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**WORLD ECONOMY AND THE DEPRESSION YEARS. MECHANISMS.
NATIONAL AND WORLDWIDE TACTICS**

Nicolae Păun*
Dragos Păun**
Adrian Corpădean***

Abstract

The article touches the importance of the Great Depression, its causes, behaviour and way of global propagation. Taking into account the current situation, today's economic crisis, one of the solutions is to remember and learn from the past. Different strategies and approaches used in the 1930s are analysed, and one could learn that individual, national solutions seemed to be more expensive than the nowadays global solutions.

Key-words: great depression, causes, economic strategies, mechanisms, Europe

The basics of American prosperity in the 20's - an increase of 90% of industrial investment, exceeding 20% of GDP, and a work hour productivity higher by 47% in 1929 than in 1921 - have accredited the idea that the economic cycles belonged to the history of capitalism. In 1929 the New York stock exchange market maintained around 200 - 210 compared with 100 in July 1926 (see statistical table below).¹

* Nicolae Păun, PhD is Jean Monnet Professor at Babes-Bolyai University, Faculty of European Studies and coordinator of the Jean Monnet Centre within the same Faculty. E-mail: npaun@euro.ubbcluj.ro

** Dragos Paun is Teaching Assistant at Babeş-Bolyai University, Faculty of Business. E-mail: dragospaun@yahoo.com

*** Adrian Corpădean is PhD Candidate at Babes-Bolyai University, Faculty of European Studies. E-mail: adi_corpadean@yahoo.com

¹ Regis Benichi, Jean Mathiex (Coord.), Groupe de Recherche pour l'enseignement de l'histoire et de la géographie, Histoire d'une guerre à l'autre (1914-1939), Paris: Classiques Hachette, 1982, p. 111.

Statistical table no.1

	The New York Stock Exchange Index								
Months	1925	1926	1927	1928	1929	1930	1931	1932	1933
January	83	102	106	137	193	149	103	54	46
February	84	102	108	135	192	156	110	53	43
March	81	96	109	141	196	163	112	54	42
April	80	93	110	150	193	171	100	42	49
May	83	93	113	155	193	160	89	38	65
June	85	97	114	148	191	143	87	34	77
July	88	100	117	148	203	140	90	36	84
August	89	103	120	153	210	139	89	52	79
September	92	104	129	163	216	139	76	56	81
October	96	102	128	166	194	118	65	48	76
November	100	103	131	179	145	109	68	45	77
December	100	105	136	178	147	102	54	45	79

The analysis of the indicators shows a massive increase in stock values during 1926-1929. This "boom" was not the needed equivalent to increase economic production (the industry growth was only 13%).²

The causes of the Wall Street Crash from October 1929, the sudden fall of the index values by 20 points were superficially treated by the specialists of the era. Despite the evidence, Harvard Economic Society, one of the most prestigious publications of the time, calmed its readers with studies like "a serious crisis like the one in 1920-1921 is beyond any possibility."

Economist Irving Fisher reinforced the idea that "it may be a recession in the stock price, but nothing of a catastrophic nature". President

² Michel Beaud, *Histoire du capitalisme de 1500 à nos jours*, 3e édition, Paris: Édition du Seuil, 1987, p. 237.

Hoover believed sincerely that "this crisis will end in 60 days", and that "prosperity is around the corner".³

But the reality was different. Shares index dropped to 56-54% in 1932. together with the U.S. index of industrial production - 100 in the years 1923-1925, 126 in 1929, 105 in 1930, 89 in 1931 and 61 in 1932. Prices of agricultural and industrial goods, relatively stable after 1922, decreased by 1 / 2 - 1 / 3 between 1929 and 1932, labor productivity in industry by 23%, and unemployment affected 13,359,000 workers.⁴

The fall in prices and production, the consumption recession, exacerbated by unemployment, the increasing supplies - the jam of the U.S. economy in general - has trained a contraction in world trade, and rushed the generalization of the crisis in the world. Repatriation of capitals from Europe, particularly from Germany and Austria, had the effect of some very famous bankruptcies like "Darmstädter National Bank", "Österreichische Bodencreditanstalt, "Österreichische Creditanstalt für Handel und Gewerbe".

Financial crisis triggered over the Ocean scarred Europe violently. In July 1931, all network banks in Germany were closed for three days. The industrial crisis reached the same proportions. As in S.U.A. - from the base index of 100 in 1928, it fell to 59 in August 1932. The number of unemployed rose from 2.5 million to 6 million in 1932.

In England, the crisis has particularly affected the industry, the sectors of the first industrialization, which had strengthened the British capitalism in the nineteenth century - coal, metallurgy, textile industry. Trade balance of the United Kingdom registered deficits in all these years. The depreciation of the British Pound in 1931, accelerated the crisis in Europe, and helped destabilize the financial and monetary balance.⁵

In France, the economic life was in recession from 1929 to 1930, and in 1931 and 1932, certain sectors collapsed - the steel production reached 51% compared to 1929, the securities - 28%, the wholesale prices - 35%, the overall industrial production - 29%.⁶

³ Benichi, Mathiex, *op.cit.*, p. 112.

⁴ Beaud, *op. cit.*, p. 238.

⁵ Alfred Sauvy, *Histoire économique de la France entre les deux guerres (1931-1939)*, vol. II, Paris: Fayard, 1967, p. 15.

⁶ *Ibidem*, p. 19.

In Belgium, the industrial production in 1931 was lower with 33% than in 1929, and in Italy, with 27% etc.⁷

Throughout the industrialized capitalist economies, the general index of industrial production oscillated in 1932 between 77 and 84, against the considered 100 in 1928. The most affected branch was metallurgy with an index of 58. World prices, expressed in gold, of raw materials - plants, animals and minerals, fell by 42.5 points in 1932, compared with the 100 in 1928. The International Labor Office declared in 1933 about 30 million unemployed.⁸

The causes and factors that have generated and distributed the crisis, lead us to the following hierarchical lines of force. Contemporary, victims of the event and many experts⁹ have enriched the economic historiography with texts and studies. It outlined different views,¹⁰ which can be grouped into at least five major ideas:

1. The crisis was strictly of American origin;
2. It was a result of financial imprudence and speculation after the First World War;
3. It was based on the monetary system of the 1920s;
4. It was a cyclical crisis;
5. It was a crisis of overproduction

Even stopping briefly, individually or globally, on the views above, they do not provide sound arguments to determine the causes of the Great Depression.

If we credit the idea of the “American origin”, its size would be reduced to mechanisms for international broadcasting, to the commercial and financial structures blocked by the relationship with the United States. It is obvious that there are arguments justifying America’s role as a crisis accelerator. Blaming only the U.S. can not explain on a purely financial

⁷ *Ibidem*, p. 26.

⁸ *Ibidem*, pp. 490-491, p. 528.

⁹ See John Maynard Keynes, *Théorie générale de l'emploi de la monnaie*, Paris: Payot, 1963; Gordon Thomas, *Les coulisses du krach de 1929*, Paris: Nouveau Monde Editions, 2009; Jean Heffer, *La grande dépression: Les Etats-Unis en crise, 1929-1933*, Paris: Gallimard-Julliard, 1976; Maurice Roy, *1929-1979, d'une crise à l'autre*, Paris: JC Simöen, 1978; Jean-Herve Lorenzi, Olivier Pastre, Joelle Toledano, *La crise du XX siècle*, Paris: Economica, 1980.

¹⁰ Beaud, *op. cit.*, p. 338.

level the real estate values index in England and France, which reached its minimum 7 months later than overseas. On the other hand, on commercial level, the world prices of raw materials started their downward curve since 1928, without waiting for the "Black Thursday".

The second aspect, more consistent than the first, obliges us to recognize that after the First World War, there were many virtuous of international finances and speculations. "Economic globalization has enabled fruitful businesses for Clarence Hatry in England, Ivar Kreuger in Sweden, Octave Homberg, Albert Austric in France, Alfred Locwenstein in Belgium, and Alemand Hugo F. Herzfeld – nicknamed the magician of Berlin stock market and the leading animator of European stock exchanges, or across the Atlantic – for AP Giannini, founder of "Bank of America", Joe Kennedy, Henry Ford, Mike Meehan and others.

A crisis of credit and financial speculation do not provide any convincing answer to the recession in industry, agriculture and services. Own sources of financing of these sectors have not been distributed through the bank-accounts network. Only in the United States, in 1930, 200 industrial companies handled their funds of about 50% of the existing cash flow.

The third point, related to the previous, was revealed by comparative analysis of countries as a consistent relative. Specialists have agreed, that after the war, the international monetary system disorder, the wrongful distribution of precious metal stocks, the real hardships felt by entrepreneurs in the purchase of cheap credits, the mistakes of the monetary authorities in different countries have contributed to triggering the Great Depression.

The example of the United States is relevant. Instead of opening borders for European debtors' goods, they appealed in 1922, to a new customs tariff, more protectionist than the previous one. In short, America has accumulated advantages as a predominantly exporting creditor country and has awarded two sources of surpluses - the trade balance and the "invisible" balance of the debtor-creditor relationship. The consequences of the binomial Europe - America operated at a smaller scale in the West, the Central and South-East. Both relationships, visibly asymmetric, have disorganized financial, monetary and trade mechanisms and have accumulated at the global level.

The unrealistic assessment of the surpluses accumulated in the creditor countries, especially in the United States, have allowed abuse in the granting of credits for production or consumption (for cars, household objects). The most serious issue was the misuse of credits for stock exchange speculations.

It cannot be contested that the Great Depression was cyclical. From here up to present it as a simple time sequence in the capitalist cycle, 8 years after the 1921 crisis, is too simplistic. It is true, however, that it entered the long cycle of organic development in 1790-1840, 1850-1890, 1890-1934.¹¹

Many experts considered it as a crisis of overproduction. They used arguments resistant to analysis, like the imbalances between the increased production in the 20's and the relative stagnation of purchasing power. The assertion in question involves different shades: overproduction has never been applied to social goods; it was not a natural saturation of the market because of the indigestion of the buyer; a "relative" or "absolute" overproduction does not exist, even if French economist B. Nogaro found a way of economic expression for the crisis as the "susceptible distance between production and solvent goods."¹²

From the analysis of the national and global level of economies, it should be taken into account all the hidden and dimmed contradictions of the system in the postwar years. It requires combining, restructuring them into a world that continues to be shared in areas of American, Commonwealth, French Empire, Belgian, Dutch and USSR influence. The extension of the "conflagration" in the economic area had many points of support in the '20's. The package of economic and political contradictions has not been resolved by force of arms, and affected the socio-political world, whose monetary, financial and social shock waves were active at the end of the third decade.

It must be granted an area of extensive and deep analysis of competition between national economies and globalization; while at the microeconomic level, we should study the effects in time of the "fatigue" arising from the industries who found their peak in the World War, generated by the first industrialization, however, insufficiently restructured

¹¹ Beaud, *op.cit.*, p. 232.

¹² Benichi, Mathiex, *op.cit.*, p. 120.

and streamlined in 1923-1928 and competed by new branches. Also we bring into question the dynamic elements of economic and social integration. We invoke here the reducing of the labor time, the growth of the real wage, but also the permanency of unemployment. However, through the foreign investments incomes, through unequal trade and price scissors, an important transfer of values has been achieved from colonies and new countries into the industrialized countries. It improved the purchasing power of average classes in the latter category of countries, giving credit to the idea of sustainable prosperity, while in fact, the internal markets were narrow, and their absorption power on the world market has decreased.

Strategies applied by industrialized countries to exit from the crisis are common, without forming a worldwide current. It outlined several major lines of action:

1. It abandoned its policy of deflation, a central idea to the classical theory of overcoming the crisis;
2. It proposed economic policy of Keynesian influence in many neo-liberal democracies;
3. It gave birth to totalitarian, fascist type politics.

The three lines were developed from the application in the economic life, specifically, of ideas of liberalism, interventionism and etatism. The Western democracies have argued for Liberalism. Its representatives argued, at the World Economic Conference in London in June 1933, the grounds of continuity with past structures and, especially, wanted, and did not succeed, to adapt, modernize and transform the traditional international economic circuits.

The American version of *Keynesianism* - the entrepreneur - "New Deal" advocated for the state interventionism. Finally, variations of dirigisme transformed into practice the economic totalitarian, fascist states.

In front of the economic hurricane, different countries have responded with the methods and means they had at hand. The only policy, if this idea can be advanced, was lifting customs barriers. Protectionism and in some countries, economic autarchy, have contributed to the worsening and time extension of the crisis.

In the United States, the new Democratic President Franklin D. Roosevelt has developed since 1933 an economic policy inspired by Keynes

called the New Deal. In essence, the three lines of state intervention in the economy were:

1. Reorganization and boosting basic sectors of activity - banks first, then the industry by NIRA (National Industrial Recovery Act in June 1933), agriculture by AAA (Agricultural Adjustment Act of May 1933), electricity by Tennessee Valley Act of May 1933, Public Utility Holding Company Act of 1935, and shipments by Railroad Emergency Act of 1933 and Wheeler Lea Transportation Act of 1940.
2. A policy of restoring America in favorable position on the world market by abandoning the gold standard (19 April 1931); gradual devaluing of the dollar relative to gold and a policy of reciprocal trade agreements (Reciprocal Trade Agreements Act of 1934).
3. A social compromise accepted by the major forces in society. Thus, they increased direct capital taxes, they banned child labor, they established the workweek to 40 hours for civil servants and 35 hours in the industry with a minimum wage of 40 cents / h. It guaranteed workers the right to organize, to elect representatives, to develop trade union movements.¹³

The new economic policy manifested in England by the abandonment of the British pound convertibility in 1931, and the waiving of free trade in 1932. These two measures taken by the Government of National Union, allows us to appreciate the shock caused by the crisis in that country, knowing that people were attached to their coin, to free trade to which they assigned the past prosperity. For a complete break with the past century, the state intervened in production too. Thus, in 1930, the Coal Mines Act organized the coal market and set the minimal price for the production. The policy of rationalization and organization was continued in the shipbuilding sector, creating in 1930 the Joint National Shipbuilders Security Company. In 1932, "British Iron and Steel", subsidized by the State, grouped two thousand steel companies into a national steel trust that controlled 47% of the production of iron and 67% of the steel.

The active role of the state in the economic life was manifested in the merger of banking capital with the industrial one. There was a strong concentration of capital in five important banks: *Midlands*, *National Provincial*, *Lloyd's*, and *Barley's Westminster*. In 1929, *Lancashire Colton*

¹³ *Ibidem, loc.cit.*

Corporation was organized based on state's investment with the help of the Bank of England and 139 private spinning. New industries like chemicals, electricity, and automobiles, all protected by the State, have felt less the economic crisis.

Overall, the crisis was not as violent as in the U.S., due to the fact that in Britain the state has intervened immediately on two coordinates: it respected the private initiative and has stimulated the modernization of industries. Agriculture was also helped by setting up production and prices. It is true that some economic sectors were relatively neglected - coal and textile industry.¹⁴ Through the Development and Improvement Act of 1934, the government moved 200 thousand workers in and around London, and in southeast England where unemployment was lower.

In France, in November 1929, Prime Minister Tardieu proposed a comprehensive national program amounting to 5 billion francs for boosting economic activity. In 1931, subventions have been granted to public training, agriculture and public works. In 1932, unemployment reached the highest degree of concern of the government, which adopted in March the law by which firms were obliged to adhere to a House of Compensation to avoid unemployment. This protection measure was not sufficient because the French state was not directly involved in the economy.

Circles of reflection proposed state intervention and adoption of plans to mitigate imbalances. There were, then, more heterogeneous currents known as "plannism" close to patronage (Groups X – crisis, of 1931), to workers unions (the CGT plan), socialists (the constructive revolution group), radicals (Young Ottomans) or fascists.¹⁵

Economic anti-crisis politics of fascist countries differentiated fundamentally from that of neo-liberal democracies.

Since 1932, Germany renounced the deflationist monetary tactics and moved to stimulate demand through additional commands, public works and tax reduction. Von Papen's government followed broadly the politics of Roosevelt and even Keynes. In June and September 1932, there were opened credits of millions marks for state orders; companies were helped - in the form of bonuses, to encourage the employment of work forces.

¹⁴ See L. Rosenstock-Franck, *Histoire économique et sociale des Etats - Unis de 1919-1949*, Paris: Aubier Editions Montaigne, 1950.

¹⁵ Sauvy, *op.cit.*, p. 23.

Reducing unemployment and the elasticity of production were strictly supervised by the exchanges. Inflating the economic demand in a closed circuit was the system that will last 13 years in Germany.¹⁶ Unemployment fell from 5,580,000 in 1932 to 2 million in 1935 against the general backdrop of wages and of breaking in the unions.¹⁷ "Deutsche Arbeit Front" Company "gathered employers and workers, reaching 23 million members within one year after its founding in May 1933".¹⁸ Germany adopted the first plan for four years in the period 1933-1936 followed by a second one in 1937-1940.

Economic policy of the German state prepared the war by expansion of rearmament and placed the economy under this strategic command.

Italy, until the Depression, has remained true to liberal options adopted in the year 1921, in terms of economy. After 1929, a new strategy was outlined based on public interventionism in economic management. They created parallel public bodies of control for the private companies and there were established forms of state capitalism - with IRI (Italian Institute for Reconstruction, founded in 1933), FINSIDER for Iron and Steel, FINMARE, for shipping companies and others. To reduce unemployment, there has been inaugurated a policy of extensive public works - highways, railway electrification, fitting monuments of Rome, the construction of popular housing.¹⁹

In Japan, the crisis did not have a great impact on the economy. Recession of industrial production by 15% lasted until 1931. Abandoning gold-standard in December 1931 and depreciation of the yen by 60% stimulated exports. The originality of the Japanese economy was manifested by the great number of small businesses that changed their production very quickly correlating with the market fluctuation, the lack of trade unionism and the docility of the working hand fueled massively by rural exodus, through the development of joint ventures in heavy industry areas (state-private), particularly in shipbuilding and iron & steel areas.²⁰

¹⁶ ***, *Dictionnaire d'histoire économique. Delà 1800 à nos jours*, Ed. II, Paris: Hatier, 1987, p. 438.

¹⁷ Sauvy, *op cit.*, p. 42.

¹⁸ *Ibidem*.

¹⁹ Alain Cotta, *Le corporatisme*, Paris: PUF, 1984, p. 73.

²⁰ Sauvy, *op.cit.*, pp. 57-58.

In the central and south-east Europe, the depression has acted on the fund of global economic diversity. In terms of national economies, some were industrial countries - Austria and Czechoslovakia, other agricultural-industrial - Hungary and Poland, and others still predominantly agrarian - Romania, Yugoslavia, Greece, Turkey and Albania. The dynamic evolution of these categories should not be placed in a rigid, mechanical manner. For example, Romania, Yugoslavia and Greece characterized in 1929 by an economic transition structure into the agricultural-industrial type.

Countries of the third category of the "agricultural block" were relatively homogeneous - for agriculture, with the exception of Greece, which used 80-82% of the active population and provided between 59 and 61% of GDP.

Technical capacity was generally rudimentary, manual, under the European average of ha., and with a relatively high price. Only between 10 and 20% of the GDP of these countries was provided by the craft industry, small industry, mining and processing industry. Services were reduced in size - credit and exchange, commerce, modern institutions of cities coexisted with small forms of the village. The basic components of the infrastructure - transport routes, modern communications, warehouses, silos, buildings, etc. - either they were not completed, or generalized like in Romania, Greece and Yugoslavia, or they were only in a project phase, like in Turkey and Albania.

Socio-economic structure of the countries in this category reveals the predominance of small production units - the agricultural household, small craft workshops, reduced commerce and services. This type of economic structure produced a good part of GDP, used most of the workforce, and determined multiple consequences in the efficiency, in the cost of production and expenditure increase. The capitalist policy in the banking, industry, transport, and trade sector was slightly visible, with some results especially in Romania and Greece.

In all the countries of southeastern Europe, the vast agricultural property occupied a limited place in the economy due to the agrarian reforms after the war.

The worldwide economic crisis has had serious consequences for agriculture, where it virtually stopped the process of mechanization. Even Czechoslovakia was unable to maintain the previous levels of investment. The prices of agricultural products have decreased in proportion, and the

unilateral, cereal production has been emphasized. Concerns of states to increase the competitiveness of agriculture have been modest, appreciable results being recorded only in the agricultural debt problem.

In the industrial field of Austria and Czechoslovakia, the crisis was strong. Austria was oriented towards external markets. There were affected the heavy industry - machinery construction industries, the production of iron ore and iron. Austrian crisis was prolonged in time. In 1936 most countries surpassed the crisis, but the production in Austria was 1 / 5 less than in 1929 and 1 / 7 in 1937. In that year, there were still registered 321,000 unemployed, almost 20% of workers.

Czechoslovakia held a similar process. Heavy industry has declined due to low investment and inaccessible markets. In iron and steel, the decreases were of 35-40% of the pre-crisis level. Overall, industrial production value in 1932 was 40% lower and the number of unemployed rose to 738,000, i.e. 1 / 3 of industrial workers.²¹

Hungary was affected in the production sectors – metallurgy, industry of iron exploitation, machine-building industry. In 1932, production of these branches represented 52% compared to the pre-crisis period.

A special situation, in the whole European east-central area, was registered in the production of consumer goods - textile, leather, paper, encouraged by the State with financial advantages, civil and military orders, etc. All three branches have fluctuated and even increased steadily. A similar situation was recorded in the industries of the second industrial revolution - chemical and electrical. Unemployment has experienced relatively low values of about 200,000 workers. In 1936, industrial production of 1929 will be exceeded with 3%.²²

In Poland, the making of production means declined in 1932 with 43.4% compared to 1929. Coal industry has experienced the most difficult moments throughout its existence (in 1932 was only 37% compared to 1929). Overall, the Polish crisis was more serious than in Hungary. Investment activity decreased to 1 / 3, and unemployment increased.

²¹ Ivan T. Berend, György Ranki, *Közep-Kelet-Europa gazdasági fellöde a 19-20 században*, Budapest, 1976, pp. 364-365.

²² *Ibidem*, p. 364.

Compared to 766.9 thousand workers in 1929, only 458.9 thousands were still employed in 1932.²³

In Romania, the production of construction timber has decreased by 40-50%, steel production industry with 1 / 3, and coal by 37%. On the whole, 1932 registered a value of industrial output lower by 11% compared to 1929.

Similar trends were registered in Yugoslavia and Bulgaria. In Yugoslavia, industrial production decreased by 17% compared to 1929.

The mixing of agrarian crisis with the industrial one occurred in the aggravating circumstances of a strong financial crisis and credit in 1931 (see table below):²⁴

Statistical table nr.2 : The financial situation of Central and Eastern Europe

Countries	Hungary	Austria	Czecho-slovakia	Yugoslavia	Romania
Internal Debts - mil. \$	28	42	65	85	111
Total of external debt - mil. \$	733	508	396	635	1023
Annual interests - mil. \$	30	45	21	25	40
External debt/ per capita/ \$	64	60	23	47	57
GDP/per capita/ \$	115	190	181	86	81

National Bank of Hungary has paid between May 1st and 13 July 1931 for public debt service 200 million pengö (40 million dollars) in gold and currency. Payments exceeded the value of precious metal stock, refunds being possible by emergency financial support granted by the International

²³ *Ibidem*, pp. 371-372.

²⁴ *Ibidem*, p. 366.

Bank of Payments - and other major European banks. Also, treasury bills worth 5 million pounds were issued.

Poland paid in the period of 1931-1933, 933 million zloty, i.e. about 115 million U.S. dollars in the account of short-term loans. Austria has also paid 1 billion schillings - 110 million dollars. In 1931, Czechoslovakia, lost 60 million dollars, in short term loans, the same amount being frozen in foreign debts of the country. Romania lost 1800 million lei, in short-term loans.²⁵

The intervention systems adopted by the states in the region have been reported particularly in trade control of currencies. Alone, Poland has maintained the gold content of the zloty by the end of 1935. Amounts transferred to the outside, in the form of profit, interest and annuities of 4.8 billion zloty (500 million) contributed to the decrease in 1 / 3 of gold reserves and currency of the country. In 1936 the financial crisis became so serious that the government has concluded agreements with creditors and stopped paying interest. Poland passed to the policy governing foreign exchange.

All countries in the region have tried in the crisis years to protect the internal market and economic agents by high customs tariffs and import quotas.

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**THE ECONOMIC CRISIS, CAUSES AND CULTURAL CONSEQUENCES – AN
AMERICAN PERSPECTIVE**

Marius Jucan*

Abstract:

The outbreak of the economic crisis in the United States brought along besides specific controversies regarding the future of capitalist economy an intellectual debate on the interconditioning relations between economy and the political and moral values compounding the cultural behavior of the (post)modern man. Within this perspective, the present paper attempts at bringing into focus the relevance of culture generally and of cultural habitus, specifically, in three great economists' perspectives on the civilizational implications of economic policies. The progress of the Western world has been for centuries endorsed by the fruits of market economy, though economic crises were recurrent, reaping their nefarious harvests of material and spiritual values. Apart from the failed utopia of the communist planned economic, could the impetus of present-day economy be harnessed by egalitarian criteria? Or helped to enhance human creativity and provide wealth by putting to work meritocratic criteria in economic policies?

Key words: United States, crise, culture, Barack Obama.

The present article is part of an ampler study dedicated to the changing course of the American liberal culture and its economic tenets. Having underscored for decades individual autonomy and the gain of opportunity, liberalism as a comprehensive theory of the free world finds itself in dire straits.

The present paper remarks on some traits of the cultural behavior of the individual in the Western world as these were defined and redefined by Adam Smith, Thorstein Veblen and John Kenneth Galbraith. Last but not least, I intend to look into the manner in which culture in its general

* Marius Jucan, PhD is Professor at Babeș-Bolyai University, Faculty of European Studies. E-mail: mar_jucan@yahoo.com.

comprehension, providing people with system of symbols both representing enlivening their reflections and action in the field of existence, met with an abrupt change.

Why would these three celebrated economists and thinkers be given the floor again, so to say, due to the present conditions of the economic crisis? How could one reassess the meaning of their works in order to perceive better the unsolved issues of the liberal determination to propel individualism and the need to develop the spirit of communalism in a liberal democracy? And why should we return to the past, instead of allowing us depart from the impasse of the present into the immensity of the future? It will be much simpler to start with the last question, by answering that the crisis has distorted the very notion of future in its meaning of augural expectations, progress of civilization, and from this perspective, futurity has all of a sudden grown distant from its possible achievement, restraining the idea of *possibility* to an area of diminished hopes blurred by vagueness and especially by fear.

One turns not fortuitously to the lessons of the past, but in the attempt to find a gist of sense for the irrationality of the present, and to divine a path of reason in the unpredictability of tomorrow. No one could deny that the lessons of the past are confined in the rhetoric of a didactic morality, bereaving any possible likeness to present conditions. Still, one does not hurry to the shelves of the library only to seek for solace, but also for an alternative plan to unravel dilemmas of modern society, especially when standards of living are at stake. It is probably here, at the crossroads of a new life quality, a sort of Achille's heel, that the economic crisis has dealt a serious blow to the Western construction of modernity and notion of public social safety. Undoubtedly, import of life quality has appeared first of all in the Western hemisphere, once secularization and technocratic culture ascertained the economic standards of individuals and communities as the prevalent attributes of modernity, and since the last centuries, one might say, the aim of preserving life quality standards in the Western world coincided with the idea of progress.

The historic echo of Adam Smith, Thorstein Veblen and J.K. Galbraith provides us with relevant overviews on the relationship between economic theories, cultural constructs, philosophical and moral and aesthetic values. Adam Smith opened the window on the beginnings of liberal economy and

the optimism of accumulation, Veblen forged the critique of property, fearing the danger of the decay of the Western civilization, and Galbraith pondered on the success of the middle class in the 60s and its ensuing consequences. All of them put into the play different interpretations of the notion of wealth. Wealth was seen as an exception to the current condition of the XVIII-th century Western world, yet an achievable goal which actually changed the condition of the Westerners through reforms and revolutions as a cause and effect (as for instance, the Protestant reform and the Counter-reform, the American and French revolutions). Yet, wealth continued to be regarded as an unreachable "secret" belonging only to the few, hiding an unknown manner of using creatively the natural endowment of a person, civic community, or of the natural environment. Wealth has been viewed since immemorial times as a divisive cultural fault line, throwing either into awe or disrepute the ones who succeeded in climbing to the peak of it. While shining as an almost unattainable ideal, wealth demanded a specifically radical sorting out of the cultural stereotypes stemming into religious, political preconditions which usually distorted the idea of accumulation. Wealth has always been connected to the representation of magnitude and power, causing an evergoing ethical dispute over its validity or fallibility of its ethical premises.

For Adam Smith the idea of wealth was placed under the reign of religious and moral percepts, while for Veblen it was strongly influenced by a pessimistic realism deploring the polarization of the society. Galbraith brought into discussion the role of wealth created within democracy, framed by the civic ethos. The creation of the middle class in a moment when the long awaited victory over the indignity of poverty was celebrated in the American society, did not refrain him from observing that cultural inertia and moral dullness could steal the spoils of a hardwon war. Wealth was defined according to the personal cultural experience of the three aforementioned authors, by their reflections on the condition of the Western world, respectively American one. For Smith, the acquiring of wealth was the salvaging opportunity, marrying hard work with well deserved results, rewarding the idea of progress and civilization and ascertaining the civility of moeurs. At the other end, for Veblen wealth was the source and the same time the cause of moral corruption, of rampant social degradation surpassing class barriers, becoming an issue of

“character”. As for Galbraith wealth became a central factor in building a social middle ground, a “new” class, which did not manifest itself as a class in the Marxian sense, but as a civically and economically coherent community, consolidating democracy and the ideals of freedom, equality and merit.

Since Adam Smith, and one could add since Benjamin Franklin who illustrated in pre-revolutionary America the transition from puritan religious expectations to pragmatic practices, equating salvation with success, wealth grew synonymous with a new form of ascetic desire, allowing progress and civilization replenish man’s wanting condition and determine him to calculate the preservation of gain in the “art” of investment. The reconfiguring of life standards according to the values of gain of loss, profit or wasting unfurled major consequences for the whole modern world. The main hero in the *Great Gatsby*, for instance, experiences the conversion of a mobster to an elegant consumer, aggrieved by the nostalgia of the beauty, as the metaphysical dimension of life was lost in the making of the first million. Whether wealth is a mode of regeneration, one should reconsider it, especially in times of a crisis, not simply as a form of salvation, but a complex test for preventing decay and social unrest.¹ It is questionable whether wealth or the ideal of decent way of life (economically speaking) would be preferable to prevail, so the more when wealth continues to mean exception, a pattern of perfection inculcated in the democratic ethos, reminding of Tocqueville’s dilemma, namely about the strained relations between the pragmatic interpretations of freedom and equality.

Stanley Fish was wondering at the beginning of the last year² if the world was going to be saved by humanities (culture and education). The idea that the heavy clouds brought over the Western world by the crisis might be cleared out by resorting to another cultural behavior seemed to have been picked out of the few ones which remained in Pandora’s box, once it had been opened. How could education and culture heal the

¹ See Winnfried Fluck, “What is so bad about being rich?”, in *Comparative American Studies, An International Journal*, SAGE Publications, vol I, 2003, pp. 53-79.

² See Stanley Fish’s blog in *The New York Times*, 8 January 2008.

traumas inflicted by the economic hurricane? Reitering what a famous British Victorian said about culture, that is “light and sweetens”?

The professorial profile of Stanley Fish, professor of law and literature, reputed cultural author and theorist, allowed him to circumvent jeremiads and imprecations which usually supplant the prophecies about the state of culture and education in a consumerist society, and to see instead what were the expectations according to which someone was ready to credit again the system of education and generally the maintenance of culture, as sources of individual and collective achievement yet lacking lucrative jobs. The crisis budgets are half empty, when it comes to culture and education. It was clear, according to professor Fish, that nobody would have hoped that the rereading of say, *Hamlet*, would assure the busy-like restart of American economy. Similarly true, the “larding” of a conversation with little bits of erudition would but irritate bankers, moguls, sponsors instead of amiably seduce them for the benefit of the two egregious orphans, culture and education.

Interestingly enough for those who care for culture not only in times of crisis, Stanley Fish’s answer is an instance of well tempered relativism. The idea that the times of need have always been instances of seeking for innovative alternatives, creating a cultural effervescence as well, as in the example of the European and American avanguardism was sustained by a great number of authors who remarked not only of the relative autonomy of culture as compared to the fields of politics and economy, but accentuated the unexpectedly mixed character of the social and cultural experiences of the last century as for instance the youth iconic “rebellion” of the 1960’s. Whether the American professor clipped the romantic élan in whose flights humanities, respectively, the study of literature and philosophy might appear as being endowed with the possibility of triggering a change for the present condition of the American society, he did not wholly rule out the possibility that humanities be in the position of being a better judge of the morality of consumption, the only occasion to rekindle the individuals’ trust in public institutions and market economy practices.

Seen under this angle, the economic crisis might spark the necessary amount of rational hope to find one’s way from under the wreckage of wrong economic policies, at least theoretically, in the sense of vanquishing fear, moral depression of civic disillusionment. Yet, hope alone cannot

wrestle with the economic deficiencies. The economic crisis unveils itself at this point as a cultural deficit, as well. Convictions which have grown commonsensical, claiming a total human autonomy in the field of economy, or the haughty denial of the state involvement in establishing and controlling the financial consistency of the businesses were pointed as practical errors which swamped Americans into debt. The economic crisis cannot be therefore assessed as being only a crisis of the public institutions, primarily of banks, but it should be also viewed as a severe test for the American individualism and for the American cultural "tissue", which after Clifford Geertz holds the entire social assemblage.

Liberal culture is nowadays seen as being severely primarily marred by the fact that it is held responsible for having led to the present day economic contraction. For Amartya Sen, for instance, the economic crisis is the very moment to ask ourselves whether the "nature" of capitalism should not be changed, after all. The idea that capitalism as the wholesome expression of liberal ideology has "accomplished" its historical role, and has been "exhausted" historically speaking (a Marxist cliché) divides theorists and experts alike, consisting in an unexpected opportunity for intellectuals on the left to preach for the benefits of anti-capitalist ethos, which not surprisingly raises the alternative of anti-democratic society.³ Criticism of liberalism, no matter how harsh it, could not plunge the world into a utopian adventure, claiming the end of the liberal society, a society which after all, in spite of its cyclical economic contractions succeeded to bring civilization in America to a wide-world recognized status.

A more nuanced reading of the mistakes and errors of liberalism would be salutary in Alan Wolfe's recent opinions. The reputed American sociologist and cultural critic displays the conviction that America will continue to be a liberal culture.⁴ In spite of today's attacks on liberalism, as

³ See, Amartya Sen, „Capitalism Beyond the Crisis“, in *The New York Review of Books*, volume 56, Number 5, 2009.

⁴ „Understood in the procedural sense, a liberal is anyone who supports a constitutional form of government; believes in a government of laws rather than of men; holds that exceptions to general rules should be rarely if ever granted; and accepts the principle that every party in power cannot change the rules of achieving power to benefit itself. It is for this reason that one can properly call an entire country such as the United States liberal, even though it obviously contains

in the case of the yester ones, liberal theories still hold out, upholding the future development of modernity. Under the mask of the egalitarian “care” for the other, while being convinced by the idea of economic correctness, the vocal younger sister of the political correctness, one might himself/herself in the situation of meeting with a new form of tyranny. Liberalism was not vanquished in its philosophy, but in its current pragmatic approaches to reality. Wolfe pointed out that after the American presidential elections of the last year, one could notice the Americans’ trust in public institutions as well as in the president’s salvage program being reawakened, and transparency of governance, the threat of terrorism, and America’s place in the world having turned into publicly discussed matters again. It is accordingly necessary to know what it means to be a liberal in a welfare state which has enhanced decisionism, and whether the liberal spirit is responsible when managerial democracy has gradually replaced liberalism as such after the New Deal.

In his book, *The Conscience of a Liberal*, Paul Krugman upholds that the crisis was brought by the erosion of the fiscal protection established by the *New Deal* policies. He makes a convincing plead for the setting of New Deal strategies for the relaunching of the American economy. Since the 1980 “our financial system has become increasingly dependent on what is widely known as the ‘shadow banking system’, institutions which in effect carry out the functions of the banks but are structured so as to evade regulation (...) Not incidentally, the deregulation of financial markets helped the rich get richer”.⁵ Krugman’s solution resides in the timely correction of the content of liberalism at the beginning of a new century, in the reconstruction of the American middle class, reminding the effort of the Rooseveltian policies, buttressed by John Maynard Keynes escape plan to rebuild confidence in the American shattered dream. The deepening of inequality provoked by neoconservative policies made Krugman interpret the cycles of economic crises, respectively to evaluate the ebb and tide of

many people whose substantive views are conservative. What unites nearly all Americans is loyalty to a set of rules put in place by the framers of the Constitution that borrowed extensively from a liberal proceduralist way of thinking”, in Allan Wolfe, *The Future of Liberalism*, New York: Alfred A. Knopf, 2009, p. 17.

⁵ Paul Krugman, *The Conscience of a Liberal*, New York, London: W.W. Norton, 2009, p. xii.

liberal and conservative attitudes in the American democratic society as to know more accurately whether America is “a left center” or a “right center nation”.⁶

According to his interpretation, the period of the Gilded Age one should be expanded historically speaking until the 1930s, in order to realize better the contorted course of liberal policies responsible to economic performances or failures. Krugman obviously accentuates the capacity of the American democrats to create the American middle class during a difficult period, accusing the tendencies of breaking the consensual policies ensuing from it due to conservative and especially neoconservative policies. For the American economist the vulnerability of the economic system dealt a deadly blow to the beliefs sustaining the American way of life, a life of prosperity and decency for the many, a traditionally magnetic attraction for immigrants. As the title of paper suggests, approaching the crisis, one has been fatally drawn to a deterministic approach, that it is be the way of looking at the crisis as a closed circle between cause and effect. Causality in the explanation of the crisis provides a logical pattern, incriminating primarily the dubious financial practices running before 2000, and eventually calling for a reform of the economic thinking in a new millenium. Sectorial measures are urgently needed. They are obviously a priority. At the same time, the cultural ingredients of the crisis, embedded in the cultural behavior of the people who actually provoked the crisis, individuals and not simply, banks and firms, may pass as factors not taken heed for, though their weight might encumber further efforts to solve the economic deadlock.

To what degree a different set of values will forge salutary actions to sustain the necessary trust while in “hard times”, remains the main question awaiting a timely response. The cultural behavior of the individual (of those who had a decisive role in the outbreak of the crisis) appears to be at the most problematic feature of the crisis, in the sense that it underlies the hardships of changing the American “economic mind”. If attempting to count on the immediate effects of the crisis, one should probably think first of the lack of responsibility at the level of the decisions makers, governmental and/or economic ones, which fact enlightens upon a

⁶ *Ibidem*, p. xvi.

worrying perspective as to the possibility of reaching a consensus in order to sustain the implementation on commonly taken practical solutions. As the crisis had in its epicenter America, the agony of liberalism was hailed in the parts of the world where America was hated, so that anti-Americanism reemerged with a doubled energy under the circumstances. The mismanagement of the crisis constituted a highly important point on president Obama's agenda, as it demonstrated that the majority of the Americans' votes tipped the political balance in favor of a new type politician, a man who would supposedly champion new moral values in exerting power, implicitly opening a window to solve the economic impasse.

Barack Obama's election evinced that the deep level of the crisis was linked to the cultural behavior of Americans generally, and it regarded specifically neoconservatives' errors. By solving out the present day irreducible dilemmas of the crisis, one of the yet distant expectations is that the cultural canon will be changed as well. Economic crises have always brought along a critical examination of social and cultural values, addressing to both individuals and institutions. For instance, the influence of the economic panic of 1837, followed by five years of recession played a crucial role on R. W. Emerson's writing the famous "The American Scholar" and on John O'Sullivan's "The Nation of the Future".

In his book *After Liberalism*, Paul Edward Gottfried remarked that the democratic practices of the recent years have been consistently altered, on the ground of the new cultural policies at work in the 1960s. The civic condition suffered a significant change as well under the impact of the managerial control of the society in which public administrators claiming to lead "scientifically" society, transformed themselves into social reformers. Under the circumstances of a mass democracy in which isolated groups of individuals receive social attention and material gratifications, it is unlikely to expect that the actual perception of the democratic frame would brace an ethic of austerity, needed to preserve economic and energetic resources as well as to underline to idea of merit. The clash between the fundamentals of liberalism and the managerial state defending welfare policies created in Gottfried's view a large host of victims and pretenders who seem to have limitless access to administrative favors, which made "more Americans fit to be ruled rather than to rule

themselves”, out of political reasons. The debilitated status of the American pluralism aggravated the symptoms of the economic recession and moral confusion in the consumerist society, before the crisis had actually started.

It was not by sheer chance that a personage as Joe the Plumber, a temporary ally of John McCain’s campaign, came to moderate the the dispute on the future of the American economy. Such real people render in a more persuasive manner than any analysis the confused feelings and identities of people thrown in the economic chasm. Upheld by populist, anarchist or even socialist ideas, their voices are expected to be heard on the stage of liberal criticism, in an irrepressible vitalist anxiety. As there crisis shockwaves hit repeatedly the certainties of everyday life it became evident that immediate measures though necessary won’t resolve the arraignment of causes which lead to the debut of the economic contraction. Substituting a team of leaders with another does not mean automatically eradicating the causes of the crisis. Its “mass’ proportions broke down the wall of silence which surrounded protectively the work of economic experts exempting them, however, of any responsibility. Whose confidence was lost, after all, the confidence in liberalism or in the financial experts? As in the case of the downfall of communism in 1989, in spite of the obvious signs predicting the worsening of the economic situation in Eastern Europe, few people, if none, dared to proclaim the bankruptcy of communism. Not wishing to draw a far fetched parallel between communism and to economic crisis which reached global dimensions, it is however noteworthy to uphold that in both cases social failures came out of the blue. Economists are since Adam Smith not only theorists, but part of the technocratic society. In dealing with the nowadays crisis, one should also the crisis of the elites.

In *The Revolt of the Elites and the Betrayal of Democracy*, Christopher Lasch shows that the barrier which separates the past from the present, the unsurpassable barrier in the imagination of modernity is “the experience of disillusion”⁷. The main victim of this state of things is the contemporaneous sense of religion, as a fundament of individual and communitarian trust, continued to be viewed as a source of intellectual and emotional certainty, instead of being looked upon as “a contestation of modern self-pride and

⁷ Christopher Lasch, *The Revolt of the Elites and the Betrayal of Democracy*, New York, London: W.W.Norton, 1995, p. 78.

complacency". An illuminating remark which draws attention on the fact that the secularization in America has been different as an ongoing process from the one in Western Europe, and it might, due to this, have opposing consequences in the United States and in the main countries of EU. Barack Obama's popular (populist?) discourse of hope and change displays an obvious rhetoric of salvation based on religious fundamentals, addressing both the African American community and the white one.

Coming back to Lasch, it is important to mention that he makes clear that the current American religiosity stresses salvation without any ambiguous hint at the possibility of transcending into a discourse of power. Man's victory on nature has brought since the Enlightenment the modern elites' perpetual revolt against any type of dependence. But, quite curiously, Western elites have not succeeded at least to this hour, to unbind them from the under the specter of economic conditioning, quite on the contrary. Our world has become increasingly dependent on economic solutions, more than philosophical, moral or political ones, which speaks for itself about the complexity of progress and its relation with the cultural behavior of individuals and/or states. The question is whether the revolt against economic dependence will triumph over the present grim conditions, in assuring not the future of religion, but merely the idea of a future.

In the following, I want to relate some cultural aspects rooted in the reflections on man and society belonging to Adam Smith, Thorstein Veblen and John Kenneth Galbraith, going beyond the time barrier of their epochs, this not regarded as mere "lessons of the past", but instead as reminders of the deficiencies of the present highlighting the clash between individualism, communalism and modern etatism. The attempt to rescue from under the debris of an economic collapse a new cultural behavior meant to bolster the trust of the average American individual, the victim of the reckless institutional attitudes usurping the symbolism of the American way of life, seems hardly successful.⁸ Yet, everyone agrees that the American society will eventually find the way out, no doubt, but the nagging question of the "ways and means" remains just the same,

⁸ Krugman, *op.cit.*, p. 265.

acknowledging in the meantime the unpaid for loss of democratic policies warranting safety of living standards.

What makes the aforementioned three authors come together in this brief overview of the crisis and the cultural behavior of the American individual and institutions? First of all the fact that all of them worked under the spur of the economic crisis, showing that even in times of prosperity (J. K. Galbraith) the ghost of economic failure was still haunted their minds, and that the grim possibility of losing control of the economic steering of the country was not at all something to be denied. Secondly, one may wonder whether the cultural behavior of individuals stemming in the political, social or religious representations of success, welfare gentrification or as pauperization could alter for the better the quality of the democratic life in America.

Adam Smith's fundamental optimism relies on the organic relation existing between individual and society, in which man is the equivalent of society, and accordingly the progress of society is conditioned by the individual's capacity to surmount an inferior condition, actually be part of "the middle class", illustrating a liberal conduct moderated by prudence. The unmitigated reality of capitalism in the Gilded Age determined Thorstein Veblen to give one the most somber predictions regarding the future of liberalism, as being conducive to a "barbarian culture" and to the appearance of the "leisure class", the paragon of the unethical social and cultural model of the "laissez-faire" politics. The influence of Marxism and Darwinism, though evident, did not however hamper the early 20-th century economist to set the landmarks of a "consumerist" type of society, exhibiting feudal privileges, and showing that lack of occupation was not thought as "dishonest". The Lockean relation among work, property and freedom was dismantled in Veblen's criticism of the Gilded Age, as equality was impossible when it was claimed that American culture was at the mercy of the "predatory instincts" of individuals. However, Veblen's radical criticism did not prove true for the evolution of the American society in the course of the 20-th century. After WWII, faring far from the consequences of the depression years, American economy and implicitly the democratic status was looked upon differently by John Kenneth Galbraith, thought he did not impart a vision of candid optimism.

„But we have barely noticed that the leisure class has been replaced by another much larger class to which work has none of the older connotation of pain, fatigue or other mental or physical discomfort”.⁹

In the *Theory of Moral Sentiments*, which preceded the celebrated *Wealth of the Nations*, Adam Smith explained the mechanism of human relations as being based on sympathy. In an essential chapter on the substance of virtue of the new man belonging to the new class of bourgeoisie, Adam Smith appraised moderation, the median line between passion and interests, intelligence and sentiments, allowing the individual to sustain himself, to act rationally and to enlarge his experience of economic autonomy as a model for others. It is worthwhile noticing that the virtue of the “new man” was built within the optimist frame of the self-progress seen as a natural “progress”, helped by the steady moral examination of the individual’s capability to be diligent and thrifty, by delaying the gratification for a future investing, so that the present moment benefits from the future’s plenary traits on condition the modern man could reach the meaning of moral transcendence. The key of success relies in a special understanding of self-sacrificing one’s natural inclinations of waste and consumption for the advent of a superior stage ascertaining the safety of life.

“In the steadiness of his industry and frugality, in his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time...”¹⁰

Self-limitation in mapping the absolute of human desire is for Adam Smith the core of an individualistic experiment, a sign of a well ordered life, the source of a natural steady accumulation in which the individual accepts a small but continuous growth of his fortune. According to this conduct modern man, as portrayed by Adam Smith could make the comfort of his life be more reachable than the idea of happiness, on condition he took no other responsibility except that of his duty. One could

⁹ J.K. Galbraith, *The Affluent Society*, New York: Viking Press, 1962, p. 248.

¹⁰ Adam Smith, *The Theory of Moral Sentiments*, New York: Oxford University Press, 1976, p. 252.

say that Adam Smith set the virtuous model for a “rational” happiness, in an efficient capitalist society, not observing religious ideals but nevertheless employing their persuasion.

“The man who lives within his income, is naturally contented with his situation, which, by continual, though small accumulations, is growing better and better every day.”

“In the bottom of his heart he would prefer the undisturbed enjoyment of secure tranquility, not only to all the vain splendor of successful ambition, but to the real and solid glory of performing the greatest and most magnanimous actions.”¹¹

The typology of the new man according to Adam Smith marries efficiency with virtue, and since the mind of the commonsensical man is extended on the entire society as a whole, the entrepreneurial character of the individual may be seen as a trait of modern society, as in the famous description of the “invisible hand”

„By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.”¹²

The contrast between the “tranquility” of modern life in Smith’s modern society and Tocqueville’s “restiveness” defining the hustle and bustle of American democracy brings into view two opposing sides of the same world equally moved by the desire to attain the utmost of equality and freedom. It is however interesting to notice that for Tocqueville the modern individual is to be portrayed by knowing his “bottom of his heart”, the mysterious locus of his sentiments and unflinching convictions, which is according to the author of *Democracy in America*, conceals an unconscious profoundness connected to the metaphysic level of democracy, a religious

¹¹ *Ibidem*, p. 168

¹² *Ibidem*, p. 167.

matrix. For Tocqueville the cultural behavior of modern man follows the twofolded hierarchy of aristocratic and democratic peoples and countries, out of which the democratic change was the “sign” of the new times. Man’s glory resides in the attempt to perform great and generous deeds than in satisfying personal ambitions, thought as vainglorious in the first case. In democracy, individualism tempers down the “heroic” mood of the individual, transforming him into a member of the community of the equal individuals, which is not devoid of a sense of heroism, the heroism of becoming dissimilar under the sway of majority.

Passing to Veblen’s criticism of the American spirit of free enterprise, it is evident that a historical and psychological explanation of capitalism as a civilization based on private property was used by the American economist in order to incriminating the “habits” developed by the destructive desire of possession and/or their symbols. Whether it was a mellowed or a stronger version of Marxism does not matter any longer. Modern society was no longer dependent on “sentiments” but on something which affects as a sort of inner structure the very behavior of modern individuals. In this way, the individual’s behavior is more determined by the practices of the community, rather than the examples of the individuals. The Golden Age period, the period of a deep social polarization provided Veblen eloquent examples for his critique of the deepening of discrepancies, yielding poverty and richness, the two embattled enemies. Analyzing the destructive habits of capitalism, Veblen upholds as an absolute dimension the individual’s drive to get rich, transformed into a timeless unjust reality of the world of the free market. The possessing of goods respond to a vital impulse of acquiring wealth and expanding it, where no limit could be imagined, drawing attention on the implicit tension of the “hunting” feeling of man living in capitalism, hardly ever rising the question of a virtuous behavior.

„Wherever the institution of private property is found, even in a slightly developed form, the economic process bears the character of a struggle between men for the possession of goods. It has been customary in economic theory, and especially among those economists who adhere with least faltering to the body of modernized classical doctrines, to construe this struggle for wealth as being

substantially a struggle for subsistence. (...). It has not been unusual for economic theory to speak of the further struggle for wealth on this new industrial basis as a competition for an increase of the comforts of life, -- primarily for an increase of the physical comforts which the consumption of goods affords."¹³

According to the pervasive symbolism contained in the notion of comfort, permeating all strata of society at the doorsteps of consumerism, the privileged individuals who formed the leisure class were able not only to buy goods, but also the most expensive article which divided the rich and the poor, time, or rather the use of time. The two classical definitions given by Veblen to the dominant "leisure class", namely "leisure" as the privileged situation of some well-off individuals to spend their lives without earning their existence by forcefully employing their time, and "conspicuous consumption" as a symbolical border separating again the few from the many, set forth the new relation between the value of money and the value of "leisure time", the time ennobling the existence of the privileged. The unjust division of labor based on private property, was translated in a different idiom, after Veblen, the meaning of time, as the ultimate possession of the individual, the underprivileged one, for whom there was no refuge from the grim discovery that the poor were not even the owners of their own "time", where time was the material expression of the flux of life. The relation between money and time as expressed in the famous saying attributed to Benjamin Franklin, "time is money", may be reversed, showing that the privilege of being rich commands the possession of time, as the highest value in modernizing societies. It is not difficult to perceive that human time becomes a commodity legitimizing the originary inequality of bourgeois comfort and luxury.

"It has already been remarked that the term "leisure", as here used, does not connote indolence or quiescence. What it connotes is non-productive consumption of time. Time is consumed non-productively (1) from a sense of the unworthiness of

¹³ Thorstein Veblen, *The Theory of the Leisure Class*, 3rd edition, New York: Penguin Books, 1973, p. 12.

productive work, and (2) as an evidence of pecuniary ability to afford a life of idleness. ¹⁴

*“Conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure. As wealth accumulates on his hands, his own unaided effort will not avail to sufficiently put his opulence in evidence by this method. (...). He consumes vicariously for his host at the same time that he is witness to the consumption of that excess of good things which his host is unable to dispose of single-handed, and he is also made to witness his host’s facility in etiquette.”*¹⁵

For Veblen, property and possession of goods affected deeply the American cultural behavior in the 20-th century. Possession of values and/or goods is doubled by the aura of power under the guise of respectability or esteem. Consumption is remarked as being already an element of the standard of life in the urban areas, cleaving deeper the difference between the “noble” and the “ignoble” jobs. Veblen’s aim is to focus on the “habits of thought”, that is institutional cultural, transmitted not only through the social practices but also through the channels of education.

*„The habits of thought which are so formed under the guidance of teachers and scholastic traditions have an economic value -- a value as affecting the serviceability of the individual -- no less real than the similar economic value of the habits of thought formed without such guidance under the discipline of everyday life.”*¹⁶

Getting rich is not devoid of disadvantages, claimed J. K. Galbraith at the beginning of *The Affluent Society*, upholding that the exception of decent life standards was attested in practice only by a small number of Western countries, including the United States. Culturally speaking, the advancement of the developed capitalist countries since Enlightenment could not be explained only by the triumph of industrialization and of its recourse on the idea of civilization, but also by revealing the constant

¹⁴ *ibidem*, p. 4.

¹⁵ *ibidem*.

¹⁶ *ibidem*, p. 146.

preoccupation of these countries to preserve and foment their already proven innovative force in research and education. The invention of capitalism did not appear in a society of the plenty, quite on the contrary, in a poverty-stricken society as according to Adam Smith, the political and economic autonomy of the individual in the West was based on cultural premises, moral and religious ones. In time, the ideals of the liberal society changed, and probably one of the greatest consequences observed by Galbraith was that individuals in the American postwar society became less interested in producing goods, and more preoccupied with the statistic figures of unemployment, no longer taking heed at correlating them.

Moreover, in contrast with previous times, when the virtues of work were worshipped, in the consumerist, "affluent" society, "the toiling" of goods production could not be any longer considered as an attractive symbol illustrating the superiority of capitalism. The way in which *work* as a modern cultural habit is referred to, does not rely on the heroic light of say, the American engineer in the 1930' or of the Soviet Stakhanovist of the same period. Work appears in the postwar American society as different from the painstaking activity of the New Deal members of the American working class, and it is not difficult to see that under the impact of popular culture, work loses its "class" character. The heroism of work has been altered into the seduction of efficiency, or in some cases as the counterculture of the 1960's it became a conformist attitude to the gearing of social hierarchy suffocating individual's spontaneous living of life.

Work does not guide any longer the human personality reach its fullest plenitude, since it has fallen from its idealistic status, turning into a sheer opportunity. The relation between employed time and leisure time appear as a hollow and mechanic relation in the consumerist society. The individual raised in an "affluent" seems to grow socially disconnected from the community needs and its prospects. But on the other hand, the welfare state created a large mass of individuals whose dependency on the public wealth hinged heavily on the American economy, bearing an effect of civic servitude on liberal democracy as well. It was in this view that Galbraith remarked that „we enhance substantially the risk of depression and thereby the threat our affluence itself”.

The risk of running into a new depression was probably less high than that of a nuclear warfare, if one remembers the year of the publication of

the *Affluent Society*. Galbraith's caveat resounds nowadays more pervasively as it is a warning for those who did not lend their ears to the whispers of an economic decline. Under the historic circumstances, when the Soviet system deployed a meaningful emphasis in the field of scientific research and scored an immense symbolic success by conquering the outer space, Galbraith underscored the importance of education and research for the maintenance of the life standards avoiding cultural blindness. Attempting to match events with ideas, as to ascertain the idea of social progress and responsibility for conflicting issues, Galbraith wrote about what he considered to be a dangerous cultural attitude fomented inside the hierarchy of modern culture, namely, "conventional wisdom".

It is obvious that the highly innovative character of the techno-culture and the cultural behavior of the individual altered the type of "practical" wisdom of the postwar society, setting different norms individuals and institutions. On the other hand, the process of democratization favored a larger but at the same time a more diluted perception of the previous generations' cultural aspirations, so that, the generational gap which began to manifest itself in the postwar period affected profoundly the traditional meaning of "wisdom" in modern society. The idea of a generally "accepted" wisdom was therefore no longer holding consistent with the rapid changes inside a society where subcultures began to take shape and erode the once wholesome view of culture. Galbraith criticized the inertial levels of American modern culture which articulated the idea of consensus. "Acceptability" and "familiarity" construe on one hand the basis of consensus, but on the other, they may well create a complacent atmosphere of mediocrity rejecting the conflicting perception of reality.

*„Familiarity may breed contempt in some areas of human behavior, but in the field of social ideas it is the touchstone of acceptability. Because familiarity is such an important test of acceptability, the acceptable ideas have great stability. They are highly predictable. It will be convenient to have a name for the ideas which are esteemed at any time for their acceptability, and it should be a term that emphasizes thus predictability.“*¹⁷

¹⁷ J.K. Galbraith, *op.cit.*, p. 21.

“Accepted” ideas are not the property of an individual, of a certain group or of a political party, wrote Galbraith, they have a rather large basis, permeating different social strata, uniting them, but at the same time leveling them, claiming originality but actually substituting it by the requirements of “conventional wisdom”. At the present moment, originality has been replaced by “conventional wisdom” due to the latter’s likeness to religious rites. In a society where the life standards have become the only source credible and creditable sources of appraising rationally social advancement, it is relevant to measure the degree of fallacy that conventional wisdom might induce as a benefit of modernization. Economists (as J. K. Galbraith) should not only be public administrators or mandarins of a consumerist and hedonist society but intellectuals, in the traditional meaning of the term, professional leaders and experts checking the authenticity of public aspirations and offering solutions to their implementation. Quite often, universities have a nefarious role in propelling conventional wisdom discourse, pretending to display innovative approaches and solutions to the challenges of events, but actually ascertaining the fame of the public administrators.

„Scholars gather in scholarly assemblages to hear in elegant statement what all have heard before. Yet it is not negligible, for its purpose is not to convey knowledge but to beautify learning and the learned (...). Finally the expounding of the conventional wisdom is the prerogative of business success”.¹⁸

A celebrated fragment from Machiavelli’s *The Prince* claims that if one people fear floods, they have to erect dams in good time. Pondering on the advice of how to curb down the fury of the unpredictable, one should probably find that the cement of fear made in face a disaster is different from the one of trust.

¹⁸ *ibidem*, p. 178.

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**SOME AMERICAN LESSONS
FOR A ROMANIAN CLASS OF ECONOMICS**

Mircea Teodor Maniu*

Abstract

This paper deals with several of the issues induced by the present day crisis, as seen from an EU academic perspective. It draws on the fact that the triggering point was easily located by most European sources in the USA and tries to depict objectively this exogenous/endogenous situation that was distorted in so many ways by partisan views. Further on, it browses through the potential ways out of the crisis, analyzing schemes that could be interpreted as either global, European or/and Romanian ones. The whole approach has objectively embedded micro/macroeconomics content, as well as of economic policies within this negative juncture, but beyond this the focus would be on how these themes should be taught to Romanian undergraduate students.

Key words: Development, Crisis, Economic Policy, USA, EU, Romania

Foreword

A couple of years ago I was assigned to teach the basics of Economics to the American Studies sophomores of my university (a major of the Cultural Studies track within the Romanian academic framework) a class known in the United States as Econ 101. Soon later I was also put in charge of American Business and Economics (AB&E) a follow-up meant to familiarize seniors of the same track with the intricacies of the most developed and complex economy of the world. In these entrepreneurial

* Mircea T. Maniu, Ph.D., is Associate Professor at Babeș-Bolyai University of Cluj, Faculty of European Studies. E-mail: mmaniu@euro.ubbcluj.ro

discourses I could rely on a plethora of textbooks,¹ books, magazines, other media and electronic sources covering those topics, as well as my own, rather extended I would say, American exposure to the academic and non-academic environments. What I really lacked was a decent option of comparative Economics, of making the students able to “grasp” the American exceptional-ism, because it was a fact that the crunching majority of the students I was teaching had no American exposure whatsoever.² I tried to compensate by inserting various comparative statistical information,³ or went apparently out of place sites, providing miscellaneous information, such as *The World Factbook*,⁴ information that could play the role of benchmarks for entities (nations and economies) that were barely comparable without losing the very essentials of their historical evolution. And of course, I lacked some specific, dedicated to the topic literature, comprehensible and meanwhile of academic status, for this rather peculiar level of education. But what really bothered me was the fact that I had no proper means to compare politics and specific economic policies that are conducted so differently if we consider the American respectively the European (EU) standpoints.

Bottom line, teaching Romanian students that *The Business of America is Business* and all the intricacies this slogan encapsulates was a difficult and challenging task even in this globalized world, largely impregnated by American trademarks. I always asked myself, considering

¹ The main textbooks I used, mainly due to their availability in our libraries, were: Paul A. Samuleson and William D. Nordhaus, *Economics*, 17th Ed., McGrawHill/Irwin, 2001, for the class of Economics and William Pride, Robert Hughes and Jack Kapoor, *Business*, 3rd Ed., Boston: Houghton Mifflin, 1991, for the class of American Business and Economics.

² This became more evident several generations later, when due to the massive enrollment in the so called “work abroad” program, many Romanian students managed to spend 2 or 3 months in the US, usually performing petty jobs but enabling them to “grasp” first hand the American market, business environment and generally speaking, society. Since that moment (around 2005-2006) teaching Economics and AB&E became much easier and even rewarding for the instructor.

³ Paul Aligică, *Romania-USA bilateral economic relations. Overview and exploratory analysis*, București: Academia de Sudii Economice, 2001.

⁴ at <https://www.cia.gov/library>.

my American experience, academic or else, if there are no better ways to point out differences, similarities, common procedures, patterns and values that seemed so far away at first glance. I wonder if this common crisis we face, debate and analyze, even now, and which is at least somehow attributed by various sources to the *American way of doing contemporary business* (read at least: credit boom especially over the real-estate market and sub-prime frenzy, global liquidity, false rating or deleveraging, etc.) could not supply the missing link I was looking for during these years. At least I will teach an obviously common topic. *Delivering the Strategic Response* is how OECD brands its comprehensive approach of the crisis (OECD, 2009) I stay with the simple, plain *Lesson*.

Is America “the triggering factor” of the world crisis?

Various sources indicate today that the crisis that emerged in the US sometime during the mid 2007, will peak, at least in Europe, in 2009 and will soften in 2010. In the Romanian version of *The World in 2009*, the year 2009 is forecasted to be the worse after WWII, from the standpoint of the economy but also from the socio-economic consequences triggered by the state of the world economy.⁵ All these somber predictions were recently endorsed by the *Davos Economic Forum* a top level world gathering of policy makers. Fresh out of the press books on the topic, such as George Cooper's *The Origin of the Financial Crises*⁶ suggest that from the early 2008, going through the decline of the American housing markets followed by the collapse of Bear Stearns, Fannie Mae, Freddie Mac and Lehman Brothers, till the end of 2008 with its state funded bailout packages and the more and more evidence of the globalization of the decline of financial and business markets, the feeling of *American patterned crisis* rapidly spread and deepened around the world.⁷

⁵ ***, “Lumea în 2009, Romania în 2009”, *The Economist/Capital*, București: Ringier, 2008.

⁶ George Cooper, *The Origin of the Financial Crises*, New York: Vintage Books, 2008.

⁷ Media sources also speculate, pointing to the fact that the crisis was induced somehow manipulative in order to boost Obama's chances for the White House. Invoking Barry Levinson's 1997 movie *Wag the dog*, depicting a situation conceived in order to distract the people's attention from the real issues of the top level

Preceded by an evident overheating of the world economy, it started at the very core (US) and gradually moved towards periphery, one might say that opposite to the 1997-1998 emerging market (including CEE) crisis and similarly to the Great Depression and somehow to the 1972 USD crisis. Once the overheating was evident, the term bubbling got over: no matter if it was commodity, consumption, liquidity, credit, housing or the stock exchange, all these layers of the economy were touched. But it was the real estate bubble that generated the opinion that the much praised efficiency of the American financial markets, governed by the so called *Laws of the Efficient Market Hypotheses* is, simply put, history.⁸ This statement, coming after the booming 90s and the relatively good first years of the new millennium could be a shock indeed for the advocates of the American way of expanding business via credit. Not to mention the strong shaking of the belief that orthodox economic views (such as the traditional *invisible hand*) still work better in America than anywhere else.

Honestly speaking, the concept of *mixed economy*, broadly defined as a mixture of capitalism and socialism⁹ and the implications of the US Government intervention¹⁰ are less, or not at all perceived as the American way of doing business, at least outside the United States. But it was right in the summer of 2007, described by the World Bank as the peak of "10 years developing economies have grown faster than in any period since - 1965— and even faster since 2000"¹¹ that the subprime mortgage issue emerged; followed by the erratic moves of the stock exchange, by the crisis of relevant financial institutions, weakening of major currencies, overheating

American establishment, the approach was always considered as a PR technique that works for the American public.

⁸ E.F. Fama, *Foundation of Finance*, New York: Basic Books, 1976.

⁹ James M. Buchanan, *Liberty, Market and State: Political Economy in the 1980s*, New York: University Press, 1986.

¹⁰ No matter if we are considering the present day bail-out system, the modern governmental intervention via the military-industrial complex or even the historic emergence from the 29-33 crisis, when the *New Deal* was conceived and put at work.

¹¹ World Bank, *2007 World Economic Development Indicators*, Washington, 2007.

of the emerging markets and finally what could be easily described as global recession. Attempts to avoid the downfall like the aggressive cuts in the Fed interest rates (from 5.25% to 2.0%), fiscal stimuli (tax cuts and assistance to mortgage borrowers) or bank's bailouts, all these were in place. At a certain point, meaning after the collapse of Lehman Brothers, quantitative monetary steps were taken as well as more dedication to closer international cooperation. Larger than anytime in history salvage schemes were conceived by both public and private stakeholders.

So, it seems natural to consider that a system that was perceived for decades as the embodiment of capitalism, and worked mostly by endo-generated energy gets jammed from time to time. But what seemed ever harder to believe is the fact that this outcome was not a direct consequence of lack of proper functioning of the technical layers of the American economic system (legal framework, flow of information, lack of proper regulations and procedures) which could be accepted¹² and were relatively easily accepted as *trajectory events*. But human error, better said misconduct (triggered by greed!) was always sanctioned in America in a very harsh way. What is considered today by theoreticians to be a *Minsky Moment*¹³ or a time when whole economies are destroyed by financial "arsonists" to be tamed only and only by Government force, was theorized long time ago, and also long time forgotten. What makes the case even more interesting is the fact that we are in a moment of the world economic history when the United States are forecasted to loose the leading position in favor of China, a time when the emerging economies of countries such as India or Brazil are willing to play an increasing role in the world economy of tomorrow,

¹² America faced several major PR disasters with economic consequences during the second half of the XX-th century (Space race start lost to Soviets, loss of image in the Third World, Vietnam War, etc.) but always had the ability to overcome the situation, so to say technologically.

¹³ Hyman Minsky fathered in the 60s the so called *financial instability hypothesis*. The five stages of a financial process as observed by this author are: displacement, boom, euphoria, profit taking, and panic. Which succession is quite consistent with the post subprime financial outlook, and raised interests in Minsky's works, especially towards his approach to economic policy.

therefore it seems quite natural to blame, “European style”, America for the present day situation.¹⁴

Taking in consideration at least some of the above mentioned consideration we can draw the conclusion that it is obvious for a decently informed observer that America underwent a change of critical mass concerning the way Economics are conceived, taught, researched and perceived nowadays. The monetary liberalism of Milton Friedman¹⁵ or the anti-Government rhetoric of Peter Drucker seem so far away from the US Governmental bail-out schemes¹⁶ and generally speaking by *Federal Reserve* approaches concerning market issues, such as the *Banking and Consumer Regulatory Policy*.¹⁷ The same Federal Reserve that only a couple of years ago, under the chairmanship of Alan Greenspan had a completely different vision of the American and world economy.¹⁸ Vision which were soon the target of 2008 crisis analysts.¹⁹ So, no wonder if America (actually its specific regulators) is considered a triggering factor of the crisis, at least by abdicating from the position of regulator of aggregated markets originating in the US, markets that affect so many people around the world. In my own words the conclusion – as a potential answer to the rhetoric of the subtitle – would be that no other country on the planet could not be in this position, but supposedly one would have been in this situation, it would have acted/reacted in the same manner.

¹⁴ Identifying an enemy and concentrating the negative aspects of a certain environments on that specific enemy are depicted as managerial methods by the school of *Public Choice*, by the *Game Theory*, etc.

¹⁵ Very interesting to review and try to aggregate a comparison between Milton Friedman’s vision concerning the causes and remedies of the *Great Crisis*, as presented in Chapter 3 – The Anatomy of Crisis, of his 1979 book *Free to Choose* – with today’s visions of both 1929-1933 and present days crises; M. Friedman, R. Friedman, *Free to Choose*, New York: Harcourt, Brace, Jovanovich, 1979.

¹⁶ P. Drucker, *The New Realities*, New York: Harper and Row, 1989.

¹⁷ US Federal Reserve, *Banking and Consumer Regulatory Policy*, 2009.

¹⁸ Alan Greenspan defended his positions, which were recently described as „preparation of the financial Armageddon” in a *Financial Times* article from March 16, 2008, suggestively entitled *We will never have a perfect model of risk*.

¹⁹ William Fleckenstein, *Greenspan’s Bubbles: The Age of Ignorance at the Federal Reserve*, New York: McGraw-Hill, 2008.

Are there regional (European) solutions or only global ones?

Somehow jokingly said, a consequence of the crisis, a lesson for regulators and policy makers could be drawn: hire fewer mathematicians and econometricians who build models and economic patterns on the basis of evidence they can observe over a relatively short period and hire more historians who know what can go wrong on the long run, though lacking market abilities. Not necessarily true, considering the pace of evolution of the world economy and the wide typology of business cycles today. If the Keynesian remedies of increasing public spending appeal to many²⁰ on both sides of the Atlantic and the evident liabilities of the classic interventionism has been bypassed by the Neo and especially Post-Keynesian approach to economics, if all these seem valid nowadays, the overall opinion about the way out of the recession is contradictory, depending on which side of the Atlantic we place ourselves.²¹ Moreover, the doctrines embraced *ad hoc* and the practical solutions adopted make this issue even more puzzling.²²

Most of the American sources agree over the fact that there is nothing worse in the world of business than a Government that intervenes distorting willingly, but mostly unwillingly, competition. Beyond the fact that USA is considered to be today the *Mecca of Economics*, beyond the fact

²⁰ On December 6th 2008, the President to be Barrack Obama stated for the first time (but got to the topic several more time since) that the American administration should enforce "the single largest new investment in our national infrastructure since the creation of the federal highway system in the 50s." EU officials are suggesting that the most developed (and only those) countries should invest public money in high tech areas, in order to overcome the grim present.

²¹ S.C. Dow, "The post-Keynesian School", in Douglas Mair, Anne G. Miller (eds.), *A Modern Guide to Economic Thought*, Aldershot: Edward Elgar, 1991.

²² Mario J. Rizzo, "Taking the Name of Lord Keynes in Vain", in *The American*, February 20, 2009, [<http://www.american.com/archive/2009/february-2009/taking-the-name-of-lord-keynes-in-vain>], 2 March 2009.

that the present shape of the world economy owe a great deal to the set of principles embedded in the so called *Washington Consensus*, liberalism worked for decades and became more than an ideological weapon in the struggle to demolish totalitarian regimes across the world. American *libertarianism* is nothing but a radical form of liberalism, Mises, Hayek and Friedman being its apostles. Within this environment, an approach such as the present day governmental bail-out of some of the pillars of the private economy (GM, banking system, real-estate financing tiers) seem to be completely out of place. "Keynes had no sure cure for slumps" states the title of article by the 2006 Nobel Prize laureate Edmund Phelps and all his work that ultimately led to this prestigious prize illustrates this approach.²³ Nobody has such a cure, the US Government the least, and this happens during a time when „a certain vision of capitalism has collapsed”.²⁴

A rather different picture on the other side of the Atlantic. European tradition admits various and sophisticated forms of interventionism as well as over-dimensioning of the public share of consumption within the general consumption framework. In December 2008 Italy's public debt, the world third in dimensions, reached 104% of the country's GDP²⁵ following somehow an American, especially to newcomers, due to their "natural" tendency of overspending (and not investing!). But the difference could be even more vividly depicted. Probably the best known Romanian MEP, Daniel Daianu recently stated no less that we witness "a failure of capitalism, that leaves no room but for free-market socialism".²⁶ Northern European countries have a historical ground to agree such a vision, the former socialist countries could have at least some good memories about the social net offered not long time ago, but is it reasonable to assess that Western Europe, EU as a whole, would adopt such a vision?

²³ Edmund Phelps, *Structural Slumps: The Modern Equilibrium Theory of Unemployment, Interest and Assets*, Cambridge: Harvard University Press, 1994.

²⁴ Francisc Fukuyama, "The Fall of America, Inc.", in *Newsweek*, 13 October 2008.

²⁵ **, "Italy's public debt", in *The Economist*, 13 December 2008.

²⁶ Daniel Daianu, "Asistăm la un eșec al capitalismului", in *Faclia*, Cluj-Napoca, 16 March 2009.

In 2009, the budgetary deficit of the United States will reach 1000 bn USD while US GDP is estimated at 14.300 bn USD which leads to a 7% ratio.²⁷ Though less than half, Germany's deficit is estimated to grow and reach 4% in 2010. That means that the champion of the "less than 3%" golden EU rule will not comply. Six countries were disciplined by the EU Commission in February 2009, for breaking the deficit rule. Why is EU insisting on this matter more than on any other macroeconomic policy, especially now when a macroeconomic view of any crisis would dictate an increase in public spending? Already in the mid 90s EU had a 40-45% larger public sector than US or Japan and this led invariably to monetary liabilities, that have been outrun with difficulty.²⁸ Traditionally, the European Central Bank, followed the pattern tracked by The Bundesbank: nothing comes before inflation. If we cannot hold inflation, tamed by several means, deficit limit included, we as Europeans would indefinitely postpone the unity of our monetary system, as forecasted in the European Rate Mechanism (ERM 2). True, this absolute priority was expressed during a time when recession was much milder than today. But dropping the 3% rule, which could be a solution for the upper echelon of EU would mean giving the green light to the so called "several speed" Europe, an approach that was constantly rejected by the majority of the EU members.

Within this juncture no European bail-out scheme of comparable or even lesser magnitude with the American one (700 bn USD) is foreseen, though the new member states considered such an approach, objectively favoring the central and eastern European tier of the Union, as a natural step to consolidate the fragile pan-EU equilibrium among the 27 nations of the Union. Not even a sign that the ERM constraints will be loosened in order to allow the adoption of the Euro sooner than expected,²⁹ this

²⁷ ***, "Lumea in 2009...".

²⁸ Hamish McRae, *The World in 2020: Power, Culture and Prosperity*, Cambridge, MA: Harvard Business School Press, 1995.

²⁹ A wave of Euro adoption was scheduled around 2010 – 2014 (Poland, Czech Republic, Hungary, Romania, Bulgaria) but due to the new circumstances it seems it will be a delay in most cases. Basically all these countries see now more benefits than ever in joining the *Euro Area* therefore a monetary "affirmative action" as the minimal strategic move (as a replacement for a bail-out scheme favoring Central

approach being considered by most developed EU members as an unacceptable throttle favoring CEE members. Therefore, though *A New Age of Global Capitalism Starts Now* and common sense if not lots of econometric arguments point to the idea that “with the American model in tatters, its European and Asian rivals make their move” it seems that there is no coherent European move in this respect.³⁰ No wonder why using a reputed European channel of information some voice out that “fair globalization and sustainable capitalism on one hand and smart governments on the other, are oxymoron or imperatives?”³¹ The answer seems quite rhetoric in this case.

Michael Porter, a present day guru of *International Economics* pointed more than a decade ago that the mid 90s world economy situation could be described under the terms of *American exceptionalism*: fluid capital and transient owners, as opposed to dedicated capital and permanent owners in the case of most important competitors.³² These are characteristics of an economy that culminated last year with the loss worldwide of some 30000 bn USD of asset values, 50% down since the peak of mid 2007. Starting with unsustainable the housing bubble which was mostly funded on floating interest rates, everything precipitated soon, world scale. Can we draw the conclusion that since the pattern of the global market of today has so many American features, the “sanity” of the system could be improved only and only if the US market get back on the right track? Probably at this point in economic history of the world, the answer seems more sophisticated and due to the recent (on the scale of history)

and Eastern Europe) is considered to be legitimate and effective in the present day EU conditions.

³⁰ Rana Foroohar, “A New age of Global capitalism Starts Now”, in *Newsweek*, 13 October 2008.

³¹ Herman Mulder, “Fixing the world by fair globalization, sustainable capitalism, smart governments: oxymoron or imperatives?”, 2009, [http://www.europesworld.org/NewEnglish/Home_old/CommunityPosts/tabid/809/PostID/219/Default.aspx], 7 March 2009.

³² Michael Porter, “America”, in Kenichi Ohmae (ed.), *The Evolving Global Economy*, in Harvard Business Review, Book H, Boston: Harvard Business School Press, 1995.

mutations in the spheres of politics, culture, spread of information, of a completely new socio-economic “texture”.

But it seems obvious that Europe that almost ignored the crisis during its preliminary phases reacted promptly during the second: ECB tightening, “nationalization” of the banking sector, some forms of coordination (obviously political) not to mention a sort of return to structural policies such as the “flexible” labor market, budgetary constraints, and last but not least the return to “classical” methods such as appealing to the IMF. Some EU and non EU countries have already received large-scale emergency funding from IMF, others are in discussions that could lead to this support (Romania included, for a presumed 19 bn EUR credit). In such a moment we must not forget that in 2000, all the political leaders of EU adopted the Lisbon Strategy for the next decade, namely to become the most competitive and dynamic knowledge-based economy in the world by the year 2010. Five years later the strategy was completely refocused due to inadequacy. “By now, the process has become more important than the initial objectives.”³³

The “Think local paradigm” – What should Romania do?

Is it still valid “Those who can, do; those who can’t teach!” ? Attributed to G. B. Shaw, this famous quote usually illustrates the lack of adequacy of the educational framework to the speed and the variations of economic moves and evolution. Does this apply in the same manner over the relation small/big countries, namely those who really have something to say within this juncture, and those who can only teach more or less theoretical lessons? It is obvious that today we are not bound for simple solutions. Economics has been taught and largely perceived in Romania in a more “American, ultra-liberal way” that in most Western European countries. But the natural outcome of the PR induced during the last couple

³³ Ulric Fayl Von Hentaller, “Inspire responsible choices”, Invited keynote contribution, *4th Global Conference on Social Responsibility*, Vilamoura, Portugal, 26-28 February, 2009.

of years, notably induced by several events in America (real-estate market and sub-prime mess, Enron scandal, Microsoft monopolistic abuse, Wall Street blessed Ponzi schemes, only to mention some) is that the post-WWII American pattern of global development is more shaken than, let's say a third of a century ago, during the oil crisis of the 70s.

It is clear that the emerging markets of CEE were an almost perfect "wire" to conduct crisis. Weaker global demand meant the initial slowdown of the newly opened facilities created mostly via FDI. The fall of the commodity world market (notably hydro carbonates) along with the squeeze of the global liquidity did the rest. The increased exchange rate volatility and the shrink of remittances due to recession in the destination countries of CEE migrants, topped the process. It is true these countries never paid too much respect to the longer perspective. To the intricacies of the interlinks between micro and macro policies. The lack of theoretical models and analytical frameworks allowing to analyze EU's supranational market and its impact on the global economy fired back. Moreover "a huge and central issue is not policy but policy implementation, which is the endogenous outcome of an overall system"³⁴ meaning that policy and its inconsistency was really the weakest point of any approach of economic life in CEE both during the transition years and the early EU membership years.

Various sources point to booms, bubbles and bursts all across economic history: tulips in 1637 Netherlands, railways in 1840 Great Britain, land and real estate too many times, dotcom in 2001 USA, etc. No real bubble and burst in post-communist Romania, if we do consider 15 years of erratic transition from state owned economy to free market, as a *natural evolution*. Therefore this unfortunate outlook might offer some unexpected opportunities³⁵ in order to make the Romanian society more

³⁴ Lant Pritchett, "Political Economy of Service Delivery", *The 10th Global Development Network Conference*, Kuwait City, Kuwait, 2-5 February 2009.

³⁵ Interesting and relevant semantics of the *crisis* concept in Chinese: among other thing it means *hidden (embedded) opportunity*; sources dealing with cultural topics point out the fact that it is a mark of a mature culture to acknowledge the positive aspects of a phenomenon most people associate with a sum of liabilities.

aware of the mechanisms of capitalism, the unavoidable ups and downs generated by business cycles and consequently to adopt and adapt the best solutions available. There is a well known example in this respect, dating back in the 70s, when the Italian Communist Party decided for certain specific reasons to back-up a right-oriented government and in order to explain this move to its partisans paid night classes of Economics to 1 million of members of their supporting trade unions. Lobbying for an extension and spread of basic and not so basic knowledge could be an affordable and meanwhile smart (substitute of neo-keynesian) measure.

Secondly, one could start to explain (teach) people about the huge difference between measures that have pro-cyclical consequences as oppose to those that have counter-cyclical outcomes. This is a lesson that has been much more effectively taught in the US than else. Monetary and fiscal policies, countercyclical in this juncture, could be harmful even if well intentioned and apparently professional.³⁶ Restricting budget deficit more than the necessary level (read 3% as EU imposed benchmark), inadequate concentration on liquidity risk in order to counterbalance inflation – with all its consequences in terms of import/export efficiency, blind reliance on international ratings and classifications, or worse of all suffocating (institutionally, via the National Bank policy) the banking system, already the most regulated domain of the economy, due to its natural tendency for pro-cyclical measures, could be just as many nails in the coffin of an economy that could be resuscitated with the proper measures taken. We can conclude in this respect, that what we completely lacked up to this moment is introducing procedures for “expecting the unexpected” thought what might seem “unexpected” for a society such as the Romanian one, was long time ago “expected” by the economies and societies we would like to use as benchmarks nowadays (EU above the average, US).

Thirdly (and highly consistent with the American pattern) would be undertaking, or at least educating society in this respect, more risks. Risk education, particularly on risk management could be extremely fruitful on

³⁶ R. Chetty, *When do Countercyclical Policies Increase Economic Stability?*, 2001 [<http://elsa.berkeley.edu/~chetty>], 2 March 2009.

the short run. A society as the Romanian one looks nowadays, was shaped in many generations, that were taught anything but risk. In a society that differentiates a lot among rich and poor, owners, shareholders, lenders, clients, partners, stake holders of all sorts, but accepts that risks should be undertaken only by a few, the overall economic situation could not improve on the long run. Let's take the propensity for starting an own business in this country as opposed to that could be identified in comparable ones. More people than elsewhere would take low paid public services instead of undertaking the risk of being economically independent. That attitude breeds more liabilities than the simple drying of the budget's revenue sources. It brings social distortions that plague the society on the long run. As Sir Anthony Giddens pointed during his 2007 visit to Romania, "the country should not attempt to copy any sort of social model. The point should be to look, not just at Europe, but around the world, to find the policies that are likely to work best." Are there today policies that work better for Romania of tomorrow, outside Europe? Or better said, better than the EU main common framework? This would a challenging question indeed.

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**INFORMATION SYSTEMS FOR FINANCIAL AND ADMINISTRATIVE
MANAGEMENT – CASE STUDY ON BABEŞ-BOLYAI UNIVERSITY**

Alina Andreica*, Püsök István,
Daniel Stuparu, Florina Covaci*****

Abstract

The paper focuses on information systems as means for increasing organization competitiveness and overcoming the financial crisis effects. Information systems for financial and administrative management significantly increase activity efficiency, providing global and on-line information regarding the organization's characteristics and future development strategies. We present the case study of Babes-Bolyai University, describing the architecture and design principles of ManageAsist system, which was developed within BBU IT's department as an ERP system, as well as the system's implementation characteristics and organizational impact. We reveal the advantages of on-line management information facilities at various levels and of global management assistance facilities of the system

Key words: Integrated information system; software system for financial and administrative management; management information systems, system flexibility, organizational impact, organization competitiveness

* Alina Andreica is Associate Professor within the Faculty of European Studies, Babes-Bolyai University – BBU and Head of BBU IT Department, E-mail: alina@staff.ubbcluj.ro

** Püsök István is Head of BBU Financial-Accountancy Department, E-mail: ipusok@direcon.ubbcluj.ro

*** Daniel Stuparu and Florina Covaci are PhD students and analyst-developers within BBU IT Department; E-mail: {dstuparu, fghetie}@staff.ubbcluj.ro

1. Introduction

Information systems have important roles nowadays in increasing organization competitiveness and require systematic implementation solutions, adapted to organizations' characteristics.¹ Therefore, efficient implementation of information systems is a good solution for improving organization efficiency and overcoming the global financial crisis' effects.

The universities' case is quite complex, since their activity covers a wide range of areas: education and learning, research, administration. Therefore, an efficient system implementation has to pursue systematic design and goal-oriented principles. Academic management systematically pursues strategies for increasing university competitiveness.² Regarding the information systems' implementation, organizations face today the challenges of integrating their systems in order to ensure advanced management facilities at a global organization level.

The paper deals with these topics and presents the case study of Babes-Bolyai University - BBU, Cluj-Napoca, Romania in implementing its dedicated information system for administrative management and describing the system's impact in the organization's financial and administrative management. The IT design and implementation principles of the system are detailed in a 2009 article³ from a software engineering point of view, while the present paper is mainly oriented on implementation and organization management aspects.

We describe in section 2 the most important types of management information systems and their advantages in organization management. Section 3 is dedicated to presenting BBU's ERP system ManageAsist, its component modules, functional structure and architecture principles. In this respect, we reveal the complex workflow that is modeled and the decision assistance facilities that are implemented. Within section 4, we

¹ Alina Andreica, "IT Strategies In Increasing Business Competitiveness", in *Studia Europaea*, LI, 3, 2006, pp. 139-148.

² Andrei Marga, *University Reform Today*, Cluj: Cluj University Press, 2004.

³ Alina Andreica, Daniel Stuparu, Florina Ghetie, "Design and Implementation of an Erp System for Universities", in M. Nunes, P. Isaias, P. Powell (eds.) *Proceedings of IADIS Information Systems 2009*, IADIS Press, 2009, pp. 315-322.

address the significant system impact on financial and administrative management, both for operational and management levels; we note that management levels strongly benefit from the on-line access facilities to relevant managerial information.

Section 5 addresses advanced integration principles of ManageAsist system into a larger information system framework that includes BBU's information systems for educational, research, administrative management and the e-learning portal. Conclusions reveal the most important directions and implementation principles stated in the paper, regarding the advantages of implementing an integrated ERP system for managing financial and administrative activities.

2. Management Information Systems and Their Advantages in Organization Management

Information systems, situated on the top of an IT (information technology) strategy can strongly increase organization efficiency; yet, appropriate implementations are required, in order to address the goals and requirements of the organization, and to adequately use its resources.⁴

Management information systems model daily transactions and ensure access to analyses and solutions for various types of users. The results are most often generated as reports but users may also interactively interrogate the system. Once implemented, management information systems provide dedicate reporting facilities for various user categories, with dedicated facilities for management levels.

Users have an important role in collaborating with the team that designs and implements an information system by: rigorously defining the problem, specifying the information to be processed and the specific rules or algorithms to be pursued and the final goal of the system.⁵ Most often, subsequent modifications to an information system prove to be extremely

⁴ Alina Andreica, "Strategies in Implementing Efficient Information Systems", in Gregory Papanikos (ed.), *International Research on Global Affairs*, Athens: Athens Institute for Education and Research, 2005, pp. 499-508.

⁵ *Ibidem*.

costly both for the development team and for potential user resources (effort, time, money).

Modern information systems involve:⁶

- ◇ ***data processing*** - collecting and processing organization's daily transactions (accounts, invoices, credits, rates, stocks, etc.). Such processes have been extended from local systems to distributed ones (shared in computer networks). Daily transaction processing provides information for tactical and strategic planning and is essential to the organization;
- ◇ ***database management*** - database management systems are software products dedicated to processing large data collections organized as databases. The data base organization is consistent, flexible and efficient, ensuring processing independence from data representation techniques. Databases also offer integrity protection mechanisms and may evolve in gradual phases.
Database management and extracting relevant information by specific queries (data mining) are important for all management levels: strategic, tactical, operational. Most information systems that are implemented in the economic environment rely on database management, as they involve processing large amounts of data;
- ◇ ***interactivity*** - since final users of information systems may belong to various user categories, the system must response in real time (directly and instantly) to any type of request. Once visual and accessible software has been developed, the use of computers and information systems has extended to the general public with basic knowledge in computer use;
- ◇ ***distributed facilities*** - nowadays, information systems function as multi-user systems, accessible from various locations, over computer networks or within the Internet. Internet applications have developed in a rapid pace and have become very popular since they are efficient, very accessible and easy to use. E-banking, e-payment or e-commerce facilities / systems have spread on the Internet, based on rigorous security mechanisms implemented for private information exchanges.

⁶ *ibidem*

The most important types of interactive management information systems are:⁷

- ◇ **ERP (Enterprise Resource Planning) systems**⁸ – model, in an integrated manner, the activities from all the organization's compartments. The initial significance of resource planning facilities in a strict sense presently extended as general resource management facilities for all compartments, in a large sense. We may state that ERP systems are today the most used management information systems as systems for overall organization management, based on compartments resource and activity modeling and processing. It is important that these systems offer more than processing and reporting facilities, but also advanced facilities for managerial assistance (see the dedicated description below), in order to model not only operational activities, but also management level activities.
- ◇ **decision assistance systems**⁹ - are focused on assisting managerial decisions based on current operation processings, and supporting management decisions by providing specific analyses, predictions or finding the optimal solution under certain constraints, consequent to data processing. These systems are interactive systems dedicated to managers, and used in modeling the decisional process; the assistance provided by these types of information systems leads to solving managerial problems.

The main applications of these facilities regard modelling, choice analysis and decision taking, the implementations being interactive and mainly dedicated to managers. A decision assistance system must integrate a data / knowledge base, a software which processes it and specific decision assisting modules: modelling and simulation

⁷ Dumitru Oprea, Dinu Airinei, Marin Fotache, *Sisteme informationale pentru afaceri*, Iași: Ed. Polirom, 2002; Terry Lucey, *Management Information Systems*, Channel Island: The Guarnsey Press. Co., 1995.

⁸ Daniel O'Leary, *Enterprise Resource Planning Systems*, Cambridge University Press, 2000.

⁹ G. M. Carter, M.P. Murray, R.G. Walker, W.E. Walker; *Building organizational decision support systems*, Boston: Academic Press, Inc, 1992.

packages, analysis and prognosis facilities, linear and non-linear programming, regression modeling, risk analysis, expert systems, etc. Decision assistance systems are usually applied for supporting key decisions, based on complex information processing from a consistent database. Automated processing brings important efficiency advantages, being indispensable when managing a large volume of data and high complexity processings),¹⁰ as the case of managerial assistance support.

- ◇ *expert system facilities* - ensure an advanced mode of assisting decisions, since they include experts' knowledge on a certain field as a knowledge base, which tends to be exhaustive for modelling that field (ideally, an expert system replaces human experts in a certain field).¹¹
- ◇ *executive information systems*¹² - are data retrieval systems which ensure selecting relevant information syntheses for the top management level. Usually, processed information refer to critical areas of the organization's activity and are extracted from the integrated database of the implemented management information system . Executive information systems must be user-friendly, must ensure fast access to information and efficient exploration of the database - "data mining", adequate data analysis (tendencies, prognosis, data integration) and must generate clear outputs .

ICT implementation has an important impact on organizations within:

- ◇ *human resources policy and skills* by
 - modifying the requested personnel skills and the work style, the interactions among employees and the departmental interactions, as well as outer-organization interactions, with suppliers and

¹⁰ R. Watson, *A Design for Infrastructure to Organizational Decision Making*, Los Alamitos, California: IEEE Computer Society Press, 1990.

¹¹ See for details George F. Luger, William A. Stubblefield, *Artificial Intelligence – Structures and Strategies for Complex Problem Solving*, Addison Wesley Longman, 1998.

¹² Ido Millet, Charles H. Mawhinney, "Executive information systems: a critical perspective", in *Information and Management*, vol. 23, no. 2, 1992, p.83-92.

- clients. Information representation, processing and communication means are changed; these features induce modifications in the organization's structures: certain jobs may be transformed and others may appear, based on ICT facilities;
- reducing manual work and physical routine since various operations are transferred into IT; work productivity is therefore increased. On the other hand, computer use and data processing skills become necessary for almost all personnel. Therefore, knowledge in operating office automation software becomes indispensable for most jobs;
 - inducing mutations in professional responsibilities by combining assignments from several traditional jobs and enlarging decisional levels by integrating tactical management and extending the operational level's responsibilities;
- ◇ **operational impact**, mostly for the organizations which use distributed database systems. Client interactions or external communication also change and move towards ICT facilities. Information systems which implement electronic means of performing activities, such as e-jobs, e-banking, e-commerce and so on, have a major social impact;
- ◇ **organizational impact** by reducing the traditional number of levels, based on superior management's capabilities of administering more directly the organizational activities. Certain traditional departments of manual workers are transformed while an increasing number of activities is taken over by information systems.¹³

The major impact that ICT has within organizations has to be taken into account by the organizational management.

3. Design and Implementation of BBU ERP System

Taking into account its goals and resources, BBU adopted since 2003 the strategy of developing and implementing its own systems, with important autonomy and manageability characteristics in system development and extendibility. This strategy pursues the principles

¹³ Lucey, *op.cit*; Andreica, "IT Strategies in ...".

characteristic to large organizations, with consistent IT and professional IT resources, as well as high flexibility and manageability requirements.¹⁴ Three integrated information systems have been developed and implemented since, in order to manage the university's main activity directions: education – **AcademicInfo** system, research – **Research Management**¹⁵ system and administrative management – **ManageAsist** system.¹⁶

We further describe the implementation of ManageAsist system.

3.1 ManageAsist Modules and Functional Structure

ManageAsist system is the integrated software system for administrative management that has been developed for our university. The system can be viewed as an ERP system; within its design and implementation, we integrated systematic efficiency principles in software design: multi-layer architecture and layer autonomy,¹⁷ advanced object oriented design based on systematic abstraction principles,¹⁸ design patterns,¹⁹ flexibility in module integration and communication, systematic workflow management, efficient database access and design.²⁰

¹⁴ *ibidem*

¹⁵ Alina Andreica, Paul Serban Agachi, "Design and Implementation of an Integrated Software System for Managing Research Activities in Universities", in Emil Cebuc (ed.), *7th RoEduNet International Conference - Networking for Research and Education*, UT Press, 2008, pp. 90-95.

¹⁶ Andreica, Stuparu, Ghetie, *Design and...*

¹⁷ ***, *Client/Server and the N-Tier Model of Distributed Computing*, Micromax Information Services Ltd.1999, [<http://www.n-tier.com/articles/csovervw.html>]; K. Hoganson, M. Guimaraes, "N-Tier Client/Server Course", *Consortium for Computing Sciences in College Conference*, Dunwoody, Georgia, 2003.

¹⁸ Ian Sommerville, *Software Engineering*, 8th edition, Harlow: Addison Wesley, 2007.

¹⁹ E. Gamma, R. Helm, R. Johnson, J. Vlissides, *Design Patterns*, București: Teora, 2002.

²⁰ M. Berry, G. Linoff, *Mastering Data Mining*, New York: Wiley, 2000; Daniel Stuparu, Alina Andreica, Iulia Mantu, "Comparing Access Techniques on Databases in Distributed Application Frameworks", *Proceedings of Collaborative*

ManageAsist's principles and facilities are adapted for high education institutions; the system contains the following modules: Document management, Assets, Warehouse, Cashier, Finance, Accountancy, Grants, Human Resources and Acquisitions, and decision assistance facilities. The first 7 modules are already in use; their implementation has pursued systematic and efficient principles.²¹ Each module contains management reports for the corresponding compartment. Relevant synthesis from each compartment will be integrated, together with global management tools into a decision support module.

In another article,²² we address the advantages of pursuing advanced design principles in the implementation stages of the system, and in designing a flexible framework for efficiently integrating the system's modules. We also deal with means of managing hierarchical data structures, together with efficiency issues in respect with processing them. Each module includes levels for specific document processing, operational facilities and reporting, level that provides management assistance information for the corresponding compartment.²³

We further describe module characteristics and functionalities:²⁴

The *log on module* – performs authentication and verifies user permissions. Data availability domains and user permissions are modelled at the database level, specific operations being granted according to user permissions. Permissions are managed in respect with the organization chart, as well as with data availability domains and operation types (operational, reporting, full access – including configuring facilities)

The *Acquisitions module* – models acquisitions according to public acquisition regulations. Primary documents are processed in a dedicated flow, containing order specifications, orders, invoices, receipt, payment orders (processed by the Finance module). Reporting facilities are available at different user levels. Acquisition operations are automatically pre-registered in order to be processed by the Accountancy module.

Support Systems in Business and Education, Babeş-Bolyai University, Cluj-Napoca, 2005.

²¹ Andreica, "Strategies in Implementing...".

²² Andreica, Stuparu, Gheţie, "Design and....".

²³ *ibidem*

²⁴ Andreica, "Design and ...".

A dedicated module selects acquisition ordering facilities, tracing and adequate reporting facilities that are available for all system's users; management levels have available dedicated reporting facilities;

The *Warehouse module* – models warehouse activity: product delivery receipts, product registration, transfer operations, internal ownership. Products are retained in the integrated database

The *Assets module* – models asset management, specific input / output / transfer operations, internal ownership (compartment). Reporting facilities are available at different user levels. Specific operations are automatically pre-registered in order to be processed by the Accountancy module

The *Cashier module* – models the cashier activity based on: cash payment orders, cheques, cashier reports, etc. The module communicates with the Internal finance / accountancy processing module, which performs the internal finance operations for the corresponding internal account and adequate accountancy pre-registrations;

The *Finance module* – models the financial activity of the organization in respect with its bank accounts and internal compartment accounts (based on the organization's chart). The module processes payment orders, cheques, etc. and provides specific reporting facilities. The module communicates with the Internal finance / accountancy processing module, which performs the internal finance operations for the corresponding internal account and adequate accountancy pre-registrations, for the Accountancy module. A dedicated module selects adequate reporting facilities available for all faculty / department managers;

The *Accountancy module* – models the accountancy activity of the organization: accountancy operations / registrations, ledger reports. The module uses an Accountancy plan management module. The Accountancy module is based on pre-registered accountancy operations performed by other modules. Reporting facilities are consistent and cover various documents required by accountancy regulations for public institutions

The *Internal finance / accountancy processing module* – belongs to the business layer; performs internal financial operations within compartment accounts and appropriate pre-registered accountancy operations

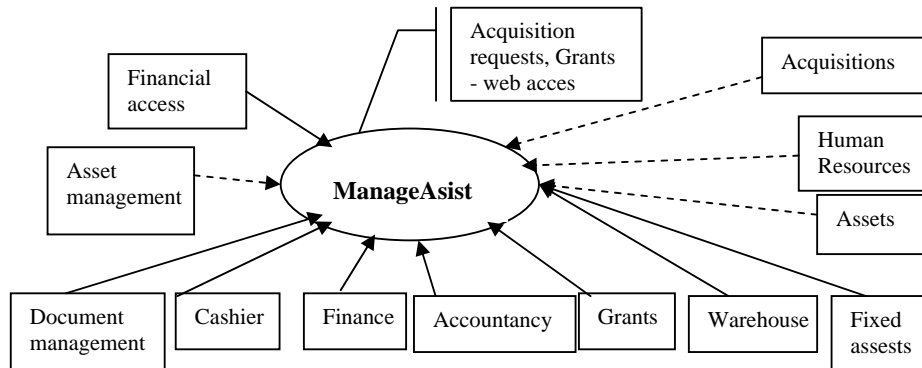


Fig. 1 ManageAsist – functional

The *Document management module* creates, retains, updates, erases and operates on documents in a uniform manner. Documents are further processed by other operational modules.

The *Grants module* processes financial operations on grants and includes adequate reporting facilities; a dedicated module selects adequate reporting facilities for all grant coordinators. The *Human Resources* module is also being developed.

Design and architecture principles of the system, as well as workflow management characteristics are presented in a recent work.²⁵ The system's functional scheme is presented in figure 1.

3.2 Framework for Module Integration - Architecture Principles

The workflow diagram of the modeled activities is represented in figure 2; we designed the system modules in order to describe this workflow diagram. The workflow management is implemented by the interaction between the application modules – application components and database interaction modules, according to the workflow diagram.

²⁵ Andreica, Stuparu, Gheție, *op.cit.*

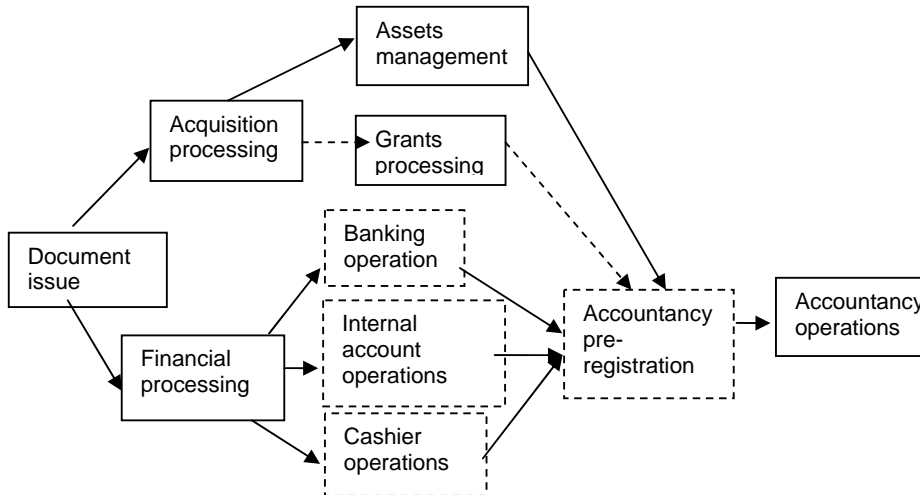


Fig 2. Workflow management

The integration of the system's modules can be represented as a workflow framework containing modules as entities and corresponding communications – see figure 3. We note that the document module interacts with all other modules but we used a simplified graphical representation in order to keep the focus on the most important module interactions.

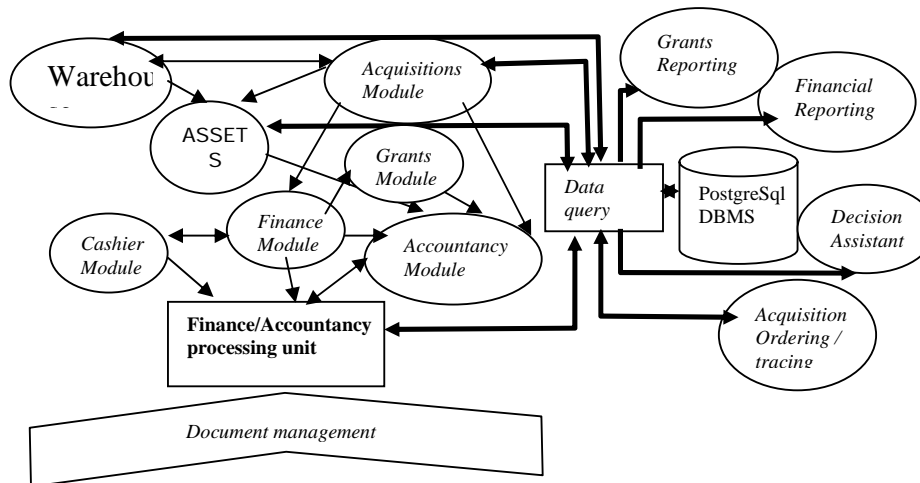


Fig 3: Module integration framework

Specific decision assistance facilities are currently included “on top” of the Finance, Accountancy, Acquisitions modules;²⁶ the layer structure of the modules is presented in figure 4.

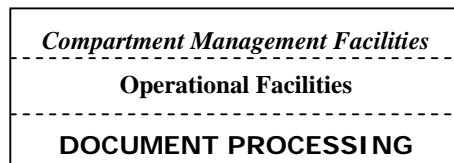


Fig 4: Module levels

The *Financial, Grants* and *Acquisition modules* have dedicated reporting and decision assistance facilities available for all corresponding management levels. Access permissions are

managed in respect with the organization chart (including all descendant units of a certain compartment).

We are going to further develop global decision assistance facilities (mainly for the top organization management) in order to proficiently support management processes by means of relevant information obtained on-line from the system’s integrated database.

4. System Impact in Financial and Administrative Management

ManageAsist implementation has important advantages in efficiently managing financial and administrative information and processes, and in ensuring *global access to analyses and syntheses* in this respect. These characteristics induce:

- ◇ Increased competitiveness & efficiency at compartment and organization levels;
- ◇ Impact on administrative management and faculties by increasing administrative processing transparency and proficiency;
- ◇ On-line access facilities to all relevant information, based on user permissions according to the organization chart

The implementation *impact on the operational level* was significant, since, on one hand, induced increased processing automation and therefore simplified operational activities, but on the other hand, *increased job responsibilities and trans-compartment influences*. Compartment processing interferences are modeled according to the specific information workflow (fig 3); yet, this characteristic enhances work responsibilities,

²⁶ Andreica, Stuparu, Gheție, “Design and....”.

since results are transmitted to other compartments in order to be further processed. The implementation of certain operational modules improved the quality of certain activities, by eliminating delays during public relation hours (for example, Document management and Cashier modules).

The implementation *impact on management levels* is even more important, since global syntheses facilities benefit from all operational modules, by providing *on-line access to global information*, to correlated data and analysis possibilities. The system provides an overall compartment & organization view to management levels, as well as significant correlation & synthesis advantages. We may state that management assistance facilities at compartment, faculties and organization levels are essential advantages of the system in increasing activity competitiveness and administrative proficiency. Financial, asset and other specific reports are available at any time, for compartment, faculties' and university's management.

5. Global System Integration

We have designed an advanced system integration framework, in order to ensure the integration of BBU's e-learning portal²⁷ with BBU's dedicated information systems AcademicInfo, ManageAsist, Research Management System.²⁸ Integration principles are based on an integrated

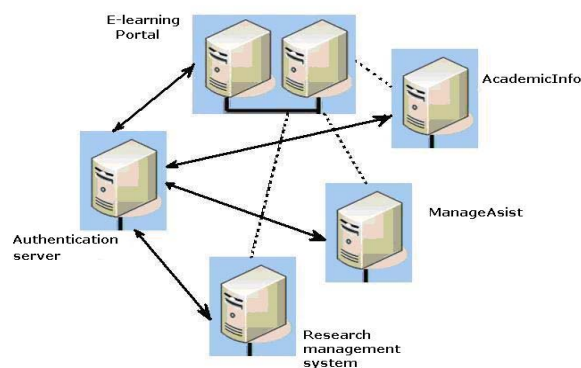


Fig 5 Framework for advanced system integration

authentication solution, which maps facilities from the dedicated information systems into the portal, for each user category (see fig. 5).²⁹ The integration solution is also designed to ensure database synchronisation among AcademicInfo, ManageAsist, Research Management System and

²⁷ Andreica, "Design and ...".

²⁸ Andreica, Agachi, *op.cit.*

²⁹ Andreica, "Design and ...".

Portal databases based on matching the following data:³⁰

- ◇ portal – AcademicInfo: users (all categories), curricula, study contracts, grades, fees;
- ◇ portal – AcademicInfo – ManageAsist: organisation chart, units, human resources, managers, financial information;
- ◇ portal – AcademicInfo – Research Management System: research activities, PhD students;
- ◇ portal – ManageAsist– Research Management System: organisation chart, units, human resources, grants & corresponding financial information .

In order to implement the authentication server we have installed MS Identity Lifecycle Management server, which has advanced integration facilities with our e-learning portal, and we are in train of configuring the necessary permission mappings from the dedicated information systems into the authentication server in order to complete the integration facilities.

6. Conclusions and Future Work

The paper focuses on information system development and implementation as tools for increasing organization competitiveness, and the impact of implementing an ERP system in this respect. Efficient implementations of dedicated information systems increase proficiency in financial & administrative management. In this context, we address the specifics of designing and implementing an ERP system for BBU.

Organizations face nowadays the phase of system integration, in order to ensure advanced management facilities at a global organization level. The universities' case is quite complex, since their activity covers a wide range of areas: education and learning, research, administration.

In the study framework, of information systems for financial and administrative management, we present the case of Babes-Bolyai University, Cluj-Napoca, Romania, by describing its dedicated information system for administrative management – ManageAsist, its component modules, functional structure and architecture principles. The system was designed and implemented by applying proficient development principles.

³⁰ *ibidem*

We underline the complex workflow that is modeled and the decision assistance facilities that are implemented. The system implementation reveals the advantages of flexible & proficient design strategies in development stages. We are further going to develop the system's decision assistance facilities, in order to systematically support global management.

We also address the significant system impact on financial and administrative management, both for operational and management levels; we note that management levels strongly benefit from the on-line access facilities to relevant managerial information. System's advantages in workflow & management levels facilities are revealed, as well as its benefits in overall activity management.

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**MARKETING BUDGETS IN A FINANCIAL AND ECONOMIC CRISIS.
NORTH AMERICAN AND EUROPEAN PERSPECTIVES**

Nicoleta-Dorina RACOLȚA-PAINA*
Veronica-Maria MATEESCU**

Abstract:

The main goal of our article is to identify the way how the current economic and financial crisis influences the marketing budgets. Our concern is to determine if there is a tendency towards shrinking marketing budgets. Another point of interest would be to identify the way how the current situation influences the marketing activities (brand positioning, marketing instruments and channels, improvements of marketing efficiency etc.).

Key words: decreasing consumer demands, marketing budgets, innovative marketing, North American, European

1. Introduction

One of the most important topics of general and specialized publications today is related to the current financial and economic crisis. Everything went very fast, from an optimistic perspective regarding economy and market demand to a pessimistic view, with tangible effects around us: cash flow problems for markets (business to business and business to consumer), decreasing consumer spending, higher unemployment, limited credit funds, slowdown of investments and so on.

* Nicoleta-Dorina Racolța-Paina, PhD in Economics, Lecturer, European Studies Faculty, Babeș-Bolyai University, Cluj-Napoca. Contact: npaina@euro.ubbcluj.ro.

** Veronica-Maria Mateescu, PhD in Economics, Teaching Assistant, European Studies Faculty, Babeș-Bolyai University, Cluj-Napoca. Contact: vmateescu@euro.ubbcluj.ro.

Because of this, companies have to find answers in order to maintain their market share or even to survive. There are also companies that aim to grow, considering that a crisis period is in fact an opportunity. At first sight, the most common answer to a crisis period is reducing companies' costs. Furthermore, marketing budgets seem to be on top of budget reductions. Thus, we are interested in how the actual economic and financial crisis influences marketing budgets. Though the answer appears to be only one and quite simple, as shrinking marketing budgets, we consider that reality is more complex. We stop at these two perspectives: North American and European because we expect to identify different results.

After a short presentation of the contemporary North American and European market tendencies, we will refer to marketing budgets in the context of the current crisis and to several possible solutions regarding this aspect, using examples of several famous large companies from North America and Europe.

2. Market Tendencies Nowadays – North American and European Perspectives

Nowadays, there is a great focus on the current financial and economic situation, the most used terms being: recession, turbulent economic times, buoyant economic conditions, market downturn, recovery plans, knowledge economy, priorities, competitiveness, competitive advantage, protectionism, anti-crisis measures, liberalization, strategies, anxiety, boom and bust cycles, lack of confidence, business climate, investments and so on.

Apart from these terms, there are several clear directions regarding the current situation of the business environment. Some of these directions are common for both perspectives, North American and European. Thus, the uncertainty is a common feature today that can be related to: "bank lending intentions, the impact of the recession on a company's business and

the impact of the recession on others, including customers and suppliers”¹ and to: “the size and duration of the crisis”.²

The costs of the current crisis are huge, such as “subprime losses, wiped-out stocks, rescue packages and more”.³

We consider that the main effects of the current crisis can be grouped into two main parts: “hard” ones and “soft” ones. In the first case, we see those that are more or less tangible, such as: sales decrease, demand decrease, cash shortage, late and non-payments, unused production capacity, customers giving up contracts, expensive credits, limited credit funds and so on. In the second case, we define those that are intangible such as: lack of trust, anxiety, lack of motivation, stress, lack of optimism and so on. Of course, both of these crisis effects categories are important.

Moreover, it seems that most of the companies are focused on those from the first group, maybe because the instruments are clearer and the effects are easier to measure. But, there are also many important voices who consider that the second group is very important too, in fact defining a possible secret key that can help companies to move on. For example, in the case of Romania, an important and well known specialist on branding says “there is a crisis of optimism in the case of companies and managers that manifests itself as great precautions in market making decisions partially because of changing customers’ psychology who tend to be conservative regarding their resources”.⁴

As we consider the EU, with Czech Presidency for the first six months of 2009, things are complex and diverse. On 26 November 2008, the European Commission launched the European Economic Recovery Plan, with the main aim of being “big enough and bold enough to work in the short-term, yet strategic and sustainable enough to turn the crisis into an

¹ Aidan Lambe, “Reporting in Uncertain Times. Be Open, says ICAI”, *Accountancy Ireland*, Vol. 41, No. 1, February 2009, p. 13.

² Angel Gurria, “From the Financial Crisis to the Economic Downturn. Restoring Growth is a Key Challenge”, *OECD Observer*, No. 269, October 2008, p. 3.

³ *Ibidem*.

⁴ Bogdan Brânzaş quoted in Bobi Neacşu, “Piaţa brandingului nu va suferi din cauza crizei din 2009”, *Financiarul*, 18 March 2009, [http://www.financiarul.com/articol_23589/piata-brandingului-nu-va-suferi-din-cauza-crizei-in-2009.html], 18 March 2009.

opportunity in the longer-term. And we need to make sure that help comes to those most in need”⁵, according to President Baroso. Taking into account *The Work Programme of the Czech Presidency*, named *Europe without Barriers*, the main priority areas are: Economy, Energy and the European Union in the World.⁶

In the case of the United States of America, the “confidence in the nation’s economy and their own businesses is alarmingly low”.⁷ In fact, the whole situation was clearly described by the USA President Barack Obama, who said “Nearly two million Americans have lost their jobs this past year—and millions more are working harder in jobs that pay less and come with fewer benefits. For too many families, this new year brings new unease and uncertainty as bills pile up, debts continue to mount and parents worry that their children won’t have the same opportunities they had.”⁸ Because of this, the President of the USA proposed the American Recovery and Reinvestment Plan “that not only creates jobs in the short-term but spurs economic growth and competitiveness in the long-term”,⁹ in January 2009. This Plan was adopted at the end of January 2009. But what the North American companies say about the Plan we will see in the fourth part of this article.

Regarding Romania, the reports published indicate a specific situation. Thus, in November 2008, 60% of the interviewed people considered that the current crisis would not affect Romania and more than

⁵ European Commission, “FAQs on the European Economic Recovery Plan”, MEMO/08/735, Brussels, 26 November 2008, [<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/735&format=HTML&aged=0&language=EN&guiLanguage=en>], 21 March 2009.

⁶ Jan Procházka, Czech Presidency of the Council of the EU, *The Work Programme of the Czech Presidency, Europe without Barriers*, 2009 [http://www.businessinfo.cz/files/dokumenty/090106_cz-pres_programme_en.pdf], 23 March 2009.

⁷ Financial Executives International (FEI); Baruch College's Zicklin School of Business (BCZSB), *CFOs See Sweeping Business Cuts to Continue Into 2009*, [<http://www.baruch.cuny.edu/cfosurvey/index.htm>], 21 March 2009.

⁸ Dave Rochelson, “American Recovery and Reinvestment”, 3 January 2009, [http://change.gov/newsroom/entry/american_recovery_and_reinvestment/], 21 March 2009.

⁹ *Ibidem*.

50% declared that they are satisfied with their financial situation and are optimistic about keeping their jobs, according to a report conducted by Nielsen¹⁰. But after only a few months, the perception of the Romanian population and of the companies has changed totally, the pessimism being a common feature.¹¹

At the national level, a package of anti-crisis measures was presented for debate by Prime Minister Emil Boc only in the middle of March 2009, while in other European countries this step has already been made (at the end of 2008). In fact, at the level of Western Europe, France, the United Kingdom, Germany, Belgium, and the Netherlands, a joint anti-crisis approach was adopted that implied permanent discussions, the coordination of their central banks, and the activities in various industries.¹² According to the Chairman of the Board of Deloitte Central Europe, this joint anti-crisis approach can be a possible solution also in the case of Central and Eastern European countries.¹³

All the above is at general level; but what happened with market during recession time? There are new customer segments, as *the slam-on-the brakes segment* – composed by those who reduce all types of spending by eliminating, postponing, decreasing, or substituting purchases; *pained-but-patient segment* – who economize in all areas, though less aggressively; *comfortably well-off segment* – who consume at near-prerecession levels, though now tending to be a little more selective about their purchases, and *life-for-today segment* – consumers who respond to the recession mainly by extending their timetables for making major purchases.¹⁴ On the other

¹⁰ Adrian Negrescu, "Comaniile și angajații s-au răzgândit în sondaje: Criza ne afectează serios", 11 march 2009, [<http://www.dailybusiness.ro/stiri-companii/comaniile-si-angajatii-s-au-razgandit-in-sondaje-criza-ne-afecteza-serios-23459>], 21 March 2009.

¹¹ *Ibidem*.

¹² Răzvan Ilie, "Deloitte: The East Should Have a Joint Anti-crisis Approach", 23 March 2009, [http://www.standard.ro/articol_85955/deloitte__the_east_should_have_a_joint_anti_crisis_approach.html], 23 March 2009.

¹³ *Ibidem*.

¹⁴ John A. Quelch, Katherine E. Jocz, "How to Market in a Downturn", *Harvard Business Review*, April 2009, p. 54.

hand, companies are looking for the right measures in order to address to these new market segments.

3. Marketing Budgets in the Context of the Current Crisis (Reports and Findings)

Because we talk about recession time, we should keep in mind that “consumers set stricter priorities and reduce their spending” and therefore “it’s critical to track how customers reassess priorities, reallocate funds, switch brands, and redefine value”.¹⁵ Thus, if companies understand customers’ shifting needs, then they know how to adjust their marketing approach. Bogdan Brânzaș, CEO and Art Director at Brânzaș Design, underlines the fact that “marketing remains the only element that makes the difference in times of financial quicksand”.¹⁶ Therefore “marketers must balance efforts to pare costs and shore up short-term sales against investments in long-term brand health”.¹⁷

Starting with 2008, the marketing budget and its tendencies constitute the subject of a great number of surveys conducted in USA and Europe, which indicate that the cutbacks in marketing are no longer just a tendency, but a reality of the North American and European markets, the more affected being the large companies. Another common tendency is the companies’ orientation towards the use of more efficient and measurable marketing instruments and channels, the online marketing being the area that benefits the most from the actual recession.

Bellwether Survey of the Institute of Practitioners in Advertising (IPA) from UK, published in October 2008, indicated an unprecedented cut in the annual marketing budgets since the survey first started in 1999.¹⁸ At

¹⁵ *Ibidem*, p. 52, p. 57.

¹⁶ Simina Mistreanu, “How to Build Branding Strategies in Times of Crisis”, *Wall-Street*, 5 November 2008, [<http://www.wall-street.ro/articol/English-Version/52225/How-to-build-branding-strategies-in-times-of-crisis.html>], 22 March 2009.

¹⁷ Quelch, Jocz, *op. cit.*, p. 59.

¹⁸ Institute of Practitioners in Advertising (IPA), *Marketing Budgets Cut at Record Rate in Q3 as Business Confidence Hits New Survey Low*, 13 October 2008,

the end of the 2008, another survey indicated marketing as one of the areas affected by the cutbacks in 2008 (28%), cutbacks being planned also in 2009 (34%). The second of these surveys was conducted by Financial Executives International among 219 American Chief Financial Officers.¹⁹

The results of “2009 Marketing Priorities and Plans” are different from those mentioned above. This survey of 211 Business-to-Business (B2B) marketing professionals from USA indicates that only 25% of the respondents plan to cut marketing budgets, while 31.1% plan to boost their marketing budgets, and 43.5% to keep budgets flat.²⁰ According to the results of this survey, the major marketing goal for 2009 is customer acquisition (62.2%), followed by customer retention (20.6%), and brand awareness (12.4%).²¹

We may say that the goal of customer acquisition is somehow paradoxical, the marketing literature considering it more expensive than customer retention. An explanation could be that the B2B market is less affected by the crisis than business-to-consumer sector – as the survey of the MarketingSharpe indicated for 2008. Thus, more than 50% of the B2C respondents indicated a lower number of total and new customers per month, compared to approximately 30% of B2B responders.²²

However, as the crisis advances, the surveys regarding a wide range of industries (pharmaceutical, financial services, consumer packaged goods, computers and technology, retail and others) become more pessimistic. For example, the results of a survey of the Association of National Advertisers (ANA), conducted in USA in February of this year,

[<http://www.ipa.co.uk/Content/Marketing-budgets-cut-at-record-rate-in-Q3-as-business-confidence-hits-new-survey-low>], 14 March 2009.

¹⁹ FEL, BCZSB, *loc. cit.*

²⁰ Kate Maddox, *Exclusive Survey Finds Only 25% Plan to Cut Budgets*, 8 December 2008,

[<http://www.btobonline.com/apps/pbcs.dll/article?AID=/20081208/FREE/812089997/1109/FREE>], 22 March 2009.

²¹ *Ibidem.*

²² MarketingSherpa, *Marketing During a Downturn. Part 1 – 10 Insights Into How Marketers Are Handling the Slump*, 2008, p. 9.

[<http://www.marketingsherpa.com/gtfReports/DownturnReport.pdf>], 21 March 2009.

indicate that the marketing budgets are more profound affected by the recession than predicted by an ANA survey from August, last year. Thus, the percentage of the companies that are identifying cost savings and reductions grew from 87 to 93, and the percentage of the marketers who plan to reduce budgets by more than 20% grew from 21 to 37.²³ Also, the percentage of the marketers who really experienced a decrease of the marketing budget (71%) is higher than the percentage of those who predicted it in August (53%).²⁴

The main marketing areas affected by the budgets cut are: media advertising, PR, events sponsorship, market research,²⁵ departmental travel, advertising campaign production, internal expenses of the agencies, new marketing projects²⁶. The reduction of marketing budgets drastically affects the traditional advertising (newspapers, TV)²⁷ and the advertising agencies. Thus, Procter & Gamble, one of the world's largest investors in advertising, which in the summer of 2008 declared that the marketing budget will not be affected by the recession,²⁸ reduced by 29% its marketing budget²⁹. For example, in Romania, they made a 45% reduction (22.8 million Euros) of the investment in TV advertising, compared to January-February 2008 (41.8 million Euros).³⁰

²³ Association of National Advertisers (ANA), *Marketing Outlook Worse Than Predicted With Recession*, 10 February 2009, [http://www.ana.net/news/content/1622], 21 March 2009.

²⁴ *Ibidem*.

²⁵ IPA, *loc. cit.*

²⁶ ANA, *loc. cit.*

²⁷ Marsha Friedman, *Economic Downturn Slices Corporate Marketing Budgets*, August 10, 2008, [http://www.articlesbase.com/advertising-articles/economic-downturn-slices-corporate-marketing-budgets-516373.html], 21 March 2009.

²⁸ ***, "No Cut in Marketing Budgets, Say Unilever and P&G", *Food Business Review*, 23 June 2008, [http://www.food-business-review.com/article_news.asp?guid=3E892B90-6C17-4362-A6D0-77E04BAEBB8E], 23 March 2009.

²⁹ Daniela Penescu, "Nefericitul buget de promovare", *Business Magazin*, 24 February 2009, [http://www.businessmagazin.ro/media-marketing/nefericitul-buget-de-promovare.html?5545;3995578], 21 March 2009.

³⁰ Antonia Tucheac, "Publicitatea TV, scadere de aproape 20% in primele doua luni", 13 March 2009,

But not all companies are negatively affected by the recession. On one hand, there are cases – depending on the companies' industries, size, market position, marketing strategies, and markets – when the crisis represents an opportunity for the business and there is even an increase of the expenditure on marketing activity. One of these examples is Mc Donald's, which registered a growth of its sales. A possible explanation is the decreasing consumer expenditure spending on more sophisticated and expensive food products. Thus, the Chief Marketing Officer for Mc Donald's UK announced an increase of the media budget in 2009 (at present: more than 45 million dollars), a separate budget being allocated for production, merchandising, promotions and agency fees.³¹

On the other hand, the Internet search seems not to be negatively affected, and it even registered a marginal increase in expenditure.³² Among the media channels, the online media seems to be preferred by the marketers interviewed in ANA's survey, 66.5% choosing to invest in online media³³. The preference for the online marketing is also illustrated by the results of the MarketingSherpa's report on the marketing during the current crisis, according to which, in 2008, the marketers from USA and Europe invested more in online than in traditional marketing tactics: 38% increased their investment in online marketing, and 36% decreased their investment in traditional marketing.

Online marketing is preferred because it is cheaper and more measurable in terms of return-on-investment,³⁴ the last reason justifying also the preference for direct marketing investment.³⁵ The most used online marketing tactics are the e-mail marketing to house lists and the social

[http://www.standard.ro/articol_84560/publicitatea_tv__scadere_de_aproape_20__i_n_primele_doua_luni.html], 21 March 2009.

³¹ Emma Hall, "McD's Opened Dialogue to Turn Itself Around", *Advertising Age*, Vol. 80, Iss. 723, Chicago, February 2009,

[<http://proquest.umi.com/pqdweb?index=22&did=1652691401&SrchMode=1&sid=8&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1236599095&clientId=65090>], 10 March 2009.

³² IPA, *loc. cit.*

³³ Maddox, *loc. cit.*

³⁴ MarketingSherpa, *op. cit.*, p. 13.

³⁵ *Ibidem*, p. 7.

network marketing, these tactics having the lowest cost among the online tactics. Other online tactics are: online display advertising, emailing to rent lists, paid search on Google, Yahoo etc.³⁶

4. Current Solutions Regarding Marketing Budgets – North American and European Perspectives

Our review of the marketing practices of a few European large companies indicates a tendency towards an improvement of their marketing efficiency. Thus, the large French company Chanel canceled in December 2008 its global annual “Mobile Art Tour” that was an image operation in order to focus on strategic investments,³⁷ while the British-Dutch company Unilever announced for 2009 a reduction of its marketing external consultancy, in order to optimize marketing expenditures.³⁸ It is said that “tough times provide an imperative to cut loose poor performers and eliminate low-yield tactics”.³⁹

Besides the improvement of the marketing efficiency, the marketing budgets’ cut appears also as a common practice of the European companies. For example, Cosmetics Oriflame reduced its marketing budget in Romania with 80%.⁴⁰

The analysis of the marketing practices of a few North American large companies indicates a clearer tendency compared to the one of the analyzed European companies towards the use of the online marketing as a response to the necessity of more efficient investments.

³⁶ *Ibidem*, p. 14.

³⁷ ***, *Chanel concediaza sute de angajati*, 29 December 2008, [http://www.ziare.com/Chanel_concediaza_sute_de_angajati-575663.html], 1 March 2009.

³⁸ ***, *Schimbări în marketingul Unilever și P&G*, 11 February 2009, [http://www.standard.ro/articol_80261/schimbari_in_marketingul_unilever_si_p_g.html], 21 March 2009.

³⁹ Quelch, Jocz, *op. cit.*, p. 52.

⁴⁰ Ana Drăghici, *Oriflame Recruits from Insurance Companies and Bankrupt Competitors*, 4 February 2009, [http://www.standard.ro/articol_79343/oriflame_recruits_from_insurance_companies_and_bankrupt_competitors.html], 21 March 2009.

Thus, General Electric intends to invest more in online marketing, which, at present, represents only 15% of the company's media spend⁴¹. General Motors, Ford and Chrysler reduce their expenditures on TV advertising, all around the world, in order to concentrate on the online marketing, which offers better return-on-investment. The official statements of these last companies are that this decision is not necessarily motivated by the recession, the need of more personalized channels having also an important role to play in this decision.⁴² This tendency to invest more in the digital marketing seems to be, according to the statements of a representative of one of the marketing companies whose clients are Mazda, Renault and Daimler Chrysler, a characteristic of the automotive industry, no matter the region, the use of more responsive channels being considered essential for the success in uncertain economic conditions.⁴³

In Romania, according to a research conducted by Alfa Cont, the most affected by the marketing budget reductions is the in print advertising sector. Thus, in 2009, Procter & Gamble reduced its budget for the in print advertising by 42%, Nestlé by 42%, Beiersdorf Romania by 64%, and Chevrolet by 42%. The main clients for this industry remain the public institutions. However, there are also companies that still invest in the in print advertising, such as Dacia, which increased its budget by 50%.⁴⁴

The most affected from the in print advertising are the newspapers. Thus, *Jurnalul Național* decreased its incomes from advertising by 51% compared to 2008, *România Liberă* by 68%, *Evenimentul zilei* by 66%, and *Ziarul Financiar*, the leader of the incomes from advertising, by 34%.

⁴¹ Maddox, *loc. cit.*

⁴² ***, "ANALYSIS: Discovering alternative channels", *Precision Marketing*, 19 January 2009, [http://proquest.umi.com/pqdweb?index=6&did=1629381871&SrchMode=2&sid=2&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1237805926&clientId=65090], 23 March 2009.

⁴³ *Ibidem.*

⁴⁴ Roxana Ivan, *Minus de 40% in incasarile publicitare ale ziarelor*, 18 March 2009, [http://www.standard.ro/articol_85201/minus_de_40__in_incasarile_publicitare_ale_ziarelor.html], 22 March 2009.

Curentul, which is a for-free newspaper, is the only one that registered a significant increase, by 91% compared to 2008.⁴⁵

The same research indicates a decrease by almost 20% of the first ten advertisers' investments in TV advertising compared to last year. The only advertisers which registered growths are GlaxoSmithKline Europharm (an increase by 277%) and Cosmote (an increase by 40%), Danone maintaining the same level of investments as last year.⁴⁶

5. Conclusions

Beyond the variations we found in surveys and in the examples of marketing practices, the crisis is very present. Generally, the marketing budgets are cut, and the media channels are suffering. Lately, we could notice a decreasing of the advertising space, and even Romanian journalists expressed publicly (on media channels such as *Realitatea TV*, *Antena 3*, *Jurnalul Național*) their worries about the decreasing of their wages and the dark perspective of their future.

Thus, the recession issue interrogates the classical approach of the marketing, according to which the *companies do not invest in marketing because they make profits but, they make profits because they invest in marketing*. It dispels the illusion that marketing can create needs and through needs it can create a market. The contraction of the market shows that marketing can only *design the space for a product inside the market*. And, in the context of the crisis, even this design is a risk factor. If the marketing budget increases in order to compensate the total reduction of the consumers, the bankruptcy risk could increase as well. On the other hand, the decrease of the marketing budget could also drive to bankruptcy in the context of the fierce competition.

For example, under the mask of adaptation to crisis, L'Oréal starts, in fact, to use a mass marketing. In order to retain its customers and stop them switching to more affordable beauty brands as those offered by Aldi and Tesco, L'Oréal launched in February of this year new skincare products priced at €9 and €5, and introduced smaller sizes of its luxury brands for

⁴⁵ *Ibidem*.

⁴⁶ Tucheac, *loc. cit.*

the small and medium shoppers⁴⁷. In its efforts to retain/attract consumers, L'Oréal would maintain its expenditure on advertising.⁴⁸ Thus, in Romania, L'Oréal is the biggest investor in print advertising, increasing its budget by 18%, compared to the first two months of 2008.⁴⁹

The stake of such approach is: the contraction of the market should not be translated into the contraction of the profits, but in the contraction of the producers' number. The future will demonstrate the success / failure of L'Oréal's (and other producers') strategy to increase the marketing budget.

The improvement of marketing efficiency raises similar questions as the increase of the budget. Thus, the reorientation of investments towards the online marketing could narrow the target audience. For example, elder people are not a very good target of the online marketing. Also, there are markets where the media infrastructure is underdeveloped, and so on.

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⁴⁷ Miranda Fitzgerald, "L'Oreal to Introduce Cheaper Skincare Products as Sales Slow", *Marketing Magazine*, February 18, 2009, [http://www.marketingmagazine.co.uk/news/882658/LOreal-introduce-cheaper-skincare-products-sales-slow/], 21 March 2009.

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HOW CAN THE PRESENT ECONOMIC CRISIS AFFECT THE STRUCTURES OF GLOBAL GOVERNANCE?

Georgiana Ciceo*

Abstract

Although not yet clearly defined as a concept, globalization was perceived over the past few decades as an evidence of the fact that the world finds itself in an accelerated process of transformation under the impact of political, economic and technological forces. The power, functions and authority of the states needed to be redesigned as we have to reckon now with juxtaposed loci of political authority – national, regional, international – in comparison with the period when the states created the Westphalian order for the system of international relations. This new order that established itself smoothly came increasingly under attack from different directions. The present paper tries to examine to what extent the present world economic crisis will be able to contribute to addressing at least some of the misgivings of this globalized world and its structures.

Key words: *economic crisis, global governance*

Globalization refers in a very large sense to a process of enlarging, deepening and accelerating transplanetary connections between people as it attempts to take into consideration the widening of activity networks, the regularization of new patterns of action and the intensification of global processes.¹ It creates the impression that the distances are instantaneously reduced. However, it is not only the geography that matters². Globalization is tightly interconnected with a high degree of interdependence in the realms of culture, economy, politics, psychology and ecology since it

* Georgiana Ciceo, PhD is Lecturer at the Faculty of European Studies, Babeș-Bolyai University in Cluj-Napoca (Romania). E-mail: gciceo@yahoo.com.

¹ David Held, Anthony McGrew, David Goldblatt, Jonathan Perraton, *Transformări globale: Politică, economie și cultură*, Iași: Polirom, 2004, pp. 39-40.

² See also Anthony Giddens, *The Consequences of Modernity*, Cambridge: Polity Press, 1990 and Kenichi Ohmae, *The Borderless World*, London: Collins, 1990.

involves the reduction of barriers in various fields of human activity.³ As a consequence we witness a reconfiguration of the social space. The patterns of knowledge, production and governance are changing their nature.

In response, the states have had to adjust their agenda, their functions and their responsibilities. In comparison with the initial Westphalian order when they were the sole source of political authority within the system of international relations,⁴ now they have to take into consideration the expanding jurisdiction of the institutions of global governance, be they international governmental organizations, international agencies or regimes as well as an increasing number of different non-state political actors, such as non-governmental organizations, multinational corporations or transnational professional associations.⁵ They tend to “bypass the governments of states and act directly on their environments.”⁶ We speak under the current circumstances of a globalization of politics as the political power and the political authority transcend the borders of the nation-state.⁷ As such the global governance includes not only institutions and organizations that contribute to the shaping of the norms and rules that govern these new levels of political authority – state institutions and different forms of intergovernmental cooperation (institutions, treaties etc.) – but also those organizations and pressure groups – multinational corporations,

³ See Richard Rosecrance, “The Rise of the Virtual State”, in *Foreign Affairs*, vol. 75, no. 4, 1996, pp. 45-61. For an interesting discussion on the various aspects of globalization see the dialogue between Anthony Giddens and Will Hutton, „Living with Global Capitalism”, in *Secolul 21*, no. 7-9/2001, pp. 30-43.

⁴ See also Ian Clark, “Globalization and the post-cold war order”, in John Baylis and Steve Smith, *The Globalization of World Politics: An Introduction to International Relations*, 2nd ed., New York: Oxford University Press, 2001, pp. 639-642.

⁵ From the rising body of literature on these new actors of world politics see Robert Keohane, Joseph Nye, *Power and Interdependence*, 2nd ed., New York: Harper-Collins, 1989, pp. 24-29; Samuel Huntington, “Transnational Organizations and World Politics”, in *World Politics*, vol. 25, no. 3, pp. 333-368; Jessica Mathews, „Power Shift” in *Foreign Affairs*, vol. 76, no.1, 1997, pp. 50-66.

⁶ Bruce Russett, Harvey Starr, David Kinsella, *World Politics: The Menu for Choice*, Boston/New York: Bedford/St. Martin’s, 2000, pp. 400-401.

⁷ Ulrich Beck, *Ce este globalizarea? Erori ale globalismului, răspunsuri la globalizare*, București: Ed. Trei, 2003, p. 25.

transnational movements, non-governmental organizations – that are able to influence them⁸. The concept covers necessarily the system's "ideology", structure, policies and means of implementation of these policies.⁹

Bearing in mind this wide definition of global governance and at the same time taking into consideration the limitations imposed on this essay we will limit the research to those structures of global governance that have an impact on the future global economic architecture. There are at least two reasons that justify such an option. On the one hand, the current crisis has hit hardest the world economy (see below). On the other hand, we acknowledge the fact that while globalization is perceived as a multifaceted process of interdependence, of dispersing the political authority, it is the economic side of it that dominates the discourse.¹⁰ From this perspective the role of politics is often reduced to that of forging the juridical and social conditions that make the economic action possible and legitimate. This means that in undertaking this research project we are going to concentrate on those structures of global governance that have an impact on the world market and their power to influence it in the currently changing international environment. The analysis will be conducted from a transformative perspective.¹¹ This means that the research will proceed from the assumption that under the process of globalization new patterns of global stratification involving states, societies and communities that have to reckon with the fading away of any demarcation line between domestic and international affairs, between internal and foreign policy emerge gradually. This process is most obvious in the economic realm where both

⁸ The global governance does not involve the existence of a global "government". As already mentioned, it is simply restricted to those institutions of cooperation, coordination and common action. See Alexander King, Bertrand Schneider, *Prima revoluție globală: o soluție pentru supraviețuirea lumii. Un raport al Clubului de la Roma*, București: Editura Tehnică, 1993, pp. 86-88. For comparison see also Held *et al*, *op.cit.*, p. 74.

⁹ King, Schneider, *op.cit.*, pp. 141-142.

¹⁰ Beck, *op.cit.*, p. 24. See also Serge Cordellier (ed.), *Mondializarea dincolo de mituri*, București: Ed. Trei, 2001, pp. 30-32.

¹¹ See Held *et al*, *op.cit.*, pp. 31-34.

the production¹² and finances escape already any territorial logic. We will not concentrate on the future shape of globalization but we will rather focus on the role and power of the most important agents of global governance.

The politics of globalization in this realm was widely influenced by neoliberalism.¹³ In a nutshell, the basic tenets of this doctrine focus on economics. The global economy should be a free and open market.¹⁴ It should be approached with *laissez-faire* to unfold through forces of supply and demand as they emerge from the uninhibited interactions of those units that make the public sector.¹⁵ The role of the public sector (multilateral institutions, national governments, and local authorities) is limited to provide regulatory frameworks that maximize the efficiency of global markets that enable them to function properly. Moreover at the level of most governments there was a strong consensus that economic ministries need to be given ascendance over those for foreign affairs, defense or social questions. These same governments have championed liberal market principles as the mainstay of their approach to the global economy.¹⁶

At the same time a huge variety of agents was brought into existence in order to make the world market economy function as free and open as possible – international financial institutions such as International Monetary Fund (IMF) and World Bank in order to name only the two most prominent among them, World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), international arrangements such as the groups G-8 or G-20, dozens of

¹² Robert Gilpin, *The Political Economy of International Relations*, Princeton: Princeton University Press, 1987, pp. 199-221 and 241-252.

¹³ The postwar multilateral agreements reflected a widespread commitment for a liberal economic order, which very much reflected American political economic philosophy and economic preferences. See Robert Walters, David Blache, *The Politics of Global Economic Relations*, Englewood Cliffs, New Jersey: Prentice Hall, 1992, pp. 1-2.

¹⁴ Gilpin, *op.cit.*, pp. 183-190.

¹⁵ See Jan A. Scholte, *The Sources of Neoliberal Globalization*, United Nations Research Institute for Social Development, Overarching Concerns – Program Paper No.8/Oct. 2005, pp. 7-8.

¹⁶ *ibidem*, p. 8.

regional arrangements most of them with a predominantly economic focus (European Union (EU), African Union (AU), Association of South-East Asian Nations (ASEAN), Southern Common Market (Mercosur), North American Free Trade Area (NAFTA) and so on), multinational corporations,¹⁷ business associations and economic research institutes. They managed to overshadow over recent decades agencies that fought for human rights, environment or cultural issues. While the influence of all these agents of global governance is hard to be assessed, it is widely assumed that some of them are more influential than the others. Among them, there are usually the IMF, the WTO and the G-8 who are associated closely with the process of globalization. They were the prime promoters of liberalization, that is, of removal of officially imposed restrictions on movements between countries of goods, services, money and capital, and of deregulation.

That is why the critics of globalization directed their discontent primarily against these very few institutions. The liberalization that they ushered in was accompanied by inconsistencies and double standards. It was supposed to eliminate or at least to reduce trade barriers, foreign exchange restrictions and controls on flows of investments. The deregulation that they promoted was not meant as an attempt aimed at discarding any form of regulation. It only has the purpose to draw a clear line of distinction between those laws and institutions that were able to support the efficient operation of the markets, which had to be upheld by all means, and those that interfered with market dynamics and distorted its functioning because of the state interventionism, and had to be removed. Both liberalization and deregulation were promoted across all spheres of governance – global, regional, national and local.¹⁸

As even before the present economic crisis broke out, not only the bright face of globalization came under intense scrutiny, but also its dark sides. The application of these neoliberal principles and policies indicate a mixed record. However, when analysing the effects of the process of globalization there was and there still is a widespread tendency towards

¹⁷ For an enlightening discussion on the complex relationships of multinational corporations with both home and host countries in a globalised environment see Gilpin, *op.cit.*, pp. 241-252. See also Walters, Blache, *op.cit.*, pp. 118-133.

¹⁸ See also Scholte, *op.cit.*, pp. 10-11.

stressing its negative sides. According to British professor and political scientist David Held, globalization became contested for at least three powerful reasons:¹⁹ firstly, also it is regarded as a landmark of the twentieth century, it is not entirely new;²⁰ secondly, because it has been associated with the neoliberal project and the conditionality programs of the IMF and the World Bank that imposed the developing countries to lower barriers while neglecting that developed countries created economic growth “behind protective walls” and therefore being perceived as unconvincing and hypocritical; and thirdly, because it is held responsible for increasing global inequality.²¹

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The present financial crisis is regarded as the most serious one since the Great Depression because of its global effects. Its outbreak was accelerated by a series of developments in the previous years. That period of time was characterized by high global growth and relatively stable and low inflation in most countries. Growth was driven by substantial increases in productivity in many countries which, combined with the increased integration of developing countries into the global economy and a strong expansion in trade,²² also allowed prices to remain relatively flat for several years. This pattern of growth, coupled with deficient regulation especially after the globalization of markets was ushered in in the mid 1990s,²³ eventually led to over-leveraged financial institutions, businesses and households, which proved unsustainable. Persistently low interest rates caused investors to search for higher yields in equities, housing and basic commodities, as well as progressively riskier financial instruments. Asset prices were driven up across a broad range of industrialized and emerging

¹⁹ Michael Thorup, Mads Sørensen, “Inescapably Side by Side: Interview with David Held”, in *Polity*, Volume 36, No. 1, 2004, [<http://www.globalpolicy.org/component/content/article/162-general/27670.html?tmpl>], 30 June 2009.

²⁰ See Held *et al*, *op.cit.*, pp. 56-110.

²¹ See also Joseph Stiglitz, *Globalization and Its Discontents*, London: Penguin Books, 2002, pp. 5-7.

²² See also Alan Greenspan, *Era turbulențelor: Aventuri într-o lume nouă*, București: Publica, 2008, p. 368.

²³ *Ibidem*, p. 369.

economies, and many developing countries benefited from high commodity prices.

Officially, the crisis started in August 2007 in the United States²⁴ as a credit crisis caused by investor's loss of confidence in the value of securitized mortgages.²⁵ Despite the substantial injection of capital into financial markets the crisis expanded not only towards the banking and credit sectors which also fell prey of the crisis, but also towards other businesses such as equity and hedge funds, insurance activities and pension funds. Beginning with the bankruptcy of Lehman Brothers on 14 September 2008 the financial crisis entered an acute phase marked by failures of prominent American and European banks and governmental efforts to rescue distressed financial institutions.

Although the economic theory could not foresee this crisis,²⁶ there are now intensive endeavors to trace its roots and ponder effective ways

²⁴ On the occasion of the London G-20 summit, US president Barack Obama admitted his country responsibility for the current crisis. See Marc Hujer, Wolfgang Reuter, Christoph Schwennicke, "I take responsibility': Obama's confession" in: *Der Spiegel*, 6 April 2009, [<http://www.spiegel.de/international/world/0,1518,druck-617639,00.html>], 30 June 2009.

²⁵ These mortgages resulted from the guarantees for the easy loans given for acquiring real estate properties. This policy generated what is now called as America's housing bubble supported by the Bush administration governmental program and based on an intricate and overleveraged financial arrangements. According to *The Economist* this boom might be regarded as the biggest boom in history. See ***, "The Global Housing Boom" in *The Economist*, 16 Jun 2005, [http://www.economist.com/opinion/displaystory.cfm?story_id=4079027], 30 June 2009. See also Steven Gjerstad, Vernon Smith, "From Bubble to Depression" in *Wall Street Journal*, 6 April 2009, p. A 15.

²⁶ According to Nobel laureate Paul Krugman, "most work in macroeconomics in the past 30 years has been useless at best and harmful at worst". See ***, "Paul Krugman's London lectures: Dismal science" in *The Economist*, 11 June 2009, [http://www.economist.com/businessfinance/displaystory.cfm?story_id=13832580], 30 June 2009. Among the very few who dared to forecast a crisis of systemic proportions stands professor Nouriel Roubini of the New York University. See Stephen Mihm, "Dr. Doom" in *New York Times*, 15 August 2008, [http://www.nytimes.com/2008/08/17/magazine/17pessimist.html?_r=1&pagewanted=all], 30 June 2009.

out. For the purpose of the present analysis we will favor a systemic approach to the crisis. The reform of the institutions of global governance will be viewed as one part of a complex solution.

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In order to assess the impact of the present economic crisis on the structures of global governance we are going to concentrate our discussions on some of the institutions that were most often associated with the process of globalization – the IMF, the World Bank and the G-8, whereas tackling only marginally the effects of the crisis on the other agents of global governance. From the onset we have to mention that the discussions around restructuring world economic architecture are not new. They emerged with increased strength in the context of the Asian crisis of 1997, but did not led to any breakthrough up to now. Only when the present crisis started to show its depth it was agreed to institutionalize these discussions in the form of a United Nations commission of experts²⁷ headed by the 2001 winner of the Nobel Prize for Economics Joseph Stiglitz and long time advocate of a revamp of global finance structures. This was charged with the mission of investigating how the international monetary and financial institutions can be overhauled. At the same time, the idea of necessity to “strengthen financial regulation to rebuild trust and to fund and reform [...] international financial institutions to overcome this crisis and prevent future ones” was reinforced at the G-20 summit in London.²⁸

So what is to be done? For answering this question we have to proceed from assessing the current situation. Firstly, we have to take into consideration the fact that the developing countries are particularly adversely affected by the systemic flaws in the global financial structures, whereas their voice can hardly be heard in the fora trying to address the crisis. Secondly, as the current economic crisis has global dimensions, we have to ponder about global, concerted, comprehensive solutions. It is an

²⁷ The Commission of Experts on Reforms of International Finance and Economic Structures. See ***, “Global finance structures must be revamped, says UN expert panel” in: *UN News Center*, 26 March 2009, [<http://www.un.org/apps/news/story.asp?NewsID=30309&Cr=financial+crisis&Cr1=>], 30 June 2009.

²⁸ *London Summit – Leader’s Statement*, London, 2 April 2009, p. 1, [<http://www.g20.org/Documents/final-communique.pdf>], 30 June 2009.

opportunity for strengthening multilateralism in order to enforce the credibility, accountability and efficacy of the international financial institutions.

The difficult issue of reforming the institutions of global governance was addressed most thoroughly on the occasion of the last G-20 summit in London. The focus was laid on the IMF and the World Bank without overlooking however the other financial institutions. The participants to the summit stated that in order to help these financial institutions to “manage the crisis and prevent future crises”, it is necessary to strengthen “their longer term relevance, effectiveness and legitimacy”. So alongside the significant increase in resources it is essential “to reform and modernize the international financial institutions” in order to ensure that “they can assist members and shareholders effectively in the new challenges they face”. To this aim, it will be taken into consideration the reform of “their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalization, and that emerging and developing economies, including the poorest, must have greater voice and representation”.²⁹ However, apart from the agreement to recalibrate the inner structures of the IMF by 2011 and the decision that the heads of international organizations have to be selected on merit and not on nationality, not very much flowed from the London meeting.³⁰ Still the fundamentals of the details on how to rebalance power within international institutions are missing.³¹

With regard to the G-8 it is noteworthy that this forum of the most developed countries, where the most important global economic and financial issues were discussed, started, as a result of the crisis, to be perceived as insufficiently dealing with challenges ahead. With large emerging markets taking a prominent role, the G-20, a wider group of nations, including the fast-growing nations like China, Brazil and India, tends to replace G-8 in importance. This is quite a transformation, especially if we take into consideration the fact that G-20 started its work

²⁹ *Ibidem*, p. 5.

³⁰ *Ibidem*, p. 6.

³¹ See also *Declaration on strengthening the financial system*, London, 2 April 2009, p. 2 [http://www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf], 30 June 2009.

only ten years ago as a forum for finance ministers and central bankers to discuss technical matters of international cooperation in their area of competence.³² Now, important leaders do not hesitate to indicate their preference for G-20 over the G-8.³³ It is an acknowledgement that emerging markets are ever more important and in the long term will keep growing in importance.

There are also however even more radical proposals for having the voices of those most hit by the crisis heard. The UN panel of experts chaired by Stiglitz advanced the proposal of a coordinated approach – bringing together not just the so-called G-8 or even G-20 nations, but the “G-192”, representing all members of the Assembly.³⁴ The German chancellor Angela Merkel advanced the proposal for a United Nations economic council, similar to the UN Security Council, to monitor financial crisis. As a matter of fact the proposal put forward by the German chancellor is an expansion of British Prime Minister Gordon Brown's call to update the 1944 Bretton Woods structure that established the World Bank and International Monetary Fund, which are now being used to bail out

³² The G-20 meetings were barely noticed by the international mass-media. See J. Authers, „G-20 takes a large leaf out of the Bretton Woods” in *Financial Times*, 3 April 2009, [http://www.ft.com/cms/s/0/d5a2ae66-2072-11de-b930-00144feabdc0,dwp_uuid=60a3db68-b177-11dd-b97a-0000779fd18c.html], 30 June 2009.

³³ Addressing the Bundestag on 2 July 2009, the German chancellor Angela Merkel stated that “we are seeing that the world is growing together and that the problems that we face cannot be solved by the industrialized countries alone” and that “G-20 should be the format that, like an overarching roof, determines the future”. In her opinion, G-8 will have to remain a forum for preliminary discussions with the “relevant global decisions being made in a bigger format”. See ***, „Merkel Favors G-20 to Tackle World's Problems” in *Der Spiegel*, 3 July 2009, [<http://www.spiegel.de/international/world/0,1518,634129,00.html#ref=nlint>], 3 July 2009.

³⁴ ***, “Global finance structures must be revamped...” in: *UN News Center*, 26 March 2009.

countries during the financial crisis.³⁵ However, as yet the nothing came out from this proposal.

Conclusions

The present article tried to investigate how globalization came to shape the international environment and what were its shortcomings. Then there were investigated the peculiarities of the present international crisis viewed as a systemic crisis that needs a thorough overhaul of the structures of global governance. The last part of the article addressed the areas where the reform is in the most dire need proceeding from the assumption that "globalization can't be stopped. It has to be managed or else the global economy won't work".³⁶

The process of reforming the institutions of global governance, intensively discussed in the years that followed the Asian economic crisis, was finally set into motion although its ultimate outcome is now still difficult to be predicted.

We came up to the conclusion that G-20 emerged as the crucial global economic forum. However, while the voice of the developing countries started to be taken into consideration, only very few of them managed to be accepted in the fora where international economic and financial decisions are pondered.

With the economic crisis worsening, it is high time now for an overarching reform of the structures of global governance because as the French president Nicolas Sarkozy mentioned, "failure is not an option; the world would not understand it and history would not forgive us for it".³⁷

³⁵ ***, "Germany Suggests UN Economic Council", in *Deutsche Welle – World*, 31 January 2009, [<http://www.dw-world.de/dw/article/0,,3991149,00.html>], 30 June 2009.

³⁶ M. Sauga, "Spiegel Interview with Economist Joseph Stiglitz: Government Stimulus Plans are 'Not Enough'" in *Der Spiegel*, 1 April 2009, [<http://www.spiegel.de/international/world/0,1518,616743-2,00.html>], 30 June 2009.

³⁷ Nicolas Sarkozy, "Opinion: 'Failure is not an Option -- History Would not Forgive Us'", in *Der Spiegel*, 1 April 2009, [<http://www.spiegel.de/international/europe/0,1518,616713,00.html>], 30 June 2009.

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THE CRISIS OF THE ROMANIAN CAPITAL MARKET

Florin Duma*

Abstract:

The Romanian capital market is facing the most serious crisis from its modern period of existence and this is determined by local factors and especially by external factors which are depending on the global financial crisis. In this paper we try to see: which was the evolution of the capital market in Romania, which are the causes that led to the actual crisis and which are the consequences of this crisis and the prospects of our capital market.

Key words: capital market, crisis, stock exchange, investor, securities.

General overview

The capital market in Romania goes over the most serious crisis from its modern period of existence and this is determined by local factors and especially by external factors which are depending on the worldwide financial crisis.

Romania's capital market met very difficult situations between 1997-1999 as well, period which overlap with a severe recession in our country (in those years, the GDP shrunk up to 9%, 7% and respectively 3%) and with the crisis of the countries in Southeastern Asia in 1997 and the one in Russia in 1998. However, the jolt produced by the decline Romania has experienced those years was not very strongly felt on the capital market because of the fact that the stock exchange was still less developed (it was just reestablished in 1995) and here were operating few inland investors and the capitalization of the market was very reduced.

* Florin Duma, PhD, is Lecturer at the Babeș-Bolyai University of Cluj, Faculty of European Studies. E-mail: Florin.duma@euro.ubbcluj.ro

We are going to try to give an answer to the following questions concerning the actual state of the Romanian capital market and its perspectives:

1. Which was the evolution of the capital market in Romania since the reestablishment of the stock exchange in 1995 till present?
2. Which are the causes that led to the actual crisis of the capital market?
3. Which are the consequences of this crisis and which are the prospects of our capital market?

1. Genesis and evolution of the Romanian capital market after 1989

The Romanian capital market has had a sinuous evolution in the first years after 1989 because of the rhythm the privatization process started and ran. Romania started this process not only with significant delay in comparison to other neighboring countries from Central and Eastern Europe, but also with many hesitations and trips. Actually, the first governments after 1989 have avoided as much as possible they could, the accelerated reforms and the “shock therapy” and they have chosen the gradual and slowly reforms, namely a “stop and go” policy.

“The great privatization” started in 1992 through the distribution of privatization vouchers worth 25.000 lei each to all the Romanian citizens over 18 years old and they could change them in stock at any company they wanted, on the condition that it was part of the new created portfolio of the Private Property Funds. Thus, the property of the state companies (after they were transformed in Joint Stock Company) passed to the new established State Property Fund (70% from each company), and the rest of 30% to the one of the five Private Property Funds. Because of the slow rhythm of the vouchers’ subscription, but especially because of the very high inflation from those years (even more than 200% yearly), in 1994 took place another privatization vouchers issue, worth 975.000 lei this time. Subsequently, even this allocated sum of a voucher didn’t worth too much because of the inflation. Eventually, after the conversion of the vouchers, about 13 millions of shareholders were born, for whom it was vital a secondary market to be created where these shares to be transacted.

After about half of century since the Bucharest Stock Exchange (BSE) was closed by the communist regime, it was reestablished – with a delay of several years in comparison to other transition countries in Central and Eastern Europe – on 23rd of June 1995 and the effective transactions began on 20th of November 1995, with a number of 6 listed firms and with one trading session per week. Based on a decision of National Securities Commission, the Bucharest Stock Exchange was reestablished as a self-financing institution of public interest.

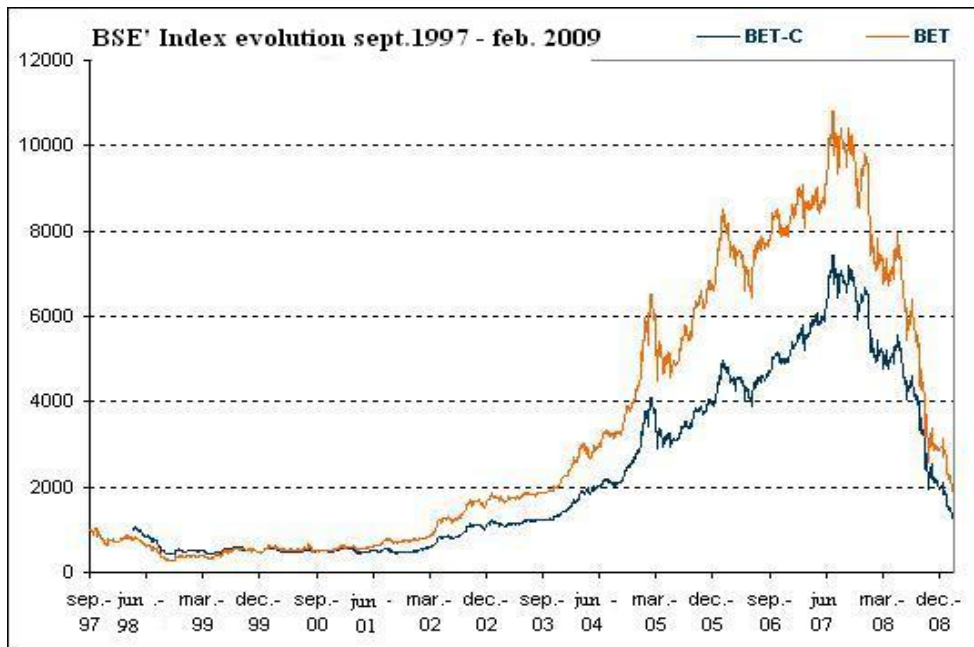
Moreover, in order to facilitate the transaction of the more than 5000 shares of the companies, which were allocated to the about 13 millions Romanian shareholders within the Privatization Program, in 1996 the Over the Counter (OTC) market was created, named also RASDAQ, after the American market model NASDAQ (National Association of Securities Dealers Automated Quotation).

As a result, the Romanian capital market had at that time two specific institutions (which would have going to merge): BSE and RASDAQ (recently also named The Electronic Stock Exchange RASDAQ).

In the first years nothing important happened on the two markets. On the first one because there were few issuers and little transactions and on the second one because many of them even didn't know they were listed, or if they knew, they didn't understand the reason they were there. When it started in 1997 with five sessions a week, the transactions began to enliven and the quotation of the shares to grow; this process was influenced by more factors: the hopes in the new political configuration, the entrance of some speculative foreign funds etc. The market has reached the best volume and quotations in the summer of 1997 based on a general euphoria, after that it came a roughly decrease determined by the sudden retirement of the foreign investors as a result of the financial crisis from others emergent countries but also by a series of internal factors such as: the problems that appeared in the governmental coalition, relighting of inflation, the lack of transparency of the issuers towards the investors. It has continued with three very hard years for the capital market, in which the quotations decreased to a derisory level, much under the fundamentals and with small volume traded. Actually, a massive regrouping beyond the market actors took place: a series of the investors got definitive out and

many brokerage companies were forced by the situation to stop their activities or to merge with others in order to resist.

This black period of the exchange lasted till 2001, when on the basis of the national economy increase and because of the fact that the shared stock reached very low quotations (so that in some cases the capitalizations were much lower than those issuers have had in the cash accounts), a revulsion begun to manifest, which was going to transform in a spectacular increase of the quotations, an increase of almost eight years, interrupted just by periods of adjustments which were actually normal for such a long ascendant trend period. This great increase during those eight years can be very well seen on the graphic bellow, which shows the evolution of the main indices of the exchange: BET and BET-C (see the graphic bellow).



When in the first years of this growing period this ascendant trend was based on the evident detraction of the listed companies, then it was based on economical growth rates and subsequently on the expectations related to the European integration of the country.

The market has begun **to manifest since 2007 evident symptoms of irrational exuberance** with stocks that were traded at very high multiples (we frequently found in that period issuers with PER¹ of 50, 100 or above) that didn't find any fundamental justification and that was the expression of – we must call it like this – greed. Another phenomenon which characterize that period was the enthusiasm met in a series of share capital increase, sometimes ten times higher than the initial one and this led to an extraordinary dilution of the profit earned by the firm per share so that it would have been difficult to imagine the financial performances of the issuers to keep pace with the share quotations.

Therefore, a correction was needed, but unfortunately this transformed in a “free falling” of the exchange determined by the conjuncture in the global economy. This stock exchange fall in 2008, which also continued in the first two months of 2009, threw the Romanian capital market in a deep crisis.

1. The reasons that led to the actual crisis of the capital market

This irrational exuberance of the investors about we talked earlier has had more reasons.

First of all it is about the excess cash that existed worldwide in the last years, determined by the central banks especially by Federal Reserve and Bank of Japan through very small interest rate and also by an excess of savings of some countries like China, with very big dollars backlogs². Those

¹ PER – **Price Earning Ratio** – **PER** – is a measure of the market price for a share relative to the annual net profit earned by the firm per share.

² Mugur Isarescu, *Criza financiara internationala si provocari pentru politica monetara din Romania*, 2009

[<http://www.bnro.ro/PublicationDocuments.aspx?icid=6885>], 3 March 2009

huge amounts of money were looking for investments and after they played out the opportunities for the developed market have oriented to the emergent countries in the Central and Eastern Europe. Romania became very tempting especially after it was confirmed that it will be integrated in EU in 2007. It is known that the foreign investors "made" the market in those years, so they were ruled the roost of the increase.

Second of all, beginning with 2007 the national economy seemed to overheat and this was proved by the fact that the growth rates were over potential and this growth was preponderant based on external financing and on consumption.

This fact has inevitable led to a serious wasting of the current account which in 2008 was in the red, close to 14% from GDP. A "hard landing" scenario began to delineate and it wasn't known how brutal this deficit would be adjusted and what kind of influence would this have on the listed companies.

Third of all, it was possible for this bubble to develop at this level because of the reduced dimensions of our market, with an extremely small number of listed issuers on the Stock Exchange. As we can observe in the table from bellow, BSE succeeded the formidable contra performance: to increase the number of the listed companies from 65 to 69 in the eight years period, from 2001 till 2009!

Of course, there are more listed companies on Rasdaq, but most of them even do not know why they are listed there and on others a transaction is very seldom realized. Moreover, the most of the companies on Rasdaq are not tempting at all because they are not transparent as regards the financial reports.

Going back to BSE, behind the fact that there are few listed companies, the free-float is very small, in the majority of cases being under 10%, what is not a challenging at all for the big foreign or inland investors that are actually interested in significant packages.

Listed companies at BSE				
Year	Companies	New listings	Unlistings	Intermediaries
1995	9	9	0	28
1996	17	8	0	62
1997	76	59	0	133
1998	126	50	0	173
1999	127	15	14	150
2000	114	1	14	120
2001	65	3	52	110
2002	65	1	1	75
2003	62	0	3	73
2004	60	3	5	67
2005	64	5	1	70
2006	58	2	0	73
2007	59	3	2	73
2008	68	10	1	76
2009	69	1	0	72

Source: Bucharest Stock Exchange

The number of the new listings was extremely reduced: Transelectrica SA (TEL), Transgaz SA (TGN), Alumil SA (ALU), STK Emergent Fund (STK), Casa de Bucovina – Club de Munte SA (BCM), Contor Grup SA (CGC), Erste Group Bank AG (EBS) and there were some companies which resulted from Rasdaq. Unfortunately these new listings were cleared with interesting companies, which were unlisted during the last years, if we just think at Dacia SA, Arctic SA, Terapia SA, Kandia Excelent SA etc.

Fourth of all, the BSE capitalization is very small reported to GDP and in the last two years it rapidly decreased as one can see in the table from bellow:

Year	Capitalization (bn EUR)	GDP (bn EUR)	Capitalization/GDP (%)
1999	0.31	33.3	1%
2000	0.45	40.6	1%
2001	1.36	45.3	3%
2002	2.65	48.6	5%
2003	2.99	52.5	6%
2004	8.82	61	14%
2005	15.31	79.8	19%
2006	21.41	97.7	22%
2007	24.60	123.8	20%
2008	11.63	137	8%
2009	9.58	135	7%

Source: Bucharest Stock Exchange

Another aspect that should be taken into consideration is that no alternative was given for the stock investment on the BSE. The government bonds were listed very late to the BSE (just in August 2008) and there were few corporate bonds with very rare transactions.

On the other hand, a series of basic transaction instruments on any capital market are still missing from the Romanian capital market. For instance, the short selling transactions are not possible today at BSE. If this kind of transaction could have been realized before the crisis started, we could be sure that some investors prepared to speculate on short selling would have been easier to be found; later, when those speculators would have closed those short positions, these operations were able to mitigate the free falling of the market.

In these conditions, on such a narrow market with few products and financial instruments, this kind of bubble has had very easily developed.

In spite of all this, this bubble would not have broken, due to the fact that the performance of the Romanian companies in 2008 was still good, if it had not appeared the international financial crisis which led to its breaking. The releaser factor was the fact that the foreign investors have massively sold and then retracted their capital from the Bucharest

Exchange, though after 2001 they were permanently the net stock buyers. In order to be able to cover the great loss on the American and European stock exchanges, they decided to retract from the emergent markets, including Romania.

In other words, 2008 was a catastrophic year for the Romanian capital market. The foreign capitals retracted, the exuberance transformed in panic and the greed in scare. All the exchange indices have known failures which can be seen only in the case of an issuers who are going to bankrupt. The main index of BSE, BET declined in 2008 with 70% and in 2009 till now³ with 13% more. In the case of BET-Fi the things were even worse: minus 84% in 2008 plus minus 8% in 2009 – see the graphic from bellow. Actually, all the listed shares ended the year with decreases. The same indices, calculated in euro look even worse because of the depreciation of the Romanian currency.

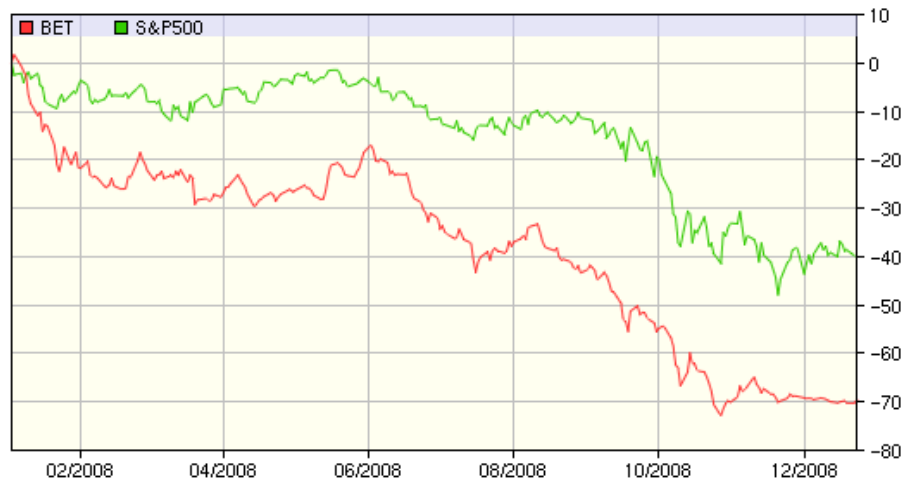


Source: www.kmarket.ro

Moreover, the correlation of the BSE with the foreign markets became more and more obvious for the local investors, although the main

³ End of February 2009

foreign markets have had much lower decreases, approximately less than half than on the Romanian market (see the comparison with the US market index S&P 500):



Source: www.kmarket.ro

2. Consequences and perspectives for the capital market

Consequences:

This unprecedented crisis on the Romanian market led to the loss of confidence of the investors in the Stock Exchange, because of the share fall and also of the damage suffered by them. Many of them retracted from the market emphasizing the damage and it will be very difficult for them to come back. The feelings of those who remained in order to keep their position are not the best; and this can be proved by the fact that they don't come back to raise their positions, now when the shares are at discount prices.

The financing possibilities for the issuers on the market turned almost to zero in the situations when many of them are traded under the nominal value and they even don't dare to think about new capital increase through contribution in cash. Moreover, the announced public offers were

put on "hold" as well and postponed to an undefined term, if we take into account the scare of not being subscribed.

A series of serious consequences is also met within the intermediaries; even though their number declined in the last years to half, compared to 1997 and 1998, it is hard to believe that all of them are going to survive the crisis, especially when the daily trade volume will remain the same like in the first two months in 2009 – about 2 million euro per day. In this context we expect the closing of some brokerage companies or at least mergers between different brokerage companies in order to reduce the cost and to survive this difficult period.

Perspectives and provocations

The main provocation for the Romanian stock exchange would be to reestablish the investors' confidence in the capital market, through growth of the market transparency, more clearly transactional rules and reduced costs.

Second of all, if we take into account the much reduced number of investors in rapport with the population, new investors should be attracted. At the end of 2008 the number of investors on the Romanian capital market was just 92.865⁴ (not all of them trading) for a population of 21.5 million of people. Actually, from the total of these accounts, the values of about 87% are lower than 9.000 euro – which is the compensation limit for 2009 set by the Investors Compensation Fund! The real number of the investors is even smaller, because the above number was not corrected with the investors that are investing through more brokerage companies or through companies of investments administration.

Third of all, another provocation would be the attraction to the stock exchange of some State owned companies which were being in the project for listing long time ago now, like the Henri Coanda Airport, Hidroelectrica SA, Nuclearelectrica SA, aso. Also, the listing of the Property Fund, whose shares are now traded on the black market what generates a series of abuses which have negative influence on the capital market, would be definitely a gain. These listing could be an advantage for the

⁴ According to the Investors Compensation Fund, http://www.fond-fci.ro/docs/RaportAnualFCI_30aprilie2009.pdf

State, which could capitalize these companies and also for the market, where it could grow the capitalization and the investors' interest.

Some other positive measures could be the following:

- The attraction to the stock exchange of some new private companies, as well as the listing of some foreign companies from the countries in the neighborhood and not only;
- The transaction costs should be reduced, because they are among the highest in Europe;
- For a period of several years, till a significant capital market will be created, the taxes on the capital gain should be suspended;
- The diversification of the financial instruments at the investors' disposal and the development of transactions with financial derivatives, through the merger of the Bucharest Stock Exchange with the Sibiu Monetary- Financial and Commodities Exchange.

Concerning the future of the Bucharest Stock Exchange, we believe that will be able to face the future only through partnership with the regional stock exchanges or through the creation of a regional capital market for the Central and Eastern Europe or for the Balkan area. Otherwise, the BSE it may be the subject of taking over by a foreign exchange.

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5. <http://www.bloomberg.com> – financial information and stock market quotations.

**POTENTIAL EFFECTS OF THE ACTUAL
FINANCIAL CRISIS ON ROMANIA**

Dana Pop*
Ana Monica Pop**

Abstract

Countries from all over the world are taking measures in order to counter the effects of the global financial crisis, including stimulus packs, temporary actions, the acceleration of implementation of previous measures or all the measures at the same time. It is for sure that the crisis is not coming to an end despite all these measures and some experts are concerned regarding the size and the length of the crisis. In this paper we will refer to the effects of the global financial crisis, needed measures to counter its effects and potential influence of the crisis on Romania.

Keywords: crisis, finance, spillover effects

Introduction

It is believed that the actual crisis is calling mainly for two kind of policies, firstly, to repair the financial system and, secondly, to stimulate demand and restore confidence.

“The optimal fiscal package should be timely, large, lasting, diversified, contingent, collective and sustainable: timely, because the need for action is immediate; large, because the current and expected decrease in private demand is exceptionally large; lasting because the downturn will last for some time; diversified because of the unusual degree of uncertainty associated with any single measure; contingent, because the need to reduce the perceived probability of another “Great Depression” requires a

* Dana Pop, PhD, is lecturer in Economics at the Faculty of European Studies, Babes-Bolyai University of Cluj. E-mail: danapop@hotmail.com

** Ana Monica Pop is Teaching Assistant, PhD candidate, Babes-Bolyai University, Faculty of European Studies. E-mail: monica.pop@euro.ubbcluj.ro

*commitment to do more, if needed; collective, since each country that has fiscal space should contribute; and sustainable, so as not to lead to a debt explosion and adverse reactions of financial markets. Looking at the content of the fiscal package, in the current circumstances, spending increases, and targeted tax cuts and transfers, are likely to have the highest multipliers. General tax cuts or subsidies, either for consumers or for firms, are likely to have lower multipliers”.*¹

Taking into account countries which experienced already severe financial crises one can affirm that a successful resolution of this type of crisis is a precondition for sustained growth, that the solving of financial crisis precedes the solution to the macroeconomic crisis, a fiscal stimulus is useful especially when the financial crisis spills over to household and corporate sectors and that the fiscal response may have a large effect on the aggregate demand if its composition takes into account the specifics of the crisis.

Theoretically, public spending on goods and services has large multiplier effects, but, in practice, the increase of this kind of spending is constrained by the need to avoid waste. As main policy prescriptions recommended by specialists, which, in our opinion, are realistic, we can mention: governments should be sure that existing programs will not be cut for lack of resources; delayed, rejected or interrupted spending programs because of lack of resources can be restarted quickly; wage increases in the public sector should be avoided, but, sometimes, temporary increases in public sector employment, associated with new programs and policies, can be necessary.

The main factors affecting consumption and consumer spending are, in the present conditions: decreases in wealth, tighter credit constraints and high uncertainty. Also companies are facing, beside a fall in demand, a great degree of uncertainty.

Due to the singularity and gravity of the actual crisis, it is believed that new solutions are needed in order to address the issues of financial disintermediation and loss of confidence such as the following ones: a

¹ Berger Helge, Thomas Harjes, “Does Global Liquidity Matter for Monetary Policy in the Euro Area”, in *IMF Working Paper*, WP/09/17, 2009, p. 2.

greater role of the public sector in financial intermediation; provisions of insurance by the public sector against large recessions.

IMF is estimating, based on a recent analysis, that the greatest part of emerging and advanced market economies adopted, in the actual context of crisis, stimulus measures in order to counter the crisis. The collective impact of the crisis on economic growth is estimated at around $\frac{1}{2}$ - $1\frac{1}{4}$ percentage points.

Around half of the G-20 countries announced cuts in personal income taxes and are planning also to cut corporate income taxes. There are also plans for increasing spending on infrastructure in the form of direct government spending or through capital transfers to local authorities. Some countries are considering support for the small and medium-size enterprises and vulnerable sectors, agriculture, defense etc.

It is believed that the automatic stabilizers will help to bolster demand due to the lowering of taxes and increasing public spending but this can have as another consequence the deterioration of the fiscal accounts of a country.

Government debt will be influenced by support to troubled financial institutions and markets mainly in advanced economies and to a lesser extent in the emerging ones. One can see that many governments from the advanced economies injected capital into important banks provided consistent loans for financial institutions and sometimes purchased illiquid assets.

The central bank governors and the finance ministers from the Group of Twenty (G-20) considered (November 2008) that their priority is to restore lending by tackling problems in the financial system. At the last meeting they established to coordinate actions in order to counter the economic and financial crisis and to help developing and emerging economies cope with the reversal in international capital flows. They also admitted that there is an urgent need for financing countercyclical spending, bank recapitalization, social support, trade finance, infrastructure etc. Important elements in the statement of G-20 to IMF included:²

² ***, "G-20 Asks IMF to Track, Assess Global Crisis Response", in *IMF Survey Magazine*, 2009 [www.imf.org/external/pubs/ft/survey/so/2009/new031409a], 18 March 2009.

- The progress of IMF and World Bank in the introduction of new and enhanced lending instruments was welcomed
- The ministers called for the IMF and Financial Stability Forum to develop early warning mechanisms in order to signal the high systemic risks
- It was stressed the need to strengthen the legitimacy and effectiveness of international financial institutions and the fact that they reflect changes in the global economy
- The package of IMF quota and voice measures decided in April 2008 should be implemented and the reforms of World Bank should be completed by the Spring Meetings 2010

*“The evidence suggests that reforms of the regulatory and supervisory frameworks are only part of the answer. At its next meeting in April, the G-20 needs to turn to a broader set of issues that includes trade, financial integration, and macroeconomic policies. Furthermore, policy cooperation at the global level requires an adequate institutional framework; for this reason, the reform of international financial institutions is once again bound to be on the menu of discussions”.*³

The authors recommend a five-point agenda: the preservation of trade integration in order to avoid a worse contagion; national stimulus programs and aid packages for supporting globalization; avoid exchange rate policies that trigger external instability; build confidence in multilateral, rather than self-insurance; make international financial institutions more representative of current realities. The authors’ opinion is that if G-20 is able to link successfully to the existing international institutions this could mean the transformation of the crisis into an opportunity for a stronger and more legitimate governance of globalization.

According to the *Global Financial Stability Report*, the risks to financial stability intensified since October 2008.⁴ For instance, as global growth

³ Jean Pisani-Ferry, Indhira Santos, “Reshaping the Global Economy”, in *Finance and Development*, March 2009, p. 11.

⁴ ***, *Global Financial Stability Report*, 2009, [www.imf.org/external/pubs/ft/fmu/eng/2009/01], 18 March 2009.

registered a fall alongside the sharp slowdown of global trade, macroeconomic risks have risen. Credit risks rose due to the deterioration of economic and financial conditions and funding risks increased as a consequence of the flight from risky assets and illiquid market conditions. In addition, the insurance companies and pension funds are extremely exposed on the asset side. Mutual and hedge funds have been hit and experienced losses of assets as investors shift to safer assets.

Governments have to support financial intermediations sometimes due to the fact that liquidity has been stored up by banks and interbank markets are dysfunctional. When this happens intermediation channels can be functional to some extent.

GFRS estimates for 2009 and 2010 that for US and European banks this would result in net capital shortfall of at least half a trillion dollars. The main policy measures recommended by the October 2008 GFRS are: provision of ample liquidity and term-funding support from central banks; bank recapitalization; measures to address problem assets. Financial policies have to be internationally coordinated and comprehensive in order to limit the unintended cross-border effects. The comprehensive and coordinated approach should become a strategy incorporating the following elements in GFRS opinion:

- ✚ A movement toward recapitalization and measures to deal with distressed assets
- ✚ Urgent short-run policies and actions, consistent with the long-run vision for the structure of a viable financial system
- ✚ Clear and consistent rules for the process toward a more stable financial system
- ✚ International cooperation on a common framework for financial policies.

Globalization was challenged even before the actual crisis because not everybody had the benefits of free trade, movement of capital and jobs. Critics considered that globalization is favorable mainly for the wealthy and for capital, not for the poor and labor.

At the beginning of the crisis the accent was put on the supervision of financial institutions and on market regulation and not on the roots of the crisis. Capital-importing countries, especially from Central and Eastern Europe were severely hit due to the fact that they had preexisting

imbalances and called for IMF assistance but also countries like Korea, with accumulated foreign exchange reserves.

The contraction of international trade is a channel of transmission as well as factor for the acceleration of output contractions. The crisis demonstrates the lack of resilience of the global economy despite the regional integration and emergence of new economic powers. The crisis is affecting the drivers of globalization such as globally integrated companies, private ownership, the global supply chain and open markets. Globally integrated companies suffered due to the collapse of banks acting across international borders.

*“Public participation in the private sector has increased significantly in the past few months. Of the 50 largest banks in the United States and the European Union, 23 and 15, respectively, have received public capital injections; that is, banks representing respectively 76 and 40 percent of the pre-crisis market capitalization depend today on taxpayers. Other sectors, such as the automobile and insurance industries, have also received public assistance. Whatever the governments’ intention, public support is bound to affect the behavior of once-footloose global firms”.*⁵

National responses to the crisis can lead to financial and economic fragmentation. In case governments are asking banks to continue lending to domestic customers the credit is disproportionately rationed in foreign markets. Taking into account that companies from less developed and emerging countries are dependent on foreign credits, they are extremely vulnerable to financial protectionism.

World Bank, considering that around 40% of the developing countries are highly exposed to the effects of the crisis, launched new initiatives such as: a \$ 1.2 billion Global Food Response Program (GFRP) in May 2008; a facility to speed \$ 2 billion in order to help the poorest countries; money should be used for infrastructure, education, health, safety nets; a support

⁵ Pisani-Ferry, Santos, *op.cit.*, p. 10.

of about € 7.5 billion to help the Eastern European banking sector and to fund lending to businesses affected by the global economic crisis.⁶

We can observe a surge in liquidity in recent years around the world and this global excess liquidity can influence the euro area inflation. "Global liquidity is often defined as a measure of the monetary policy stance that determines the supply of cash, by definition the most liquid asset. An alternative concept is that of global market liquidity. The degree of market liquidity is higher the lower the expected costs incurred by converting an asset, at any point in time, into cash".⁷

The results of the study we are mentioned here are pointing toward the need of corrections for long-run output and interest rate effects and to the fact that mainly global excess liquidity is related to future inflation rates in the euro area. The explanations of the results in economic terms stress the indirect effects working through a reaction of euro area liquidity to global developments but also the fact that direct effects can be important due to the fact that they are operating through international prices for commodities and assets.

Another explanation is that monetary policy is less effective under a regime of global excess liquidity. "Interestingly, there is some evidence that global liquidity regimes impact the monetary transmission mechanism in the euro area. (...) However, if correct, it would suggest that the documented influence of global liquidity on euro area inflation could, at least in part, be due to changes in the ability of monetary policy to lean against the tides in international financial conditions".⁸

IMF Mission, headed by Mr. Jeffrey Franks, visited Romania between January 27 and February 4, 2009. The conclusions were that Romania is affected by the global recession. In the final statement it is stressed the fact that output indicators deteriorated in the last months of 2008, exports decreased, credit availability tightened and investment and consumption are expected to fall.

⁶ ***, *Economic Toll Mounting in Developing Countries*, 2009, [www.worldbank.org/html/extdr/financialcrisis], 18 March 2009.

⁷ Berger, Harjes, *op.cit.*, p. 3.

⁸ *Ibidem*, p. 19.

“Thus economic activity will be weak, and GDP growth may well turn negative in 2009, with a moderate recovery only toward the end of the year or early-2010. While it is true that uncertainties surrounding the forecast are high, we believe that the balance of risks is on the downside”, said Mr. Franks.⁹

The mission underlined the fact that the main problems facing Romania are the imbalances within the Romanian economy. In this respect, government and balance of payments deficits heightened the country vulnerability to external shocks. In addition, the slow action on structural reforms made the economy less productive and less capable to respond to the downturn. Government spending doubled between 2005-2008 and spending is, according to the IMF, too high and it will not be possible to ease the fiscal policy.

The IMF is supporting the objective of reducing the fiscal deficit to around 2% of the GDP and the intention of the National Romanian Bank to remain focused on achieving the declared inflation objective. Nevertheless, the Bank does not have many possibilities of easing the monetary policy unless we will have a macroeconomic policy package in place, meant to stabilize the economy and to reduce the fiscal deficit.

We should mention also the recent EU efforts in order to be prepared for cross-border financial spillovers, so the National Romanian Bank should monitor banks' risk management, the capital adequacy and the capacity of absorbing adverse shocks.

The provisions are that the insurance Romanian market will register a decrease in this year and that the insurance companies do need an infusion of capital of around 250-300 millions euro in 2009 in order to rest solvable. At the present the insurance companies do not have big problems but the crisis stopped the sales of insurances associated to various banking products.

The Minister of Public Finances and the National Romanian Bank started discussions with the representatives of IMF, International Financial Institutions and European Commission in order to make an evaluation of the external financing necessity of Romania. After a 10-years period of growth, in 2009 the economy could decline. Even officials from the Finance

⁹ ***, “Statement by the IMF Mission to Romania”, in *IMF Press Release* No.09/24, 2009, [www.imf.org/external/pubs], 7 February 2009.

Minister admitted that our GDP can decrease and that Romania can face recession.

The agreement Romania is preparing to sign with the IMF might be conditioned by austerity measures such as: wages freezing, the cut down of public spending, a possible increase of taxes, which will lead to price increase, the depreciation of the national currency.

Some analysts believe that a € 20 billion credit from IMF at a 5% interest rate for 2 years mean that Romania should return € 22 billion, which will represent around € 5,000 for each employee.

We should mention that the credit will enter the reserve of the National Romanian Bank and will be used only when necessary, in cases of speculations regarding the exchange rate. $\frac{2}{3}$ of the credit will be managed by the National Romanian Bank and $\frac{1}{3}$ by the Finance Minister.

In addition to this credit, the EBRD intend to invest € 300 millions in Romania this year in order to sustain the real economy, local banks and energy projects. Until now, EBRD invested in Romania € 3.8 billions and help for the attraction of financial resources of € 7.2 billions.

Conclusions

The spillovers that could limit the effectiveness of actions of individual countries or create adverse externalities in the actual context are:

- ❖ Fiscal stimulus can discourage countries with a high degree of trade openness because the amount of stimulus in order to achieve a certain degree of increased output can be large in open economies. “The flip side of these spillovers is that if all countries act, the amount of stimulus needed by each country is reduced (and provides a political economy argument for a collective fiscal effort). At the same time, this collective fiscal effort must be tailored to individual country circumstances to take account of external imbalances, the effects of automatic stabilizers and the degree to which each country has fiscal space”.¹⁰

¹⁰ Antonio Spilimbergo, Steve Sysmanky, Olivier Blanchard, Carlo Cotarelli, “Fiscal Policy for the Crisis”, in *IMF Staff Position Note*, SPN/08/01, 29 December 2008, p. 11.

- ❖ Some interventions such as subsidies to industries in trouble can be perceived as unfair/hidden industrial policy by trading partners.
- ❖ Organized groups may advocate non-tariff protection to limit imports or introduce export subsidies.

We can say that a concerted international effort is needed and a stronger coordination. The action should be widespread in order to maximize its effectiveness and actions proving to be the largest multipliers should be favored.

The liberalization of financial markets and international capital flows without an appropriate supervisory regime can lead to a credit boom with the consequence of record house indebtedness and a major investment boom for the corporate sector with the majority of investments occurring in residential and nonresidential construction, services and real estate. This boom can increase external imbalances and inflation (see the crisis in the Nordic Countries).

The emerging countries are affected by the difficulties of the developed countries and there is the possibility that the pullback of investors and the rise of financing costs to erase some economic gains of these countries from the recent years.

Romania will, probably, have a public deficit of over 4% and a negative rate of growth of around -3% and -4% according to IMF predictions. April will be the worst month and after the economy will recover gradually.¹¹

Structural reforms should be re-started for making the economy more productive and the implementation of government policies is needed for restoring public confidence and economic growth.

Restoring lending, a stronger national currency or at least stable can be the positive outcome of the credit. Receiving this amount of money in its reserves, the National Romanian Bank could allow the commercial banks to reduce their minimum compulsory reserves and to lend the population and the companies so the latest could return their credits. In these conditions, the external credit could lead to decreased interest rates and increased

¹¹ Daniela Ivan, "Recesiune și deficit bugetar de 4%", in *Jurnalul Național*, 19 March 2009, p. 8.

liquidity on the market. But the credit from the IMF will have also negative effects as bigger taxes, cuts of wages and increased unemployment.

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BOOK REVIEW

Andrei Marga, *The Crisis and Thereafter*, Cluj-Napoca: Eikon Publishing House, 2009

Mircea T. Maniu*

According to my knowledge this is the first book that was published in Romania and covers the delicate issue of the financial and economic crisis, within the new political juncture of post communism. It seems that nowadays significantly less persons than expected are aware of the nature of cyclical movements that illustrate the evolution of a free economy, therefore such an approach has a true educational potential. Not to mention the lack of information among the practitioners. But the real intrinsic value of the research conducted by Professor Marga lies probably deeper, in the comprehensive inter-disciplinary approach, well known to this author from previous works. It is quite obvious for many that the background of the present day crisis in Romania is much more sophisticated, due to the cultural, philosophical or other non-economic components that were long time forgotten but should be properly encapsulated in any crisis model. Usually this could be done only with extreme difficulty and making operational various research type of skills. It is precisely what this book attempts, and in my opinion succeeds to do.

Starting with the theoretical aspects that illustrate the upward and downward movements of the economy, or the so called dialectics of the crisis, the author takes us in a true journey across the main ontological issues of the science of Economics. From *Hegel*, through *Hume*, *Marx*, *Weber*, *Sombart*, *Habermas*, *Husserl*, and towards the modern world of economists such as *Keynes*, *Galbraith*, *Stiglitz* or *Krugman*, no relevant name for the domain escapes the scrutiny. But what makes the difference is the fact that

* Mircea T. Maniu, Ph.D., is Associate Professor at Babeș-Bolyai University of Cluj, Faculty of European Studies. E-mail: mmaniu@euro.ubbcluj.ro

the works of all these is interpreted in the mirror of the future. Escaping the crisis, no matter of what sort, under the spyglass of specialists at a certain moment, is the blueprint of this opening part of the book. Moreover, two issues are underlined and interpreted in a very personal and personalized manner. Firstly, the cultural dimensions, measured on both domestic and global scales, induce a more profound and socially sound vision of the economy. Secondly, it is the new technological environment that makes this crisis so different from any movement of this sort, as registered in the economic history books. Tackling the crisis as a “classical” patterned one would be a significant mistake and we are indeed told why we should switch towards new paradigms of development.

Following this path the author takes us in a geo-political and geo-economic journey in America, the place of emergence of the crisis in so many opinions, then in the European Union and basically all across the developed world. Various views, from that of the former president of the US Federal Reserve, *Alan Greenspan* to those expressed by the most vocal representatives of present day German social market economy (*Sozialmarktwirtschaft*) are considered in their complexity of assets and liabilities framework. The policies of the European Commission, the views editorialized by prodigious publications such as *The Economist*, all these are “melted” and then “sublimated” in a set of precepts and mainlines that could be applied to the state of the facts of the economy and society in nowadays Romania. Actually the author’s dedication for the domestic features of the crisis is obvious and could be noticed throughout the book. No matter which ideas or facts are debated, they are eventually brought to the level of understanding and acting of an “educated citizen” of this country.

When elaborating in this area, it is a hidden secret that the author swims in familiar waters. And it does it quite vividly and incisively. The need for ethical education seems endemic throughout our modern history and unfortunately all the attempts to correct what we inherited from several previous regimes proved unsuccessful. In his final and meanwhile conclusive essays, *Economy as a cultural approach* and *The Sense of Learning History* the author depicts some of the commonalities of today’s Romania,

issues that instead of flattening the impact of the crisis, have a pro-cyclical effect. Bad policies, poorly professionally educated persons in power, *wrongly built procedures, are definitely the recipe for regress for any country, not only ours. It is obvious that the author has a his own strong views concerning the path that should be taken by Romanian governing bodies in order to get out of the deadlock. I would say, considering the style of this writing, that an overall optimism concerning the future “breathes” from many of the lines of this book. I would say that opposed to the grim background of the current day Romanian views of the issue, this standpoint looks refreshing to say the least.

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