market boom, an explosion in purchases of companies with borrowed money and other excesses. Mortgage lenders have low standards, and invented new ways to stimulate business and generate commissions.

At the same time, investment banks on Wall Street have developed a variety of new techniques to transfer credit risk to other investors, such as pension funds and mutual⁶. According to expert assessment *Alexandre Lamfalussy*⁷, financial crises are necessary in that they "are an indispensable sanction management errors" and the question arises crisis but not eliminating all those who "weighs heavily on economic activity and represent a systemic threat".

In the years that led to the economic crisis - financial crisis, growth in U.S. consumption and very low savings rates have contributed to the entry of fast growing economies in Asia and oil source states, a significant amount of capital stranger. These massive capital inflows and low interest rates in the period 2002-2004 led to unprecedented easing of credit conditions. As a result, real estate loans and exploded. Were easily obtained different types of loans (mortgage, credit cards, car), which have proven over time that could not be funded. Against this background, the current crisis was to debut July 2007 (TED spread spikes in July 2007 article published in the Wall Street Journal in May 2008 - since the loss of investor confidence in mortgages secured U.S. led to a liquidity

⁴ 1) Employing a futures market position, opposite cash position on the market (spot) to temporarily replace a transaction to be made on the cash market, as protection against the risk of an unfavorable price have. (2) Refers to any combination of long and short positions in securities, futures and options, which tends to reduce the risk position of the other, any strategy used to reduce risk investment. <http://www.eafacere.ro/dictionar.asp?fid=266> accessed: 29.12.2011

⁵ Discount rate (refinancing rate) - In the United States, the interest rate that banks perceive the Federal Reserve for loans to member banks. <http://www.eafacere.ro/dictionar.asp?fid=535> accessed: 05.03.2012.

⁶ Mutual funds or investment trusts attract financial resources from individuals and companies that invest in various financial instruments such as stocks, bonds or government bonds. <http://www.conso.ro/ghiduri/8/fonduri.html> accessed: 15.03.2012.

⁷ Alexandre Lamfalussy, former director of the European Monetary Institute, former chairman of the Committee of Wise Men on the Regulation of European Securities, considered one of the architects of the financial structure of the EU - <http://www.hemicycle.info/?p=1368> accessed: 17.12.2011.

crisis that caused a substantial injection of capital into financial markets by the U.S. Federal Reserve, the Bank of England and European Central Bank. The crisis worsened in 2008, when stock markets worldwide have collapsed or have entered a period of acute instability. A large number of banks, lenders and insurance companies went bankrupt in the weeks that followed. The production crisis is often held responsible Federal Financing Agency Housing (USA). Who best defined the causes triggering the financial crisis was Ben Bernanke, Fed chairman, Federal Reserve, which, in the interview journalist David Leonhardt, published in the New York Times (David Leonhardt, Bernanke's Midterm Tests, New York Times, January 30, 2008), identifies the following: considerable pressure on the global financial system for over a year and a half now and more extensive global economy, information asymmetry⁸, credit expansion, the impact was transferred the mortgage market, economic and financial ramifications were felt when abrupt halt in lending, increased credit risk and intense aversion to risk, maintaining a high level of systemic risk, lower business confidence in the stability of financial markets, the collapse of real estate prices, loss jobs.

By analyzing the expression of the current financial crisis, which seems to be much stronger than that of 80 years ago, the picture is reflected in the following: developed countries have significantly reduced the growth rate, which determined to stop the creation of new jobs, increased unemployment. All this has led to increased social tensions, to cap labor productivity and, in a word, the degradation of social ecology. Even within these developed countries, the crisis has triggered strong pressure on health and social protection, braking increase living standards and the proliferation of antisocial phenomena such as corruption, prostitution, organized crime generally underrepresented in developed societies . At the same time, because of the financial crisis the country is working to maintain the advantage of capabilities, using levers integration policies, benefits from the international division of labor and controlling new scientific discoveries, global finance and dissemination of technical progress.

3. Conclusion

The effects of the global financial crisis on developing countries and the underdeveloped much tougher. Pressure of population growth, low and even negative rate of economic growth, rising unemployment, rising prices, the level of military spending, increasing external debt and blocking their access to markets for products manufactured by them are just some of the effects of the global financial crisis leading to greater poverty, widening disparities and exerting strong pressure on their use of natural resources, renewable. If European countries, former socialist, there is a strong degradation of economic and social structures, a sharp rise in inflation and unemployment. If we consider progressive alteration living conditions, external indebtedness, amplification antisocial phenomena, lack of insight into the development of these countries, is becoming increasingly visible appearance of dependence developed Western European countries⁹. Thus, the current crisis has captured the attention of the world and goes beyond the initially affected sectors. Alan Greenspan¹⁰ recently defined the crisis as a "credit tsunami that occurs once in a century", caused by a collapse whose root causes are found in the U.S. housing sector. Instability wave propagated from one sector to another, first in the real

⁸ Adrian-Paul Iliescu, Financial Crisis 2008-2009: real issues, University of Bucharest-http://www.cadi.ro/docs/iliescu_information_asymmetry.pdf, accessed: 17.09.2012.

⁹ Paul Hirst, G. Thompson, Globalization in question, Bucharest, Publishing Three, 2002, p 18.

¹⁰ American economist who served as chairman of the U.S. Federal Reserve from 1987-2006

estate sector in banking and other financial markets, then the real economy across the economy. Crisis wave has crossed the borders between public and private, given that blows the financial systems of private companies imposed currently burdensome new requirements on public sector finances. Joseph Stiglitz, professor at Columbia University, a Nobel laureate in economics, former chief economist at the World Bank and member of the Clinton Administration, said the state billions of people in developing countries has been shaken by rich nations by international organizations such as the World Bank, and the measures of globalization, generating negative.

According to Joseph Stiglitz, expressed at a seminar held on the subject in Tokyo, the changes are not only possible, but inevitable. He resumed his famous criticism of rich countries, the World Bank, the International Monetary Fund and the many negative aspects of globalization. He stressed that "economic globalization has been faster than political globalization" and the manner in which it was made and carried out and it is managed "undermine democracy"¹¹. One consequence of the current financial crisis is the influx of capital from Arab states who finance financial bankruptcy of the democratic world. Billions of dollars available in the Arab world is creeping slowly and irreversibly in the developed economies which could lead to the paradoxical situation that they could be conquered from within. In this way the financial resources that can be allocated to the security of nations are beginning to diminish. In this respect, exemplary "intrusion" into the U.S. banking system successful so-called "sovereign wealth funds" of the Emirates Dubai and Abu Dhabi, China, Saudi Arabia, Kuwait and Singapore's, which came to have a significant interest even majority in the U.S. and Swiss banks in difficulty. No less significant in the top five global banks, financial institutions occupied China in first, second and fifth, third and fourth positions return to European society (HSBC¹² and Santander Bank¹³), and Citigroup¹⁴, the first leader of the area, is only in seventh position.¹⁵ Global financial crisis economic economy of unprecedented proportions after World War II, became the dominant theme and object of concern motivated throughout the world. Despite the massive interventions of the European and American governments, the financial crisis is far from having a reliable solution that provides a clear economic actors. Furthermore, the panic seems to take over the market though - the global financial system - were injected huge amounts of trillions of dollars and euros, although EU Member States, the European Central Bank, EDF, USA Japan coordinate more closely and more transparent than ever, and how intervention policies.

¹¹<http://www.ecogesam.ac-aix-marseille.fr/Resped/Ecogen/stiglitz/STIGbio.htm>. și http://portal.unesco.org/fr/ev.php-URL_ID=6609&URL_DO=DO_TOPIC&URL_SECTION=201.html, *Joseph Stiglitz : "Réformons les institutions économiques internationales"* accesat: 22.09.2010.

¹² HSBC Holdings (The Hongkong and Shanghai Banking Corporation) plc is Europe's largest bank in terms of capitalization, founded in 1865 in Hong Kong and Shanghai. Headquartered in London, England, the company is present worldwide and has over 300,000 employees. According to Forbes magazine, HSBC was the fourth largest bank in 2008 worldwide in the property (2.348 billion dollars), the second in the world in terms of sales (146.5 billion USD), the largest stock exchange in the amount (180.8 billion USD) and the most profitable bank in the world with sales of 19.1 billion USD in 2007.

¹³ The largest bank in Spain and the first in Europe by market capitalization.

¹⁴ American financial services company based in New York City. Its formation was announced on 7 April 1998 by merging Citicorp and Travelers Group. More than 200 million customers have accounts in more than 100 countries and total assets of \$ 1.9 trillion is about.

¹⁵ Dan Stefan - "China, Russia and emerging economies, the main beneficiaries" - Chronicle Romanian, 19.10. , 2008.

The current global economic crisis is an important source of vulnerability and insecurity. Gravity and expansion is unprecedented immediate consequence consists in creating a disruptive effect that is felt and experienced in all structures and areas, including within the military system. This difficult situation undermines the defense and security needs of countries in the world, with effects in reordering the priorities of foreign policy in reshaping military budgets, purchasing and procurement programs and, not least, the equipping and training of forces. Without the necessary financial support, response and action of forces and national capabilities in case of tension, crisis or conflict and achieve internal and external missions undertaken will suffer in terms of efficiency. In conclusion, we can say that the whole world seems today that change course, heading towards a time when the role of the state will be higher, while the private sector will be lower. This is probably the most dramatic consequence of the current crisis. The economic crisis has only just begun and nobody knows when it will end. History teaches us that any crisis, no matter how hard it may be, comes and goes. After the crisis, the economic life will resume its course. After the crisis will end, history will not be called back without paying a heavy price for it. Will require new projects. While before the crisis planet still retain large areas of poverty, world gathered a lot of money and consumption grow without bound. In this race, there was suddenly a serious financial turbulence caused by surplus liquidity and overconsumption, which is now beginning to turn now to a classic crisis of overproduction. After the crisis, but the world will find that lifestyle will be different, that consumption pattern will change radically.

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