GLOBALIZATION AND THE EVOLUTION OF THE GLOBAL FINANCIAL SYSTEM IN THE CURRENT FINANCIAL CRISIS

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Abstract. *Globalisation is best exemplified nowadays by the stage of integration of the capital markets. The free movement of capital engages the countries in a global competition, makes them vulnerable in front of the multitude of speculative transactions.*
The globalisation comprises change processes of a spatial and temporal nature, which support a transformation of the organisation of the inter-human relationships, by connecting and extending the human activity across regions and continents. As a result, first of all, the concept of globalisation implies an extension of the social, political, economic and financial activities across frontiers, so that the events, the decisions and the activities in a particular region of the world may influence the people and communities from other regions of the world. We are all accomplices in causing these financial crises.
The financial crises made their presence felt all throughout the modern economy history, they all represented major challenges at an international political level, although many of these crises did not have a large scope and did not develop into large crisis that would have encompassed the sector of the real economy. In the developed countries, the financial instability takes the shape of the banking and monetary crises, while in the underdeveloped countries, it is a mix of the two, accompanied by the increase in the difficulties linked to the service of the external debt. Both the financial crises in the middle of the `90s and the current crisis we are experiencing nowadays have had a great impact on the economic security of people in different parts of the world. This engendered a sudden change in the volume of the foreign investments flows, leading also to the reconsideration of the financial system, overall, by the great players in the international arena.
The tendency of the financial crises towards instability caused numerous efforts to be oriented towards generating a general pattern of the financial crises.

Keywords*:* financial crises, real economy, financial markets

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1. Introduction

The last century witnessed a series of financial “obsessions, panics and crashes” which were felt more or less all over the world. The period we are passing through now is no exception to the shocks experienced by the financial markets.
As the connections between the worlds economies have tightened, the effects of the crises spread at a higher and higher speed, causing the governments and the citizens to become more and more worried about the frequency and the volume of the devastating impact of the movements on the financial markets. By way of consequence, we may speak about a crisis globalisation in the context in which no nation remains out of the reach of the gloomy effects of the crises faced by the world.
The financial crises are characterised by large-scale failures, both of the financial and non-financial enterprises, usually accompanied by a decrease in the incomes and prices all through the economy. In principle, the implications of such crisis can be limited to a

single country, but actually, both the financial interdependence and other forms of economic interdependence mean that these ones are transmitted at an international level, as a result of an all influencing phenomenon.

2. Premises and causes a new financial crisis

We are now at the core of the most serious financial crisis since 1930. In several respects, it resembles other crises appeared in the last twenty-five years, but it also differs clearly from the latter: the current crisis marks the end of a period of credit expansion, using the dollar as the international reference currency. The previous periodical crises were part of a wider advance-decline process; the current crisis represents the climax of a huge impetus that lasted for more than twenty-five years. (Soros, 2008, p.68)

In order to understand what is going on, we need a new paradigm. The paradigm at work nowadays, according to which the financial markets tend to reach a balance, is both false and deceiving. The new paradigm we are talking about does not concern only the financial markets, being based on the rapport between thinking and reality and supporting the idea according to which the misinterpretations and the misconceptions play an important part in shaping out history.

At present, the world is confronted with a situation similar to the one created after the start of the crisis that lasted between 1929 and 1933. The majority of the states are preoccupied with establishing and applying solutions which may alleviate the effects of the crisis that started in 2007 and has continued to increase; solutions that must concentrate first of all on the causes that have generated the current crisis, so that, in the future, a new crisis of this kind might be avoided.

The current crisis came slowly but surely. It could have been anticipated seven years before.

Since the ’90s, the financial engineering started restructuring everything it laid hands on, and first of all, the mortgage credit. The principle is relatively simple: the bank forms a special vehicle in which it collects the credit contracts and then issues *via* this vehicle a series of obligations to whose tranches each one is attached, at a certain credit file; this enabled to obtain the borrowed sums and generated a credit explosion. (Mâșu et al, 2009)

Numerous investment funds came in the situation to borrow in order to buy these attached obligations. But as these had a higher interest than that of the loan, the investment generated substantial profits. The banks participated in this by creating investment vehicles as their own investment channels. In order to protect themselves from any loss of control, they covered their assets by means of derived financial products that covered against any loss or disruption caused by a certain instrument. As a result of this financial engineering, the risk fell under the zero level, at least theoretically.

By using all these products, the banking system created a balloon of speculative operations, operations that took place without encountering any problem as long as the ones who borrowed initially paid their debts. But since 2005, the credit holders no longer succeeded in reimbursing their debts because the interests practiced by FED increased very slowly, and also because the value of the assets put as pledge crashed, so the creditors no longer succeeded in recovering the volume of the granted credit.

At the beginning of 2007, both the actors of the real estate market and the credit institutions realised that the number of their clients who could not pay their debts was increasing. What is paradoxical in this crisis is the fact that, since the beginning, the American bankers knew that this could end in a bad way and hired these subprime credits that is they called them this way because they knew that there was the possibility of the impossibility of their reimbursement.

In spite of the recent failure of the risk management professionals, the markets will start to amend themselves. The financial institutions are reducing their indebtedness degree, and the necessary capital reserve for banks or investment societies is on an upward slope.

This change is not taking place due to the regulations, but, to a large extent, due to the fact that the financial partners impose on themselves and mutually the respect of the conditions.
The current crisis extended, through the network of banking channels, from the USA to Europe and afterwards, all over the world. Since the latter half of 2008, the crisis has been global, encompassing all the economic sectors, but also international, affecting the great majority of the national economies.
In just a few years, it is almost certain that we will be in an economic world much different from the one we are accustomed to. The severe credit crises have led throughout history to deflation: a period in which the economic activity takes place passively, in the best of cases; it is the reign of cash, and the goods and the means of production sell cheap. But this is not the landscape we will emerge in from the current crisis. (Greenspan, 2008)
Even if credit creation is the foundation of the wealth-generation process; it is also the cause of financial instability. We should not allow the merits of the former to blind us to the risk of the latter. We are lucky enough to have inherited the best monetary and financial architecture in history. The system comes complete with a central banking system, which, if used properly, should be able to contain the inherent instability of our credit system, and thereby enhance our long-term wealth-generating capacity. (Cooper, 2008)
The global financial stability map (Figure no. 1) presents an overall assessment of how changes in underlying conditions and risk factors bear on global financial stability in the period ahead.

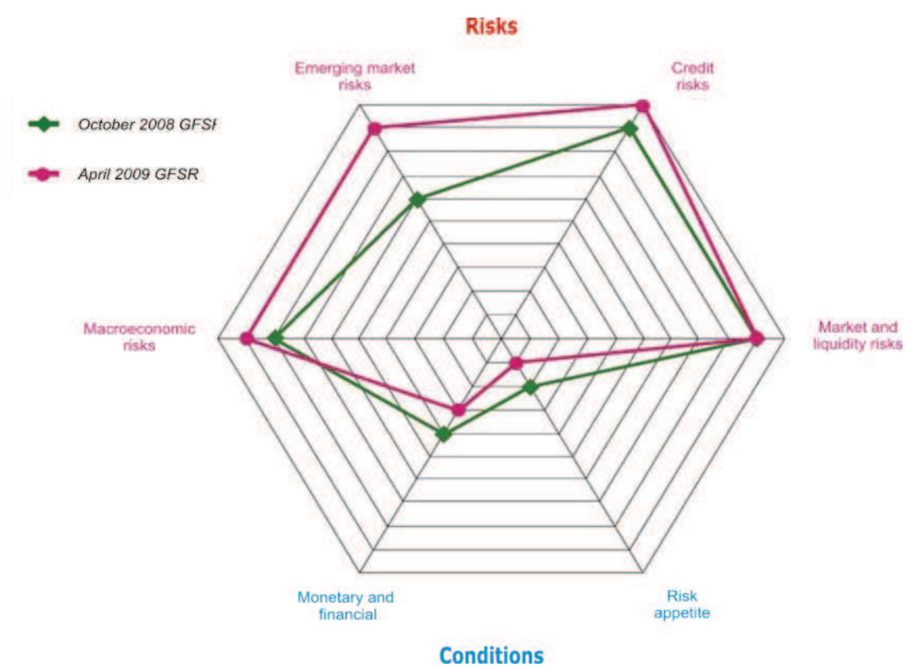

Figure 1 Global Financial Stability Map
Source: IMF, Global Financial Stability Report, 2009, p.16

As we can see, nearly all the elements of the map point to a degradation of financial stability, with emerging market risks having deteriorated the most since the crisis beginning in 2007. The economic downturn has gathered momentum, resulting in deterioration in macroeconomic risks. The IMF's baseline forecast for global economic growth for 2009 has been adjusted sharply downward to the slowest pace in at least four decades. Global financial stability has deteriorated further, with emerging market risks having risen the most since the 2008. (IMF, 2009)

Thus, in July 2007, the crisis started on the mortgage credit market in the USA, which was then felt in other countries, as well. A year later, what was initially defined as mere ephemeral financial turbulences became an economic world crisis in full swing, being the biggest economic crisis after the one recorded in history eight decades ago. (Adumitrăcesei, 2009)

The mortgage credit crisis fully struck both the Western and the European banking sectors, causing the collapse of big financial colossi and of what once used to be the powerful economies of many developed countries. No sooner had those who had taken credits from the banks not been able to give back the loans, on the construction market, than those banks announced imminent crash. Consequently, the construction industry was the place the current crisis started on, but which spread rapidly afterwards.

In the last years, to many people's satisfaction, the banks invited their clients fervently to contract loans, in most of the cases operating on a simply mathematical level. The real economy had added a virtual component, which it turned out to be dependent on; when this one no longer functioned, the real economy started to tremble. The financial crisis is no longer (as it is believed to be) the crisis of the virtuality based on mathematics and informatics; the current crisis already is a credit crisis, a liquidity crisis etc. The restrictions in granting credits and the hesitation to invest have spread almost everywhere.

Nowadays, it is not only the construction market that has already reduced its size, but other markets as well: the product distribution has become difficult, the credits are granted very strictly, the shares of the companies on the market decline, even the economic initiative is at a standstill. Although there are opinions according to which the current crisis is drawing towards its end, nobody can foresee neither its end nor the safe way towards the exit from this situation. (Marga, 2009)

Besides the thirst for credits, or, better said, the thirst for great profits "overnight", the current crisis had other causes, as well.

First of all, the tendency of maximisation of the profits obtained by a small majority (represented by the shareholders and the directors of the great multinational companies) caused the unprecedented amplification of the speculative operations. Within these operations, an increasingly high weight was gained in the last years by the derived contracts, these being in fact bets on possible fluctuations of the price of the shares, the bonds, the currencies or even the stock index. This tendency of profit maximisation, especially through the amplification of the speculative operations to the detriment of the real economy, inflated more and more the sphere of the nominal economy, like a soap bubble, bubble that exploded with the outbreak of the current crisis.

A second cause of the current crisis lies in the heightening of the discrepancy between the real economy and the nominal economy, due to the spectacular increase in the volume of the speculative operations. In recent years, the speculative operations have become prevalent in the sphere of the nominal economy, which created a real disruption between the two spheres of the economic life, generating the current economic crisis. In the context of the crisis, the markets reacted suddenly: the demand for "exotic" securities sustained with assets crashed rapidly. The incapacity to establish a fair price for this kind of instruments convinced many people to stop investing in them. In the absence of the interest on the part of the investors, a significant number of these products that remained incomprehensible to the initiated ones will disappear from the market. The innovation in finance, as in any other sector, had its winners and its losers. The latter leave the field of financial speculation, sometimes crashing noisily and disrupting the others' activity.

The eruption of the financial crisis and the uncertainty provoked a crisis in the real economy. Individuals, suddenly uncertain about their job prospects and facing more expensive and difficult to-obtain financing, delayed purchases that could be put off, typically consumer durables such as automobiles, refrigerators, and televisions. Similarly, firms delayed the implementation of investment projects, preferring to wait and see if such projects would remain profitable under future demand and financing conditions. This increase in precautionary saving (and the associated reduction in investment and consumer demand), together with increased borrowing costs and tighter lending standards, explains the unprecedentedly rapid fall in global demand for manufactured goods during the fourth quarter of 2008 and the first quarter of 2009. Moreover, while consumer demand has and will recover, saving rates are unlikely to return to earlier low levels, because households will continue to save to restore a proportion of the financial wealth destroyed during the crisis. (World Bank, 2010)

In the third place, the current crisis was generated by the promotion of policies that were based on the exacerbation of the role of the markets and on the limitation of the states' role, both within each national economy, and at the level of the world economy. The policies adopted by the international financial institutions concerned mainly the profit maximization and the growth of the big multinational companies. The application of these policies has led to the malfunctioning of the majority of national economies and of the international economic relationships, which has definitely contributed to the start of the current crisis. Of course, the determining role in engendering chaos on the financial markets was held by the tendency of maximization of the profits obtained by the globalisation promoters – the multinational companies. This tendency brought about the adoption, by the great actors on the international scene, of several policies based on the free functioning of the markets and on the reduction of the economic role of the states in the functioning of these markets – the deregulation.

Some people think that the intensification of the regulation could improve the performance of the financial markets – the idea that a single institution should become the regulating factor of the market stability, with the authority of highlighting the potential imbalances. Indeed, the international financial community made many efforts in recent years to institute such a kind of supervision, but none of them has succeeded in preventing or amending the crisis humankind is facing nowadays. Those who make the economic policies cannot anticipate with sufficient certitude the financial and economic shocks and the consequences of the economic discrepancies. This will never take place as predicted. This is why the financial institutions must have important capital and liquidity reserves, due to which they may cope with extreme situations, like the one we are being confronted with nowadays.

The financial and economic crisis that started in 2008 left people perplexed. In the age of the greatest scientifical and technical revolution and of the most constant economic growth in modern history there appeared, relatively suddenly, the signs of the inability to pay and of the insufficiency of the financial liquidity. These were followed by the credit reduction, then by the decrease in the economic activity and by the unemployment, with the subsequent social and political concerns.

Although the current crisis is in full swing, we can underline a few resemblances with and differences from the crisis in 1929-1933.

In the first place, just like the previous crisis, the current one started in the USA once more and, once again, developed as a lack of stability of the financial market, at first. In the second place, the current crisis has an international nature, affecting, to a greater or a less extent, the majority of the countries. In the third place, just like the previous crisis, the current one tends to include all the sectors of the economic life. In the fourth place, just like the previous crisis, the current one is supposed to be a long-term one, with profound effects both at the economic and financial level.

What differentiates the current crisis from the previous in the first place, is the encompassing sphere of the capitalist system in the world. This crisis encompasses a greater manifestation space because the majority of the countries are governed by this capitalist system embraced once the socialist system collapsed. In the second place, another difference consists in the growth degree of the international labour division. Based on the scientific and technical progress, the international economic relations diversified and amplified more and more. As a result, the interdependences between the international economies became stronger and in this way was achieved the market globalisation, which favoured in particular the multinational companies and the developed countries. Finally, another difference consists in the current stage of the relationship between economy and nature, a quite concerning situation if we come to think that the industrialisation of the majority of the countries affected this relationship seriously. The differences between the current crisis and the previous one can be expected to concern both the encompassing sphere, and its intensity, and, by way of consequence, the scope of the generated economical and social effects.

Responsible for the increasing frequency of the financial crises is the financial globalisation, although the financial liberalisation and the innovation, combined with the free capital movements, are fundamental factors for the economic growth, together with high rates of savings, budgetary discipline, weak inflation, quality institutions and high human capital levels and technological development. (De la Desha, 2007)

The global financial markets expose and sanction, by highlighting the economic difficulties; at the same time, they facilitate the transmission of the financial distortions, at the highest speed and more efficiently than ever. This means that the shocks affect other countries and crises spread much more easily.

The facts have proven that the market liberalisation, the free flows of capital and the financial innovation have their own problems – there where these conditions prevail, the financial crises tend to happen more frequently.

The globalization of the financial markets was a successful project of the market fundamentalism. If the financial capital is free to circulate, it becomes difficult for any state to tax it or to regulate it, since it can move elsewhere. This fact places the capital in a privileged position. The governments must often take into account rather the requirements of the international capital than the desires of its own population. This is the reason why the globalisation of the financial markets served the objectives of the market fundamentalists so well.

The potential benefit of financial globalisation for the emerging economies, results from the same unique factor which differentiates the emerging economies from the developed ones. We count weaker productivity and level of income and, as a result, the policies which try to transmit information and to solve the imperfections of the credit market and to improve the institutions by increasing transparency, ampler information and better banking regulations, which can be insufficient for the prevention of the crises in these emerging economies. (Martine et al*,* 2002)

The growth at an international level of the financial crisis started in our country in 2008 by the deregulations and the errors of the banking financial system and the desire of the shareholders and of the leaders of this system to maximise their profit have affected almost all the countries developed from an economic viewpoint.

3. Romania in the current crisis - facts and solutions

Although it is far away from the epicentre of the financial crisis, Romania's economy is not sheltered from the effects of the decline that has brought the big international markets to their knees. And the most affected economic sectors are the ones which, not long ago, multiplied the investors' money overnight. The Bucharest Stock Exchange occupies a top position in the range of sectors seriously affected by the financial crisis. The limitation of the exposure in the area of the foreign investment funds basically made the quotations of the most liquid actions collapse.

The current financial crisis affected the banking system in several ways; first of all, the decrease in liquidity. Secondly, the increased strictness of the crediting conditions of the population reduces the access to credits in currency. The external context also left its mark on the exchange rate, which has recorded a high volatility lately. This crisis was generalised to the whole banking network of the planet, in the entire world economy, particularly due to its globalisation, invalidating the hopes that the effects of the financial crisis will be limited to the USA and Europe, through the decoupling of the emerging economies.

At an international level, we can talk about four big orientations regarding the recovery and the reform of the markets stifled by the crisis:

- the integrity of the financial markets, the big world banks must meet annually and create supervision bodies for all the big financial transnational companies;
- the reform of the financial institutions, IMF and the World Bank in the sense of strengthening the financial stability and of re-establishing credit flows towards the emerging countries;
- exactness and rigour in the operators' functioning;
- support for the world economy, by way of recovery policies, which confirms the fact that the way out from the crisis and recession depends to the largest extent on the content and the strictness of the ensemble of measures applicable to both of the components of the problem: recovery and reform, reform and recovery.

Starting from the main causes that generated the current crisis, we can suggest a few anti-crisis solutions, possible to be applicable.

The first solution would be avoiding the absolutisation of the profit maximisation all throughout the economic life. This solution would eliminate the objective basis for the amplification of the speculative operations and would ensure the appropriate correlation of the nominal economy to the demands of the real economy. In this context, the evolution of each national economy, and also the evolution of the international economic relationships are based on the passing from the profit maximisation tendency towards the achievement of a triple efficiency (economic, social and ecological).

The second solution would be that of coming back to the natural relationship between the real economy and the nominal economy. This would suppose that, in the ensemble of the economic life, the real economy might have the determining role, while the nominal economy could always adjust to the demands of a healthy development of the real economy.

The third solution consists in the appropriate combination of the role of the markets and of the state's role in the functioning of the economic life in every country, as well as in the international economic relationships. This way, all the three solutions aim not only at the attenuation of the effects of the current economic crisis, but also at the prevention of the initiation of a similar crisis in the future.

4. Conclusions

The current crisis extended, through the network of banking channels, from the USA to Europe and afterwards, all over the world. Since the latter half of 2008, the crisis has been global, encompassing all the economic sectors, but also international, affecting the great majority of the national economies.

Emerging from the crisis started in 2008 will imply the adoption of several measures of financial, economic and social nature. The current crisis was caused by the way in which globalisation has been practised until today and, in this way, by the type of development adopted in recent decades. This development type is already being questioned and will be changed in one way or another, in accordance with the resources of each country, and with the role that will be assumed by the great actors on the international scene.

Undoubtedly, not all the crises are the same. We could consider the current crisis as the first global crisis, which marks the passing to a new stage, both for the majority of the world countries, and for the overall development of the economy. It remains true that this statement will be fully understood only when the current crisis has ended.
In spite of this, the current crisis will not put an end to globalisation; on the contrary, the globalisation will take place in a different way, there will be mutations, a shifting of the gravitation centres and perhaps a different interaction system of the national and international actors.

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