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TEN YEARS FROM THE BEGINNING OF THE MOST IMPORTANT PLANETARY ECONOMIC CRISIS

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Abstract:
Ten years ago, the worst financial crisis broke out after 1929 . Bankers continued their usual business, but the shock wave continued to spread. The crisis has made the models of economic growth been outdated and has caused a massive discrediting of the political world. These two economic and political crises have added the ecological one, threatening the very existence of the planet

Key words: economic crisis, economic models, IMF, banks

Introduction

On August 9, 2007, the respected French bank BNP Paribas froze 2.55 billion american dollar fund assets on US mortgage debt due to "liquidity evaporation". In translation, assets were no longer worth, and the people who invested in funds would not get their money back. Former chief of the Northern Rock British Bank, Adam Applegarth, defined that day as "the day the world changed." The ECB and the US Federal Reserve have intervened with injections of 113 billion american dollar in financial markets, but have not been able to calm panic investors.

A month later, in September 2007, British-based Northern Rock, based in Newcastel upon Tyne,had suffocated because of the first capital drain over the past 150 years, as customers crammed to withdraw their money. In September 2008, it was the turn of the US investment bank Lehmann Brothers to declare bankruptcy, triggering global panic that has turned into the worst financial crisis since the Great Depression. American and European banks had borrowed each other so much and in so many ways that no one knew who to whom and how much to expose. The cost of interbank lending has grown brutally. The trust between the banks has completely disappeared. The British state had to intervene to save Royal Bank of Scotland and Lloyds / HBOS from tens of billions of pounds from the budget. So is the US ...

The worst global crisis of all time

Between 2008-2013, an incredible ten years before, had been the worst financial, economic and banking crisis since the Second World War, the general perception of this crisis is that things can not continue like that before. In January 2011, Davos World Economic Forum organizer Klaus Schwab called for a reorientation of the world toward moderation. And German Chancellor Angela Merkel spoke of a vision in this direction, under the sign of global leadership of world leaders. These have only remained at the stage of words and proposals since then. In order for them to become reality, a radical change of the current thinking is needed. Radical changes are needed.

The political and economic principles of the last century are still valid. With them, the situation can be brought back under control after a major crisis, but nothing more. It takes something completely new. Whoever speaks of a sustainable economy can no longer support the current Anglo-Saxon model on the capital markets. This was the source of excesses. Everything for the welfare of shareholders - this principle can no longer dominate the economic model of the 21st century. It all depends on one goal: are we pursuing short-term profits or lasting general welfare?

The irrational "exuberance" of the IMF

Analysts have postulated that the irrational exuberance of people influence the balance, at one point, of the market economy, obviously in a quasi-fragile balance. Economic crises appear ... But people are also people who make up and participate in the life of economic institutions, more or less important. The IMF is, as we know one of the important institutions of the planet...

At the beginning of December 2010, IMF member states have established that the reform of the international monetary system will be one of the institution's priorities in 2011, as proposed by former Director-General Dominique Strauss-Kahn. The IMF Board of Directors, which brings together 24 states and groups of states, has placed "this important issue" on the work program along with world economic policy cooperation, building a stronger financial architecture, and supporting low-income countries, in a statement has mentioned the international financial institution. "Even though the international monetary system proved solid during the first part of the economic crisis, because the second part was already profound, there were tensions in the amplification of world imbalances, the volatility of capital flows and exchange rates, and the accumulation of massive reserves. Promoting an international monetary system that works better and is more stable is a priority, "says Strauss-Kahn. He also argued that Europe needs a dynamic solution to solve the debt problem in the euro area, a solution that should be applied globally: "Applying this solution from country to country would be imperfect," Strauss-Kahn, who said about him that he is confident that the European institutions would be able to resolve this issue.

The IMF also announced that it has a strong financial position and has resources to help Member States in case of need in the context of escalating the sovereign debt crisis in the eurozone, said Caroline Atkinson, spokeswoman for the IMF. The IMF also welcomed the decision of the European Central Bank (ECB) to extend and prolong the special measures to provide banks with liquidity in response to the debt crisis that affected the euro area.

Ex-Director General of the Fund, Dominique Strauss-Kahn, more concerned with his individual performance than with the institution he was at the forefront of, said quite easily that the situation in Europe would once again be under control as a result of the measures adopted by the EU authorities. With a certainty that has not happened since then, Mrs. Caroline Atkinson announced, misinforming public opinion, that European countries did not ask the IMF for financial assistance or other support. Ms. Atkinson forgot about Greece, which received in May 2010 a financial package of 110 billion euro from the IMF and the EU and Ireland, which also received in December 2010 from the same creditors 85 billion euro . How could it be called the state of things described above, other than "irrational exuberance"?

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State incapacity for payment

Two years in a row - 2010 and 2011 - Europeans and Americans have always talked about the failure of some EU Member States vulnerable to the economic crisis, especially because of their public debt.

The entry of a European state in debt default would have had a disastrous domino effect for banks holding bonds issued by it, warned JPMorgan Chase, JPMorgan Chief Executive Officer Jamie Dimon, in December 2010: "If a European state becomes insolvent or if he can not pay his debt anymore, the EU will find itself in a situation of rescuing banks that hold bonds of that state. Failing to pay will worsen the situation triggering a series of events. " He was disappointed that banks are accused of speculating with state titles, as they are the largest holders of such assets.

"There is a need for a better balance of the economic policies of the states of the European Union," the banker said, giving as an example the differences between retirement ages in different European states. "Europe should rather modify the terms of the Maastricht Treaty, which does not work like that," Dimon said.

Letter of the 5 people

Five influential economists wrote to the President of EU at the beginning of December 2010, proposing simple solutions to the crisis, drawing attention to the danger of persistence of the crisis in Europe and proposing solutions to ensure that the situation is over. The five economists are: former Italian Prime Minister Giuliano Amato, Secretary-General of the Organization for Economic Cooperation and Development (OECD), Pier Carlo Padoan, Richard Baldwin, Daniel Gros and Stefano Micossi. They stressed in their letter their concerns that the new rules of economic governance "are not a sufficient remedy for the economic situation of the Union because they will not solve current imbalances, undermining the credibility of budgetary consolidation programs and even the euro itself."

In line with current policies, the European Union has remains only the hope of a slow exit from the current crisis and the unemployment issue will remain unresolved, which does not exclude the possibility of new dangerous - economic and political - attacks on EU viability and cohesion. The five authors highlight, it is imperative having a significant increase of the speed in the EU's economic growth rate, which is expected to remain low for too long.

The approach of the 5 personalities has aimed at proposing solutions for the main 5 issues of the EU: 1. fiscal consolidation; 2. the crisis management mechanism; 3. structural reforms; 4. Infrastructure investments and 5. Coordination at international policy level.

The five solutions to save the EU

Among the solutions then considered by the five authors of the letter are:

Granting new powers to the EU Bureau of Statistics (Eurostat), which could set stricter protection measures against the overheating of the public sector in some European countries. National rules are needed to prevent any interference from national governments within national statistical agencies - a fairly common practice of several EU Member States.

Establish new regulatory rules for the banking sector, making possible the bankruptcy of credit institutions irrespective of their size - including large cross-border banks. Such a system would strongly stimulate banks' managers and shareholders to limit their risk-taking and create a much stricter market discipline. Banks have to assume the losses still hidden in their balance sheets.

Continuing to maintain the current European Financial Stability Facility (EFSF) with sufficient capital and access to market finance to protect the euro and the Union's financial system.

Flexible labor markets in some countries and the liberalization of the services and energy markets.

Substantial increase in investment for single market infrastructure, which would bring great benefits by stimulating demand in the short term and by increasing the Union's long-term potential output.

The economic and financial situation of the European Union and the "economic recipe" has put in the discussion by the European Council are not appropriate to restore sustained growth, nor to ensure sovereign debt sustainability and financial stability. "Sustainability of debt can be based only on the sustained growth of our economies, and the mere act of willingness to pursue sound public finances is not enough. A broader political agreement on economic and economic governance is needed to restore confidence in the future of the euro area and the Union, "the five authors say.

European Union after the crisis

First, it was the banking and financial crisis that was imported from the United States after the bankruptcy of Lehman Brothers, followed by the worst recession since 1945. Then the crisis turned into a budgetary and social crisis, under the effect of worsening budget deficits and debt , which require a shift to rigorous policies. Austerity is particularly pronounced in Greece, which has passed bankruptcy, and in Ireland, with a reduction in social benefits, civil servant salaries and tax increases. Austerity measures represent the price of EU and IMF aid, 110 billion euro for Greece and 85 billion euro for Ireland. Portugal and Spain may also be waiting, which are also in the markets' attention.

The EU, like the US, has been paying the debt since the 1970s, after a period of 30 years of strong economic growth. EU member countries and the US then lived on credit to maintain their standard of living. To prevent the spread of the financial crisis, the EU Member States are working to strengthen the common fiscal policy. Thus, since 2011, European countries have submitted their national budgets to Brussels before their adoption in Parliament. A tightening of sanctions against countries in breach of budget regulations is expected.

Thus, in Europe, the Budget Union begins to take shape slowly. At present, the EU budget deficit is limited to 3%. Romania itself reduced its budget deficit, from 6.8% in 2010, 4.4% in 2011 and below 3% after 2012, according to a commitment to the EU and the IMF.

Graeme Maxton and Mervyn King's opinions

Graeme Maxton, an economist, writer and TV programmer, well-known for his penetrating, well-articulated analysis of global issues, says that in order to fuel our economic growth.We plunder the planet with the resources it has, screaming more than we build. We do this to satisfy our desire to consume, to spend even more. To finance this, many people borrowed more than they should. So millions of them have burdened themselves with debt, income inequality has increased, and many governments owe more than they can ever pay.

Mervyn King, the former governor of the Bank of England, insists showing how the financial crisis itself was not the cause of the economic collapse, but a symptom of growing global imbalances. China's introduction into the world economy has led to lower prices and wages in major industrialized countries, which has pushed down interest rates. This has led to increased credit demand, and banks have met the supply.

The reason why the banking system has entered into trouble is that it has expanded, with borrowed money instead of new capital. The forces of globalization have made many losers, and then let alone themselves. I let them lose and after the crisis I told them better you rebuild. The dissatisfaction was seen in the votes for Donald Trump and for Brexit, changes on the global scene of inconceivable before the crisis. In both cases we saw people voting against something. I do not think you have to start looking guilty, otherwise you come into a situation where you think that punishing those you blame will protect you from the next crisis, which of course will not happen.

Conclusions. Anatomy of a triple crises

Ten years ago, the worst financial crisis broke out after 1929 . Bankers continued their usual business, but the shock wave continued to spread. The crisis has made the models of economic growth obsolete and has caused a massive discrediting of the political world. These two economic and political crises have added the ecological one, threatening the very existence of the planet.

In the first part of the triple crisis we are referring to, the proposed solution for recovery was financial and monetary austerity, imposed even under the Maastricht Treaty, austerity that only penalized the economies of the Old Continent for many years (2008-2014, more cases) due to: a) excessive public spending; b) the unsustainable, financially, social security systems; c) the rigidities of the labor market, guided more by keeping the rules of austerity than by the will to create new employment opportunities for young people and the unemployed. Then, in the second part (2014-2017, with a continuation perhaps in the first part of 2018), the European Central Bank repeated to indigo the monetary policy of quantitative rallying, in fact quantitative easing US Federal Reserve, which has led to even minimal historical, benchmark interest rates of central banks in the system.

In the decade since the start of the crisis, US authorities raised $ 150 billion in fines for investment banks, and the world's debt increased by $ 70,000 billion to $ 215,000 billion. Ten years have passed since the outbreak of the big financial crisis, and some economies have not fully recovered The actions of banks, especially European ones, have not yet recovered everything they lost then. What has not changed is the rise in world debt, which has reached a record high. Debt is the environment in which the New Great Depression in the years 2007-2014 developed and resolved. Investors are no longer worried ... though they have good reason to fear ...

The financial crisis has been accompanied by a prolonged recession. US GDP, Germany and France have been able to recover to pre-crisis levels since 2011. Great Britain and Japan have recovered their lost GDP in 2013. Spain has recover only in 2017, but Portugal, Italy and Greece have not yet reached the level since they began to decline. Greece still has to recover a quarter of GDP ... Here are the countries on the southern flank of the EU seem to have lagged behind, although the EU will also get the best results in 2017 - according to statistical data recorded in the first half of the year.

In contrast, China's economy has doubled over the past ten years, according to the Financial Times. In Spain, the international crisis shook the real estate market until it collapsed. Here, house prices are 9 percentage points below the 2005 level. Paradoxically, in the UK, prices are 50 percentage points above the same level. Also in Spain, unemployment is 10 percentage points above the 2007 level after a steep fall in 2016. In Greece, unemployment is 14 percentage points higher and the return to 2007's "normal" is very slow. In Germany, on the other hand, the unemployment rate is at the lowest level in history ... Globally, stock exchanges are on the rise and reached a record level at the beginning of August 2017. The MSCI share of shares worldwide is 22% above ten years ago.

But banks' actions have not recovered. The road is particularly difficult for European banks to recover three times more land than American banks, according to The Wall Street Journal. Starting in 2008 for the first time in history, central banks acted coordinated to save the global financial system by cutting interest rates, recapitalizing lenders, buying toxic assets, and injecting liquidity into savings through asset acquisition programs.

In August 2007, the Fed's monetary policy rate was 5.25%. Currently, after four increases since December 2015, the indicator is at 1-1.25%. In the United Kingdom, monetary policy interest is at the lowest level in history, 0.25%, compared to 5.75% ten years ago. The ECB's interest rate is zero, compared with 4% in 2007. Interest on the deposit facility, ie for the money it holds in its deposits, is -0.4%. These very low interest rates reflect not only the slow recovery of the global economy but also the extremely low inflation even if GDP is rising. Small interest rates help those with credit, but they are a punishment for those who want to keep their money in banks' deposits.

Due to asset purchases by central banks, ten-year government bond yields, the benchmark for financing costs for governments, halved over the past ten years. Investors have come to pay for the "privilege" of crediting countries like Germany.

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