

ON THE VERGE OF A NEW SYSTEMIC CRISIS – HOW DID WE GET HERE?

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ABSTRACT

In the past 60 years, the unregulated market and the limitless potential of financial innovation have deceived economists, brokers, and everyone else involved in the economic "game". Overconfidence in the system caused the crisis, but actual reforms and proactive crisis management appear to be shaping the new economy: crisis economics, a fresh viewpoint on economic catastrophe. In order to provide broad guidance on the economic outlook, this paper's overall objective is to develop a wide picture of market regulation, the evolution of the global currency after the crisis, and global economic administration.

KEYWORDS: *crisis, economic stymulus, Kondratieff cycle, regulation.*

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1. INTRODUCTION

The Kondratieff cycle contains the idea of an economic crisis. After a time of affluence, the rational being has a propensity to forget the issues that were there. Because of a phenomenon known as "letting the guard down," which is like what happens in sporting competitions when a boxer with superior physical and psychic abilities realizes that his opponent is of lower caliber, he becomes careless in his approach and his behavior at work, making it possible for an unexpected defeat that can eventually become the norm, the longer the period of prosperity lasts (Ladaru et al., 2022).

The approach of each opponent with the same care and attention may be seen as a component of the global economic "game," with the global economic life being represented by the stock market and financial instruments that are well-regulated (Sarbu et al., 2021). The post-crisis regulation phenomenon will be examined in this paper in order to observe what changes were made to the American institutional framework in order to ensure a more secure economic future.

2. REGULATION IS THE FRAMEWORK FOR GOVERNING A MARKET

The distinction between theoretical regulation and practical regulation, which maintains that practical setting must be done directly and intelligently, is at the core of this research component (Profiroiu et al., 2020a).

This regulation may be achieved by a market uni-systematization that must be carried out exactly and clearly by only one regulatory entity, not by many different organizations that can guarantee a higher level of market efficiency (particularly in the financial services industry). An effective audit

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of problematic regulatory institutions is desired, emphasizing the notion that the issue is with financial services rather than their implementation of supervision (Litra & Burlacu, 2014).

It is emphasized that the regulation of market development via effective monetary policy may prevent the emergence of speculative bubbles as a solution to the chaotic evolution of the financial services market and of the impacts' propagation rifts (the butterfly effect).

2.1 Free will

The presence of shadow banking, which is represented by financial services organizations that are seen as being of same significance to banks but are built on high risk assumptions via derived hedging from instruments with a significant proportion of banking and consulting services as their foundation (Burlacu et al., 2021). The emergence of inadequately regulated financial services corporations, which are the organizations that operate as the exponential multiplier for the systemic impact of the crisis, is an issue that was also prevalent in the US and Romania.

For instance, AIG, a prominent Fortune 500 company, made the wrong decision when it came to providing financial services and fell victim to the classic market trap: service differentiation creates organizational tension that prevents internal supervision, which leads to the appearance of small "cracks" in its flawless exterior (Bodislav & Taşnadi, 2010). Donald Trump highlighted this rule two decades prior through his bankruptcy in 1989 (Trump, 2005).

A fact that can be considered inefficient is not regulating low income companies because they can create accumulate into a greater volume that can bring failure to the market (we can consider this). The Obama administration's solution for the year 2011 was to excessively regulate the banking system and the financial services system through extra-supervising of the business component that exceeds a 68 given income or of a given value of the cumulated assets of the company.

In order to circumvent the law through off-shore locations and various purposes headquarters, the self-regulation solution is based on some general principles that represent the answer provided by bank lobbyists to the government. This could lead to the self-regulation solution failing. The development of derivatives instruments regulatory codes increased from 700 pages in 1989 to 6000 pages in 2011, and then 9000 pages in 2022; this over-specification of rules is desired to be more efficient.

The introduction of indicators correlated to maximum potential risk is highlighted as a solution by renowned professor Nouriel Roubini from New York University (Roubini & Mihm, 2010). However, in my opinion, the model introduced to the market by professor Roubini would be more effective if a solution that calculates the risk by equating the risk of owned assets with the level of assumed risk were factored in.

2.2 Coordination and usability

In the US, the issue of excessive federal organization regulation and state organization regulation emerges. The ineffectiveness of existing private regulatory entities (which have a tendency to make an economic-efficient arrangement for their own benefit) can be added to this problem, giving rise to a new issue: the bank will likely choose a lax supervising system when selecting a supervisor.

There are two methods to handle the issue facing the overseeing organization:

- the British solution is the Financial Services Authority (FSA), which regulates the banking, insurance, stock market, derivative financial instruments, and mortgage systems, but this approach is ineffective in the context of financial globalization (Roubini & Mihm, 2010);
- the German approach is the establishment of a global super-regulator, which is structurally similar to the European Central Bank but is ineffective when applied to the European banking market.

3. CONTRASTING SOCIAL AND ECONOMIC STIMULUS

The "noble lie" of ancient times held that guardians were superior to commoners in terms of social behavior (Platon, 1993); they desired the expansion of the republic not out of self-interest but because doing so would reward them internally. Because personal interest now trumps common sense and financial geniuses seek profit and revenue at any costs, this idea is out of date. The "noble lie" issue in 2011 is related to the regulators' underwhelming efficiency in receiving compensation when compared to financial services firms (such as Goldman Sachs). The idea of hiring individuals who lost their jobs as a result of the financial services sector crisis between 2007 and 2011 and including a clause in their employment contracts requiring them to agree not to work in the same industry as the regulator is one real solution. Specialized lobbyists that participated in the US election campaign weakened this contract arrangement. This is a touchy subject because the figures contradict the fact that Barack Obama was elected (Citigroup, AIG, Goldman Sachs and other financial services companies donated 80% of the campaign's total value, and they received 45 billion from the government program known as TARP, which had a 700 billion dollar initial value). The final showdown with John McCain was estimated to have cost \$1 billion in 2008 (in a distribution of 10 to 3 for Obama), and all of the funds were raised through donations (MacAskill, 2008); George Walker Bush used a similar strategy in 2000 (total cost of final showdown: \$528.9 million dollars), when he was supported by Enron (deregulated electric energy trader; largest stand-alone bankruptcy: 65 billion dollars).

3.1 Bad habits die hard

The phrase "too big to fail" was used to describe a group of companies that were "too big to fail," including Fannie Mae, Freddie Mac (a state-owned corporation), and Long-Term Capital Management (a hedge fund that filed for bankruptcy in 1998 due to its long terms on investment maturities rather than its assets – Roubini & Mihm, 2010).

JP Morgan Chase, Bank of America, Wells Fargo, and Citigroup acquired several of its struggling rivals (over the long run, this might destabilize them due of their increased geo-economic diversification). After leaving TARP-based supervision, they reverted back to "self-based transaction strategies".

In the event of a new failure, it is desired to establish a "pre-will" (moral, legal, and common sense wishes of entities that are carried out in the event of legal and economic incapacity), similar to the actual American hospital procedure known as DNR - Do Not Resuscitate, where the patient isn't revived even though its relatives demand it. I can also add that in this case, a proactive Chapter 11 (Bankruptcy law in the USA) approach should be taken.

The rivalry between specialized goods offered by small businesses and banking mega-corporations (such as Citigroup USA or ING Holland) was the next element of the global economic crisis. Mega-corporations are recognized for being unable to provide specialized items at comparable prices, but if this were the case, a financial mega-giant might emerge that could scale the economy and, in the event of a catastrophe, cause a worldwide systemic bankruptcy.

Goldman Sachs is one of the few companies to have survived the 1929–1933 financial crisis, but they contributed to the crisis's ripple effect in 1929 and helped create financial products in 2008 that laid the groundwork for the failure of banking companies that used hedging on their vertical market (controlled by clients but supplied by a third party). In addition to these factors, a solution is provided by dismantling Goldman Sachs or by dividing businesses according to their areas of operation. This fragmentation eliminates the possibility of monopoly formation.

3.2 Abrogation of the Glass-Steagall Act

The Gramm-Leach-Bliley Act, which repealed Glass-Steagall in 1999, caused the real economic systemic meltdown since it removed the distinction between the operations of the sectors in which a banking mega-corporation is founded. An economy based on services is feasible as long as it is effectively managed, but an economy based on services that are derived from other services (such as Credit Default Swaps that are derived from Credit Default Obligations) is comparable to productivity attained through the likelihood of consistently winning at a casino.

Obama's government gave Paul Volcker its backing in his efforts to put an end to self-executed speculative activities by businesses like Goldman Sachs. The exact shape of these laws is still up for dispute, but the strong lobby will compel Paul Volcker's original approach to be modified.

The infamous "repo 105" report contracts, which support the transfer (credit) for a day of their toxic assets, are the basis for the false continuous health of banking institutions (banks transferred their toxic assets for a brief period of time with an enormous interest rate of 5% in order to receive a favorable audit rating). By entering into these contracts outside of the law and keeping its assets in stocks at privately-held businesses that haven't undergone an initial public offering (at the moment, Goldman Sachs owns significant stakes in unlisted businesses and IPOs with long maturities, such as Facebook [The latest valuation of Facebook is of 65 billion dollars, after an acquisition of 0,1% by General Atlantic Fund on 7th March 2011, but in a recent research I found that this valuation may be outdated]), the company is able to avoid paying taxes. The establishment of specialist banks is proposed by the Washington-based authorities as a remedy for the shadow banking system.

4. 2001 – 2022, THE TWO DECADES WE LOST

The dot.com bubble's savior, Alan Greenspan, tried to stimulate the constrained American economy by reducing the interest rate from 6.5 percent to 1 percent over a three-year period (2001–2004). This helped to halt the effects of the dot.com crisis, but it also fueled the real estate bubble, which erupted into the financial crisis from 2007–2008 (due to a high flow of cheap money into the market) (Jianu et al., 2021).

The Fed's laissez-faire approach throughout the years helped market speculative bubbles by supporting them by flooding the system with cheap money and by not regulating the financial sector (for instance, the mortgage approval system).

The objective of the second section of this essay is to demonstrate the dollar's inefficiency as a unit of currency throughout the world and the US's transition from global supporter to the opposition side. The Chinese Century will follow the American Century (this turning point was predicted by the American GDP exceeding the Chinese GDP in 2026). The United States owes 22 trillion dollars in total debt, of which 7 trillion are owed to China. A default may result from the USA's debt's nonlinear rollover. The plan was to print 600 billion dollars (5 billion per day for 120 days, between November 2010 and March 2011), but it was changed, and the printing is currently postponed. The catch is considered to be that inflation will be exported from the US, and this way the purchase power won't be affected.

4.1 The most costly alliance

In our opinion, the relationship between the US, which has the greatest economy in the world, and China, which has the second-largest economy, may be likened to that of a husband and wife. The husband is the one who saves money (China has a savings margin of between 0.6 and 0.7%) and is the one to whom the wife appeals (USA has a savings margin of between 0.2 and 0.3%). However, because of the large amount of FDI, the consumption margin added to the investment margin adds up to more than 100%, with China supporting the difference.

The amount of money sent by foreigners into the country is added to the trade balance and the clearing between external and internal payments made by residents and non-residents (for instance, Filipino babysitters are available worldwide or like Romanian workers who work in real estate, construction, and agriculture and send money to their country of origin).

Despite Japan having a surplus of around 590 billion dollars in 2020, China's current account surplus in 2020 hit a record high of 1800 billion dollars, which was more than enough for the People's Republic of China to surpass it as the second-largest economy in the world.

The gap between savings and investments may be used to describe the current account. Consumption and the portion left over for savings make up the two components of spending. This sum will be exported if the difference between savings and investment is positive.

When there is a current account deficit, it is financed by debt securities that other nations purchase and invest in the economy of the host nation. However, these nations could have invested in real estate or the development of manufacturing plants in other nations (e.g., Volkswagen in Mexico, BMW in the US and China, Mercedes in the US, Peugeot in Romania, Ford in Romania, etc.).

4.2 Development of emerging economies

The relationship between developing and growing economies is predicated on the ratio of surplus to deficit, with the excess going to developing countries (Profiroiu et al., 2020b). An rising economy's money flow has the potential to be unstable and may speed up private spending and investment, driving up inflation and the current account deficit (Bodislav et al., 2021). Physics has a rule that states that any body that has a large amount of material introduced into it will experience pressure that will be greater than its physical limits and will eventually cause the entity to break (the speculative bubble to burst) (Bodislav et al., 2020).

If foreign money is solely utilized for investment and not for paying salaries and benefits (as in the partial instance of Romania), it may be advantageous (Profiroiu et al., 2019). If this condition is not adhered to, however, it may result in reduced or no funding from industrialized nations (Negescu et al., 2020). Due to foreign investors selling their stakes in the local economy by flooding the internal market with local currency, Russia (1998), Ecuador (1999), and Argentina (2001, 2002) all had defaults that caused their currencies to depreciate (Roubini & Mihm, 2010).

Through bailouts, the International Monetary Fund (IMF) has been and continues to be the rescuer of default economies (Roubini & Setser, 2004). Emerging economies followed the path of building up cash reserves to increase the value of their currencies (Radulescu et al., 2019). The competitiveness of domestic goods on international markets may decline in countries with large export volumes and current account surpluses, but these countries may maintain a competitive currency rate by hedging via foreign exchange (Georgescu, 2023). China is the country that benefits the most from both its trade surplus and its undervalued currency (the Yuan is only about 75% of what it really is worth on the market).

The FED emphasizes that the strong saving rates of Asian nations lead to significant market volatility since these funds are invested in the US in significant amounts and used to boost domestic consumption (Păuna et al., 2022). The relationship between drug dealers in Columbia and their customers is similar to this one in that the customers are to blame for the drug trade rather than the suppliers since they make the demands.

Following the development of the fiscal system by the administrations of George Howard Bush and Bill Clinton, the current account deficit was stressed via the 2001 fiscal relaxation of George Walker Bush's administration. Barack Obama's administration sought to normalize the system via tax hikes, but the act's flaws caused Congress to reject it, resulting in the prolongation of George W. Bush's economic policy for almost his entire term, fact that was stopped by the Donald Trump Administration and now it's on the verge of collapse again, under Joe Biden's Administration.

4.3 The quick descent and the long way up

When President Richard Nixon canceled the agreement (1971) allowing the US dollar to be convertible into gold, the Bretton Woods Act was effectively nullified, and the US currency began to lose confidence. Although the US dollar remains the dominant reserve currency, this practice feeds the world's unrest. However, since 2001, when the US dollar represented 70% of global foreign exchange, it has decreased to 35% at the start of 2011, and the euro, Yuan, and gold have taken its place. The British pound, which was the world's economic standard until the US dollar took over as the dominant reserve currency, survived the demise of the British Empire longer than the Empire. The US dollar seems to be following the same historical path and will likely be replaced by another major world currency soon. But by far, the US dollar still represents and will represent for the next 5 to 10 years the key global currency, no matter what the Eastern competitors will do.

The Yuan (or remimbi) is the best option to replace the US currency. The British pound, the Japanese yen, and the Swiss franc can't withstand the pressure from the rest of the world, and the euro has several flaws (such as split opinions and an aging population).

The Yuan has a clear road to become the next global reserve currency since gold rises in value on the basis of anxiety and restlessness that pull the future, but this future can only produce stock (low liquidity) and isn't useful because it is difficult to store. The first stage was to utilize it to establish regional commercial ties and exchange agreements with South American nations.

The current Chinese governor emphasized the idea that the new SDR (which includes the Yuan) can and must be the new global currency, adapting J.M. Keynes' idea of a global currency - the "bancor" and in our case, the Yuan. At the same time, with the rising importance of the Yuan, it will have to be taken into consideration when the Special Drawing Right is created (multicurrency basket used by the IMF, which includes The IMF, the SDR's originator and supervisor, has to undergo change for it to be taken seriously as a contender for the role of world currency).

5. CONCLUSIONS

The current changes have shown to be inadequate in stimulating global demand, particularly in developing countries where there is a pressing need for more borrowing options to reduce reliance on a global currency. Therefore, it is imperative that these reforms be made more explicit and comprehensive in order to effectively address this issue. From a supply-side perspective, it is imperative to reduce reliance on the US dollar and consider the expanded role of the Special Drawing Rights (SDR) in the global economy. However, it is important to note that the US dollar remains a dominant force and should not be displaced as the primary currency due to its enduring strength (Bodislav, 2011). The influence on the US dollar can only be affected by factors such as the twin deficits or a sustained period of monetary expansion by the Federal Reserve.

The concept of the crisis economy may be seen as a novel approach to economic analysis, whereby the occurrence, progression, and resolution of a crisis are likened to a theatrical performance. This proposal revolves around the concept of international collaboration between advanced economies and emerging economies with the shared objective of safeguarding against future crises that may arise as a result of the last crisis and speculative activities within the banking sector. It emphasizes the necessity for proactive planning, systematic organization, and well-structured regulatory and supervisory entities to effectively regulate and oversee the global financial system.

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