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CHALLENGES IN ADDRESSING CONTEMPORARY ECONOMIC CRISES

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Abstract: *Approaching the concept of economic crisis in contemporary reality draws attention to the complexity of this phenomenon, as analysing the elements that define the economic cycles proves to be insufficient, since the world's economies converge more and more towards a global economy. In this regard, the interconnection and the strong mutual dependence of the markets determine a particularly high sensitivity on establishing and maintaining a global balance. If the economic crisis of 2008 had a strong negative impact on the world's economies, leading to unprecedented economic and social action, the question arises as to whether the economic policy makers of the states have managed to properly manage this situation and whether they have managed to appropriate a set of "good practices" to anticipate, prevent and effectively combat a new economic crisis. The current economic reality puts world economies to a new test which seems to be more than a predictable cyclical evolution of production cycles. It cannot be said that we are in a period of well-defined economic boom, and it is clear that in the current context the economic crisis that is emerging will be much more complex and diverse than what we experienced in 2008. The present paper aims to offer a pragmatic approach to the possible causes and effects that tend to characterize the new economic crisis that is emerging in front of us.*

Keywords: economic crises, economies, economic cycles, global balance

1. Introduction

The concept of the economic crisis is a notion that took shape long ago, so that the elements and factors underlying its production have been studied over time and are presented in the literature as a phase of transition that involves the transition from the ascending to descending phase of an economic cycle. The economic cycles' manifestation has long been analyzed by many economists and researchers such as K. Marx, C. Juglar, J. Kitchin, N. Kondratiev, J. Schumpeter, J. Tinbergen, whose works have highlighted the phenomenon of economic cyclicality and have characterized the concept of economic crisis as the negative effect of the cyclical movement of economic activity. Starting from this generic definition, the economic crises' manifestation over time has drawn attention to the complexity and various causes underlying their production. Thus, four ways of interpreting economic crises were identified [1] which highlight the development of trade relations between states and the market interconnection trends. A first interpretation of the economic crises refers to the liberal vision according to which the market is self-regulating, and the state intervention within this mechanism contributes to the triggering of the crisis. This interpretation was quickly overturned by economic reality through the Keynesian theory, that contradicts the first

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approach and draws attention to the fact that investments are unpredictable and pro-cyclical and state intervention is the only one able to regulate the market and prevent a crisis [2]. The third interpretation of the economic crisis is based on J. Schumpeter theory, supporting the idea that the economy is cyclical, going through phases of economic boom followed by recession, and that the manifestation of economic crises is only a normality of economic cyclicality. If the first three interpretations stated above relate largely to the national context of a state facing an economic crisis, the fourth interpretation of the economic crisis brings this concept much closer to the reality of today. Thus, the Marxist theory presents the manifestation of the economic crisis as an inherent element of capitalism, affecting like a domino effect all the economies of states in more or less deep trade relations and based on the lack of correlation between production and consumption.Starting from these approaches to the concept of economic crisis, it can be seen that the analysis of possible variables or triggers requires an extensive knowledge of economic phenomena and that the simple reference to notions such as price, consumption, income, production, investment and savings is far from being exhaustive. The experience of 2008 economic crisis proved that the main signals of its outbreak, whether anticipated or not, were not able to predict the real negative effects that would affect the world's economies. The common denominator of these highly negative effects was the interconnection and close trade relations between states, which made not only those responsible for the crisis to bear its consequences. The economic reality of today cannot deny the importance and the role that the economic relations between the states have. It is also vital the economic collaboration and the interconnection of the national production and consumption networks to the international economic circuit. However, the question arises whether economic policy makers are able to anticipate and act effectively so that the effects of possible future economic crises to be minimized.

2. Analysis indicators used in anticipation of economic crises

In order to capture and understand the complexity and challenge of anticipating an economic crisis, it is enough to refer to the system of statistical indicators used by developed countries in the analysis and forecast of cyclical fluctuations. In the case of these indicators, the evolutions manifested in the economic relations between states were taken into account, so that we passed from ***representative statistical indicators***, used to reflect the dynamics of particular phases of economic activity, based on the correlation between fluctuations in a sector and economy, and ***composite indicators***, that characterize several phases of economic activity, to ***general business indicators***. The use of the last category of indicators combines a series of indices of different activities into a general index of business activity [3]. The two main categories of indicators that make up the general business indicator refer to: *the business activity index* and *statistical indicators for cyclical business changes*, each in turn covering a wider range of indicators that measure different aspects of economic activity. The first category, that of the business activity index, reflects the combined movement of 10 series of indicators: production of steel ingots, zinc ingots, new construction, cotton consumption, oil production, electricity production, non-agricultural employment, volume transport, bank debits, sales through stores. The second category of statistical indicators for cyclical business changes aims at analysing a number of 26 indicators grouped, in turn, into three large groups designed to signal the specific phases of the cyclical evolution of the economy, as shown in figure no.1.

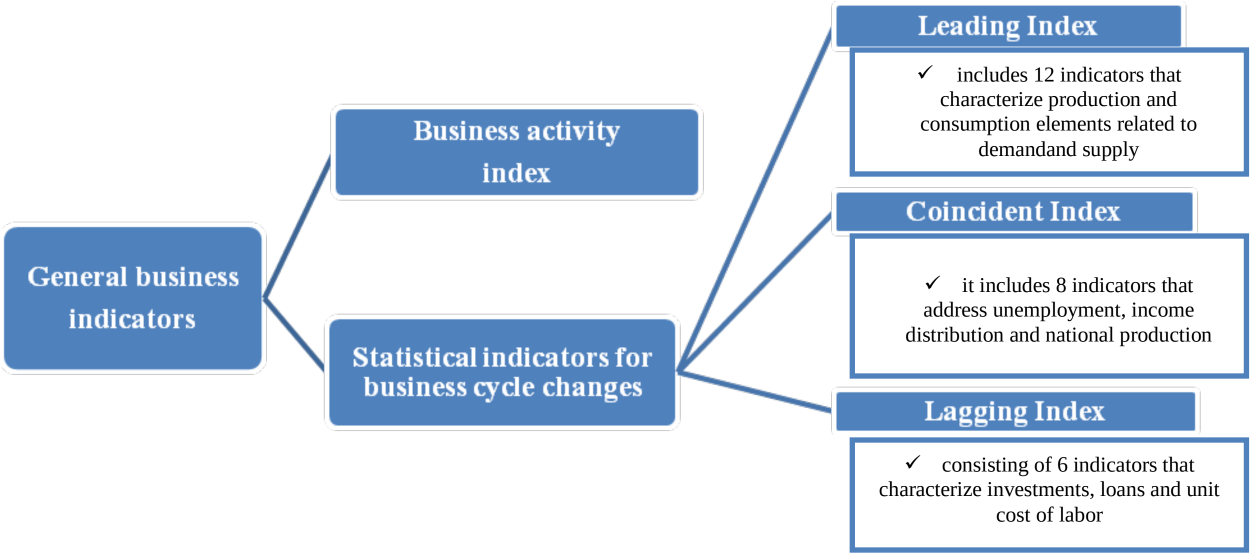

Figure 1: General business indicators used in anticipation of economic crises

There are specialists who classify the crises that hit the world's economies into the following categories [4]:

- social crises - characterized by rising inflation, unemployment, poverty;
- financial crises - characterized by accentuated volatility on the capital markets (the fall of the stock markets and their spectacular return);
- political crises - which can degenerate into wars;
- local or international crises caused by natural disasters;
- generalized economic crises

Given this classification, it is quite difficult to classify the economic crises of the last 30 years in a precise category because the elements that characterize them are found in approximately all these categories or are determined by each other. Thus, the question is increasingly asked whether it is possible to assess when a financial crisis becomes an economic one or whether an economic crisis generates a financial crisis.Immediate economic reason makes us say that an economic crisis is generated either by financial or political or social causes, but the reality of today puts us in front of a mix of sources of economic crises that characterize recent economic developments.

Mainly, the financial crisis is a form of manifestation of the economic crisis that reflects distrust in the financial system, significant decrease in the volume of stock exchange transactions, deregulation of market mechanisms, the stock market being the barometer of the economy trading businesses of different sizes and sectors. This also explains the introduction among the indicators used in anticipation of economic crises of those that characterize the activity in the business environment. When the financial system collapses, the entire economy suffers significant disruptions or corrections that will be reflected in the profitability of stock exchange listed companies and, implicitly, in the price of financial assets (shares or bonds) that depend directly on investors' expectations. The panic over the economy does nothing but accentuate the magnitude of these corrections and induce new uncertainties in the economy.From here to reducing the appetite for savings and investments and then raising interest rates on the market is only a step. Thus, it is difficult to identify the underlying causes of economic crises and classify them according to the factors that determine them, since in order to reduce the effects of a crisis are used complex programs, based on the mix of policies: financial, monetary, budgetary and social. So it can be stated that contemporary economic crises are based on complex and diverse causes, and in order to combat their negative effects, appropriate political decisions are required.

3. Prospects for a new economic crisis

The experience of 2008 economic crisis drew attention among all the world's economies to the vulnerabilities generated by the process of globalization and to the challenges posed by the contagion of crises manifested in close connection with the evolution of business cycles. Given the causes that led to the outbreak of this crisis, it is difficult to frame this crisis among the cyclical fluctuations of economic activity without taking into account the unpredictable shocks it has caused. If we approach the issue of economic crises referring to the cyclicality of economic activity, the Romanian economy does not allow a credible forecast of it. We are more than 10 years away from the last economic-financial crisis and this makes us wonder if there is a form of a ten-year cycle that is shaping up in the national economy and if the problem of a future period of recession can be raised. The Romanian economy has undergone numerous drastic reforms since 1989 and until now, which makes it quite difficult to separate cyclical recessions from the effects and costs of the reforms that have been undertaken so far. In order to be able to predict possible crises in Romania, it is not enough to refer to the existing market economy. It is absolutely necessary to identify the possible causes of a crisis in terms of risk factors and their accumulation that could signal a potential future crisis. We consider that the main risk factors that must be taken into account in the case of Romania are represented by: overvalued assets, the level of market manipulation, external shocks and the elements that define the political and social factors. We will take them one by one to explain how these factors can act as triggers for a future economic crisis.

Overvalued assets represent a high risk potential when the value of those assets does not cover the loans committed for their acquisition. Because in Romania we cannot talk about a representative capital market where we have to deal with complex financial assets, the real estate market is the only significant risk factor.The main problem of this market is the declining population level and the threat of migration. Currently, despite declining demand, the value of real estate assets is increasing, but not for long and soon this phenomenon will need correction.

Improper market manipulation, due to the lack of correlation between supply and aggregate demand, generates imbalances that can underlie the triggering of an economic recession. Wage growth has triggered an increase in consumption without leading to a diversification of supply, which has led toa GDP growth based on consumption, an unsustainable growth in the medium and long term. The lack of structural and strategic investments to boost aggregate supply, together with migration phenomenon and lack of labor, will have a negative effect on companies.

Romania's exposure to external shocks is very high, considering the connection of the economy to the international market. Any international imbalance will generate a series of effects on the national economy. 2019 was characterized by a very unstable international economic context that threatened even the most developed economies. In Europe, the Brexit event has brought a lot of instability and uncertainty in the single market, being a new phenomenon whose consequences are difficult to anticipate. At the level of the European Union, a series of measures have been taken in order to minimize the negative effects generated by this process, but financial blockages or shocks can occur at any time as a result of the reorganization of the European financial market. The main financial core represented by the London Stock Exchange, once out of European governance, can create any time capital instability. Italy's economic instability is another risk factor, as it became an extremely indebted country with an unstable political situation, being a real "time bomb" for European stability in this context of Brexit event. For Romania, the effects of this instability can bring new internal imbalance, Italy being one of the markets that has absorbed a large number of Romanian citizens, who send significant amounts of money at home. The situation is not better internationally either. On the one hand, China will not be able to continue its economic growth at the current pace, and it will have to suffer a correction for the anomalies accumulated during the period of accelerated growth. On the other hand, we are dealing with a change of vision, from globalization to protectionism, manifested by states such as the USA and the United Kingdom. A major threat in the international context also comes from credit, as if the 2008 crisis scenario was repeating itself. A major threat in the international context also comes from the banking market, as if respecting the scenario of the 2008 crisis. Such signals are transmitted from developed economies such as USA, Japan and Germany, which are currently supported by an unstable monetary-financial system that is flooding the market with cheap credit. The main problem raised by this aspect is the destination of the credit directed to financial investments and consumption, and less on the development of innovative new businesses, accumulation of production factors able to support a long-term sustainable economic development. Capital market speculation and the high volatility of the main stock market indicators of the world's strongest financial centers [5] send signals to the market about economic developments and the uncertainties that characterize the business environment.

Figure 2: - Evolution of the stock market index: DAX 30 - Frankfurt Stock Exchange in the period 2015-2020

Figure 3: - Evolution of the stock market index: NI225 - Tokyo Stock Exchange in the period 2015-2020

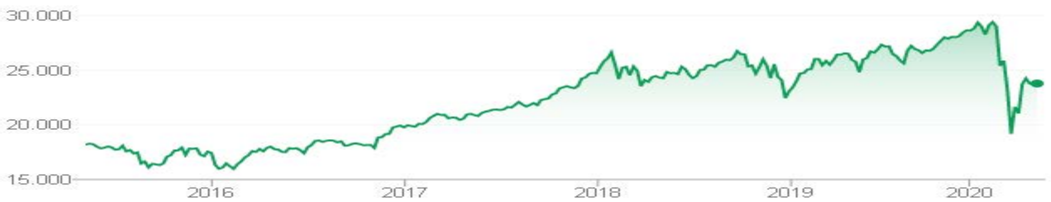

Figure 4: - Evolution of the stock market index: DJI30 - New York Stock Exchange in the period 2015-2020

Another significant source associated with external risks is the crypto currency market, which is highly volatile and can destabilize and collapse the international financial market at any time. Analyzing the presented situation, the conditions of a new economic crisis are substantiated, but what seems to make this a certainty is the outbreak of the COVID-19 pandemic that puts the world's economies to the test.

Political and social factors are the main vulnerability of the Romanian economic system whose effects have manifested themselves in all stages of the economic cycle. The lack of consistency on macroeconomic policy objectives and the proper use of related instruments, as well as high social tension and parties, without visible support from the population, make any external shock aggravate social tensions and deepen the possibility to emergence a future crisis.

4. Conclusions

The main causes of crises in modern economic systems are rather monetary and less related to the imperfection of markets, and are becoming increasingly difficult to assimilate to economic cycles. The manifestation of globalization brings with it a great vulnerability given by the interconnection of markets. This makes the economic imbalances that take place internationally to be characterized by less studied elements such as the contagion of crises directly determined by the evolutions of business cycles. The increasing level of integration of financial markets accompanied by the liberalization of capital flows have led to an increase in interdependencies between developed economies and emerging economies around the world. Studying in such a context how these interdependencies and connections have evolved, have a particular importance for understanding the nature of crises and provides new perspectives on the effects that related economic cycles can have internationally. Addressing contemporary economic crises at the national and international levels is becoming increasingly complex in contemporary reality given that we are witnessing a contagion of financial crises that is manifesting itself more intensely in the countries involved in international trade and financial exchanges. Contagion can be based on trade factors (dependence on a small number of export markets or a limited number of export products), financial factors (dependence on external debt, dependence on foreign investors) or political factors (involvement of countries in forms of integration such as free trade areas, economic unions, monetary unions, etc.)The biggest threat to international economic and financial stability at the moment is the international monetary systems characterized by instability and the fact that they are spreading rapidly globally. In the case of emerging or transition countries, as in the case of Romania, external crises can have a great impact, given that they are added to the internal structural crises specific to each economy.

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