GLOBAL ECONOMIC CRISIS – ANTI CRISIS MEASURES AND ECONOMIC RECOVERY PROGRAMMES

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Abstract

By definition, economic policy is "the sum of measures taken by state authorities in order to guarantee economic growth, employment, balancing the balance of foreign payments, prices stability, decreasing the discrepancies and also guaranteeing national independence" (Macroeconomic dictionary – A. Bacescu, M. Bacescu). Summarizing, we may state that economic policy is represented by the behavior of state authorities within the functioning of the economy of the country.

Anti crisis economic policies structure the mechanisms and instruments that state authorities use in order to diminish the shocks generated by the economic decrease.

Keywords: Crisis, anti crisis measures, fiscality, competition, deficit, investments, capital.

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1. Introduction

By definition, economic policy is "the sum of measures taken by state authorities in order to guarantee economic growth, employment, balancing the balance of foreign payments, prices stability, decreasing the discrepancies and also guaranteeing national independence" (Macroeconomic dictionary – A. Bacescu, M. Bacescu). Summarizing, we may state that economic policy is represented by the behavior of state authorities within the functioning of the economy of the country.

2. Anti crisis economic policies: theoretic approaches

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Anti crisis economic policies structure the mechanisms and instruments that state authorities use in order to diminish the shocks generated by the economic decrease.

- Stabilization conjunctural policies
- Austerity policies
- Mixed policies
- Structural adjustment policies.

Stabilization conjunctural policies are based on the Keynes doctrine, target mainly stopping the inflation and recession and are characterized by state intervention on the three global aggregates: demand, production and employment.

State intervention on global demand is made especially through direct expenses, targeting the stimulation of investments. The intervention on consumption is made by creating jobs in the public sectors or by reducing taxes.

There is also the option of direct intervention on consumption, which is done by redistribution policies.

Austerity policies target reducing inflation and support competitivity by reducing the wage, the latter being the social price paid for poor international specialization.

Mixed policies (neo-keynesian) are based on combining several economic policies that have as common features de-inflation and controlled wage increasing that would prevent inflationist shocks. This type of hybrid policy follows the three aspects: rentability, investments and employment. The mixed policies approach was based on the economic situation in the USA between 1979 and 1982, when the economy reached a record inflation (15%) which led to the implementation of a Friedmann-inspired monetary policy, raising the interest rate (three years in a row); at the same time, it had a certain global impact, by amplifying the foreign debt crisis. As a consequence, in 1983, following the severe impact on unemployment, a package of intervention measures was developed, measures combining the increase of the monetary supply with high budget deficit.

Structural adjustment policies were also initiated in USA, being forced by the structural changes existing at the time, and which required governmental support.

The demand-oriented policy used until then no longer addressed the economic needs, and therefore the target became the supply, by "supply-side" policy, which was developed, at theoretical level, by specialists such as Laffer and Craig Roberts.

The main objective of this policy is stimulating the investments in order to obtain economic growth, and the main tool is income and wealth tax reduction. Theory specialists suggest that tax reduction should be done after reducing budgetary expenses and monetary supply, which could lead to the liberalization of the supply, to rentabilization of private investments, which would further lead to economic growth. But, in practice, reducing the budgetary expenses proved to be very hard to accomplish, and if this isn't achieved before tax reduction, the positive expected effects will be cancelled, and in the end it will lead to the increase of the budgetary deficit and interests, and to the decrease of the private investment efficiency.

3. The role of the state in crisis management and post-crisis reconstruction

In a competitive economy, the state-market relation may be analyzed from the historic perspective of the two well known political doctrines: liberal and conservative.

Conservatives define market as "the best means to distribute resources and to produce rewards" and gives the state the role of "helping the companies to invest in new companies and machinery, increasing the capital availability." (Robert Sapiro, Sinteza Magazine 98/1994 , issued by US Information Agency Washington).

Conservatives give high importance to the following:

- Competition, as market regulator and main factor for welfare growth.
- The size of the capital and the state – private capital ratio in productive investments.
- Budgetary discipline and constraints, set by the state authorities in order to keep in the budget the consumption level below the investment level
- A forecast, as accurate as possible, of the inflation growth and its medium and long term impact

In the liberal economic policy, the state involvement is represented by the increase of budgetary expenses in order to increase and consolidate the consumers' purchase capacity.

The defining elements of this type of economic policy are:

- The markets, that need to be balanced and consolidated by public investments in the economic resources of the country, and not by re-distributing them.
- State intervention, for guaranteeing the framework for those activities that would generate income for satisfying people's needs.
- Increase of global demand that is the foundation of economic development and growth.

Therefore, regardless the orientation of the doctrines the economic policies are based on, the state has an essential role in stimulating economic growth, in the balanced functioning of the markets, in increasing the purchasing capacity of the population, and also in enforcing budgetary discipline and constraints which would create a balance between investments and consumption.

Under specific economic recession circumstances, the state is the only one that can spend when the banking system is blocked, the companies have debts or are facing bankruptcy and households reduce the consumption to match the decreasing incomes. Therefore, under recession, the state becomes the main player of the economic and financial activity, but, in order to face the high expenses, it is forced to take on loans. But, after recovering to a moderate growth, the state will have to solve the problem of public debt, accumulated during recession.

The size and impact of the current global crisis makes the role of the state an essential one in solving the crisis, and at the same time, requires a medium and long term approach, with two major aspects:

- Crisis management
- Post crisis reconstruction

Crisis management is mainly based on the budgetary recovery measures, whose intervention must be prompt and efficient so that, a given budgetary cost would give an immediate and high result. If the reaction of the above mentioned policies is too lent or if they are started in a wrong manner, then we are faced to the spiral escalading effect of certain factors such as: bankruptcy, unemployment, inflation, etc, which instead of keeping the crisis under control, will deepen it.

Post crisis reconstruction targets structural reforms, mandatory for recovery, which, on the short term, generate budgetary costs but also positive effects, economic growth.

From this point of view, the most significant measures are the ones take by USA and in Europe, by Germany and France.

In USA, state intervention translated in initiating a 2 years programme for supporting the economy (in 2008 and 2009), that meant assigning for this purpose 2.5% of the GDP or 13% of the budget per year.

The parts of the programme are the following:

- In order to stimulate consumption, the population with an income of less than 200000$/year received a total tax reduction of 500 $ (1000$ per family), added to other fiscal reductions, their total value amounting to 275 billion $
- In order to reduce unemployment by creating 3 million new jobs, the state assigns the following funds: 106 billion $ for unemployed persons and social security, 90 billion $ for infrastructure, 54 billion $ for energy, 16 billion $ for research and 119 billion $ for health and administrative expenses.
- Adopting new fiscal measures, which reduce taxes for the employed population, for homeowners and retired people, and increases taxes on income from capital from 15% to 28%.
- Launching conversion programmes for turning variable interest loans into fixed interest loans, for the beneficiaries of high risk loans and setting up a fund for helping people with debt problems to save their mortgaged houses.

We must mention that this support plan comes as an addition to "Paulson Plan" for saving American International Group (AIG).

In Europe, the group of the four highly developed countries (France, United Kingdom, Italy, and Germany) stands out by adopting, at the head of state level, the following common initiatives:

- All the banks will receive support
- The countries may cross European limitations regarding public deficit, and the European Commission will allow direct state intervention in favor of the companies.

- All the actors on the financial markets will be controlled and accounting norms will be revised.
- Restructuring of world finance and organizing a summit with USA, Japan, Russia, China and India, in order to discuss creating a new global financial system.

In France state intervention becomes aggressive even, towards free initiative but also to the other fundamental principles or market economy, because, willing to enforce "the capitalism of the entrepreneurs" instead of "the capitalism of the speculators", a full state control of finance, stock market etc was introduced. .

In order to increase the number of available jobs, the French government adopted "The Law for economy modernization" and two state agencies were created for financial crisis management:

- "The agency for state participation", that intervenes for recapitalizing the French banks, by taking loans on financial markets (takes on participations on behalf of the state in the banks that receive support)
- "The agency for refinancing" (66% bank participation and 34% state participation), that works as a new central bank and has the role of offering short term loans to the banks

Germany initiated an "Obama" inspired programme, for 2 years, which includes the following emergency governmental interventions:

- Increase of the investments in the infrastructure
- Decrease of wage tax from 15% to 14%
- Decrease with 9 billion euro of the contribution to social security fund, amount that would be divided between employer and employee.

For both countries, numerous applications for European funds add to the above mentioned measures.

In Asia, the most representative example is China, who reacted the fastest to the global crisis by initiating a 2-years plan including stimulating the investments in infrastructures, in social housing and health reform. At the same time, VAT and taxes are reduced in order to stimulate private consumption.

As a result of these programmes, which mainly targeted creating new jobs and stimulating demand, Germany and France, from Europe, and China from Asia represent successful examples of being on the track of economic recovery.

As far as Romania is concerned, crisis management had at least two major shortcomings:

- The reaction to the threat of crisis was delayed for too long by putting on a false optimism, in an election year with very high stakes (2009)
- The confusion between the effects of crisis and anti crisis measures, which made most of the adopted programmes be more "crisis" programmes rather than anti crisis ones. For this, we may mention VAT and taxes increase, cuts of budgetary wages and undifferentiated personnel cuts. These state interventions, instead of stimulating the demand, and by this, start the engine of economic growth, generated a severe long term impact on both households and business environment.

The dynamics of goods and services demand on the internal market depends on the level of the prices, on incomes and through this, on the employment rate, on fiscality, but also on the national income and its distribution among the participants.

Analyzing the effects of VAT increase from 19% to 24%, we may notice that this measure determines the economic agents to include the increase of the rate in the expenses of the company, therefore reducing the profit, investments, jobs, and leads to the decrease of budgetary income. Furthermore, by increasing the price of the final product, the rate is transferred to the consumers, which respond by decreasing the demand, triggering the decrease of the supply and the increase of unemployment. Thus, a vicious circle is created, leading to the amplification of the imbalances on the main markets and to changes of the macroeconomic indicators.

The increase of the fiscality reduces the income of the households and has an impact on the investment capacity of the companies. Normally, the increase of the amounts received should have been done by extending the tax base, the number or employed persons and profitable companies, not by increasing the prices, as it is done in the Romanian economy. As a consequence, as the unemployment and the number of bankruptcies rise, the fiscality will be deeper, in order to cover the deficit.

The governmental policy regarding the stimulation of the economic growth must include measures targeted to both suppliers/producers and consumers, this way stimulating the investments and the demand for consumer goods.

The suppliers/producers may be supported by: reducing or eliminating the taxes on reinvested profit, increasing the state orders for infrastructure and public non-productive investments and providing loans for the sector with development potential.

Attracting European funds for Romanian economy represents, together with the above mentioned measures, an additional support through the effect they generate in the economy.

4. Conclusion

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