

## TOWARDS A NEW ECONOMIC CRISIS

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### **Abstract:**

*The economic order is collapsing over the world, increasing the danger that the global economy to be disabled by a new recession until it finds its balance. In 2015, commodity prices continued their fall. Money is withdrawn from emerging countries, being left there many companies, banks and households indebted, in despite the fact the emerging economies contribute with for more than half the global GDP. In addition to a dislocation of financial capital, can now talk about a human movement: waves of refugees, economic or war, seeking shelter in the rich countries of Europe.*

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### **1. Introduction**

#### **Perception may be cause the crisis**

In a survey from 2015 regarding the Eurozone economy shown that the economic develop it was at the center of investor concerns. Almost two thirds of those surveyed, said that Eurozone economic situation is getting worse, while 89% responded that deflation is a bigger threat than inflation on national economies. Regarding policies at regional level, the number of

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respondents who said that the European Central Bank (ECB) and national governments have difficult economic situation by implementing policies too strict was higher than those who showed their trust in the ECB president Mario Draghi and German Chancellor Angela Merkel. Thus, 43% of respondents described the ECB's monetary policy as "too restrictive", compared to 31% in July 2014. Meanwhile, 59% of investors have a favorable perception of the President of the ECB, down from 74% in July 2014.

"The euro area economy has deteriorated and the situation will worsen if there are no changes in fiscal policy of the important countries in the region, especially Germany," stated Sanwook Lee, trustee of Shinhan Bank in Seoul and participant in the survey. Besides the economic situation in the Eurozone, investors are worried about conditions in emerging economies - Brazil, Russia, India and China. More than half of those surveyed said that the economic situation is becoming increasingly difficult in these countries, compared with 36% of respondents in July 2014. In contrast, nearly two-thirds of investors felt that economic change of the United States is one positive.

In France, as always, things seem to be different: the annual questionnaire applied consumers organization Credit Land in early 2015 among those interviewed on the trend of national economic prevailed pessimists (67%), and in early 2016, the situation reversed - optimists were 66%. Marin (2016).

## **2. The new global recession**

The economic order is collapsing over the world, increasing the danger that the global economy disabled by a new recession until it finds its balance. Cojocaru (2015). Chinese banks are effectively bankrupt. Few of significant the loans they have provided can be retrieved, so now can not support with loans the growth fast pace of Chinese economy. Banks' activity in general has become isolated from the real economy, the pace of China's economic growth is now lower than 20 years ago, and American scholars has made the prediction and wait from 10 years to trigger an economic crisis in China.

In 2015, commodity prices continued their fall. Money is withdrawn from emerging countries, being left there from companies, banks and households are indebted. Emerging economies do not have institutions such as the American Federal Reserve or the European Central Bank to step in with

rescue packages. Emerging economies contribute with for more than half the global GDP.

The IMF is deeply concerned and warned that there is a global excess of 3,000 billion credit and a weakening of global economic growth. It requires coordinated response to this problem, but the opportunity to get something now is reduced. Spreading the capital and banking fragility are profound failures in the way the economy is organized. In addition to a dislocation of financial capital can now talk about a human movement: waves of refugees, economic or war, seeking shelter in the rich countries of Europe. Neither in Japan, the third largest economy in the world, the situation is no better. Sharp fall in industrial production in the summer of 2015 suggests that we approaches striding economic recession.

### **3. Reviews that inducing the deterrence**

Willem Buiter, chief economist at Citigroup are wondering where it was going or whether the world economy has entered a new recession; Buiter is based on a definition of global recession different from the usual valid for economy: "The current rise of the global economy, although positive, is already below potential, which we estimate to 3%, and the gap increases. Another year of growth below potential would likely mean that the global economy back into recession," says Buiter.

Larry Summers, former president of the US Treasury "sees" us economic problems, summarized in the phrase "The global economy is in serious danger": the former official says that the rise of economic inequality, slowing population growth, the need increasingly larger financial regulators and that innovation that emphasis is not put to work too much force working slowdown suggests that after two consecutive quarters of declining economic crisis turns. Worrying economic data arising from all sides is just the beginning of tough times for the economy are just one of the factors contributing to what is called "secular stagnation". The only thing that supported the global economy since 2008 has been "the strength of emerging markets." But investments are quickly withdrawn from here to be concentrated on the bond markets of developed countries, where pushing and lower interest rates too low: "There is no time. The idea that the advance weakness is only temporary consequence of the 2008 financial crisis is absurd. The latest data suggest that the growth slows in the US, and has already slowed in Europe and Japan. A global economy that advances is not one for which the main danger

is recession," wrote Summers. He says that rich countries must take the lead to prevent this outcome, first by holding interest rates near zero until clear signs of inflation. But more important is the implementation of "expansionary fiscal policy," or attract loans at low interest rates on the global economy gives governments like the US, Germany and Britain to invest in infrastructure.

The main cause of new economic disaster that is approaching with great strides global financial system, which has dropped back under control. Global banks profiting in an extraordinary proportion of business they do with each other. The result is that the strength of the banking sector to create money out of nothing, ie the uncoated, was taken to a new level. That banks create credit is nothing new. The system depends on the truth that all depositors want their money back all at once. So there is a tendency for liquidity that the bank borrows in a month, it appears redeposited by the borrower in the next month: part of this cash can be repaid again in the third month, more than the lending existence.

Each cycle creates more lending credit where credit was due to always carefully regulated by central banks to ensure that loans will be repaid and that banks hold sufficient capital reserves. Developing a global banking system means that central banks can not effectively monitor and control what happens to the money. And because few countries restrict capital flows, in part because they want access to credit, cash generated from nothing can be lent to countries where economic prospects seem good on the surface. This causes waves lending.

#### **4. Which is now state of the healthy mental of the people**

Appeared half a century ago, the use of neuroleptics has become prevalent in psychiatric medicine in all countries or emerging development. Appaix (2011,pp.18-19) This consumption, which is in a permanent increase shows that mental diseases are propagated along with other ailments worldwide. Unfortunately, here we have not yet comparable data on countries.

Magnetic Resonance Imaging (MRI) is a new (yet) process control of health evolution of a patient. Because use of technical and high performance machines, in the US, for example, a exam of brain with MRI costs between 1.500- 3.000 american dollar for a procedure that lasts 40-60 minutes. Medical imaging center in Denver, Colorado (USA), created in 2008, holds statistics which show that one american from seven, aged 18-54 years, suffering from

various pathological disorders related to anxiety, which across population of the US means 19 million people.

In 2013, the American Psychiatric Association (American Psychiatric Association, APA) released the 5th version of repertoire mental diseases, known as DSM (*Diagnostic and Statistical Manual of Mental Disorders*). Pommier (2011, pp18-19). Critics of the manual have questioned constantly its scientific value, having noticed that the manual has made the classifications contrary to all scientific criteria.

For an observation to be valid, must, normally, be isolated invariant. A symptom simple - migraine, for example - may also derive from very different causes. The diagnosis must therefore be prepared after questioning the patient, allowing the symptoms and then makes its examination to identify clinical signs. Thus it becomes possible to know the causes pathology. Once established invariants comments are predictable and can be verified by experience. If the origin of mental pathology is, it is a "conversion" on the body - psychic conflict is manifested in a distress; This result allows to find out the cause psychic and therefore to a treat.

## **5. Forecasts of economic and social developments**

The best known and weather forecasts, whose authenticity relative preliminary, it is always based on the author's fame, may include waiting states and then to achieve the predicted phenomena. One of the most recognized biotherapist Anatol Basarab, was at the beginning of 2016 the following predictions: the economic crisis could occur in 2016 and become so profound that gradually could lead, if not to the disintegration of Europe, then at least split it into several sectors or areas. Following this crisis might arise great conflicts caused by religious and nationalist opponents.

Conflicts on religious and nationalist principles that manifest and 2016, can acquire new manifestations and can get things in one direction at all pleasant. Waves of conflict in 2016 will bring with them social problems and tensions quite large and painful. The number of unemployed will increase significantly in Europe this year, there will be massive layoffs and business closures, which will lead to poorer quality of life. Most Central European countries will suffer.

Since 2016, the US will begin to lose its hegemonic position in the world, the global authority status. The crisis will hit quite strong in the US. Large-scale protests and political and social confrontation within the country

will put the US government in a very unpleasant situation. To keep power and order, the US government will be forced to pass a series of unpopular measures, which will get hot and more social atmosphere.

Mono polarity of the world will lose and multipolarity will appear at least three poles: the US, Russia and China. By mid European Union, it will be rocked by the financial problems of Italy and Portugal. Britain will want to leave the EU and already after the summer could move towards independent travel. Example Britain will follow that trend at least several EU countries. Thus, there is a risk that by the end of the EU to disappear as a form as we know it today.

In the first half of 2016 over the first three months, there may be all sorts of conflicts, not only at the diplomatic level, but also military. It might see military action on the territory of Iran or / and Turkey. That may entail the immediate attention of other countries and conflicts can gain large proportions. Here, Russia will play a very important and substantial and sustained efforts will succeed to stop what could become a new world war with firearms.

In 2016, Russia will form a new alliance that will enter Transnistria and two or three Balkan countries, then part of Ukraine and, later, it is possible to join Georgia and Armenia. Meanwhile, in 2016, in Russia, may have been several terrorist acts strong enough, sponsored from abroad, rather in the West. The purpose of this terrorism is to destabilize the population, to achieve conflict situations in the population and weaken Russia. Unfortunately, it will not be able to avoid casualties and Russian intelligence services will do everything possible to reduce the number of casualties to a minimum and will not appear explosion of social anger and anger in society.

In the spring of 2016 in Ukraine will begin a new wave of revolutionary trends which will make the situation here is very tense and will trigger major social unrest. The war in the southeast region of Ukraine will continue. A new type of leader who will tend to unify Russia and Slavic peoples, less the entry of Ukraine into the EU will be able to bring parties to the table and diplomatic relations ...

## **6. The explosion of bubble of bonds**

After the excesses of large commercial banks that have caused the recent financial crisis, now speaks of excesses major central banks. Cojocaru

(2016 b). Global liquidity amounts to 20,000 billion dollars, three times higher than in 2008 and ten times more than in 2000. Flooding world markets with liquidity, central banks have created the conditions for a new financial crisis. Risks associated with this are much higher than the other hanging over the global economy.

The level of liquidity now is unprecedented and is no longer justified by the effort to stimulate economies. Because the bond yields are stable, the money was invested heavily in high-risk assets, especially in emerging countries. This policy gave ammunition to the speculators and amplified volatility, in times when, unexpectedly, the world economy slows. The result is that the markets have become extremely nervous. Only in December 2015 from China came out of 170 billion american dollars, eight times more than of input from 2002 period. Thus gathered all the necessary conditions for the emergence of a new financial crisis.

Keeping the interest rates at extremely low levels has allowed states and companies to finance by issuing bonds at low costs. But this situation has caused a huge bubble markets. Therefore, any higher of interest will make the insolvent debtor and the creditors will ruin, faced with decreasing value of the securities purchased. Because the bond bubble is more important now than the US housing bubble, the crisis will be more severe.

## **7. The four signs of a global crisis**

In an analysis published in the Financial Times, Wolfgang Münchau highlights four signs that the Eurozone is threatened from February 2016 by a new financial crisis<sup>Cojocaru (2016 c)</sup>.

The first sign of crisis, and most importantly, is a coming back of the toxic twins: the interaction between banks and governments. The model is similar to what happened in 2010-2012. Sovereign bond yields have reached dizzying levels during the crisis. Yields mix of high, expansive fiscal policies, public and private sector indebted and anemic economic growth is clearly unsustainable. The urgency to solve structural problems suddenly disappeared.

The second sign is the failure of European Banking Union. This union is only a compromise: resolution regime and common banking supervision but without a common deposit insurance and without a sovereign bailout mechanism. It is no coincidence that bank shares collapsed just when the Directive entered into force European Banking Resolution. The new rules are

making investors vulnerable to the collapse of some banks. This is why the collapse of shares Deutsche Bank, it has issued huge amounts of bonds convertible into shares. Actions it will be destroyed if it were be applied the bank resolution mechanism.

The third sign is that market expectations of inflation have changed continuously. ECB takes these expectations may be too seriously. Indicator with a "beating" of 5-10 years in the future is at record low of 1.4%. ECB's inflation target is 2%. This means that the markets no longer trust the ECB.

The fourth sign is fear of negative interest markets. The vast majority of the 6,000 European banks operate on the traditional model of loans and deposits: attract deposits that give them as loans. Normally banks would adjust interest rates offered to depositors in line with their interests required by the ECB, maintaining a profit margin between them. But if ECB ,charge negative rate interest of banks, this system no longer works. If banks also impose negative interest rates for savings accounts, small depositors will withdraw their money. Banks can certainly reduce reserves held at the ECB and give the money to loan. Or invest funds in the risky financial instruments. But neither these prospects are not encouraging for shareholders of banks, especially if they do not see lending or investment opportunities.

## **8. Conclusions**

Whether we talk about American energy companies, about the emerging world debt, exchange market, foreign exchange war trade or global trade, something is about to implode. Cojocaru (2016). The world economy is facing a constellation of risk as never seen before. In early February 2016, the index Baltic Dry Index, an indicator of the high transport costs of raw materials and global trade is at its lowest level in history: in August 2015 the indicator was crashed by 75%. Also, expansion of the universe of negative yields government bond is a sign of recession. The average yield of bonds issued by the German Government is below zero, while Japan is about to become the first major sovereign debt market, bonds with a maturity of 10 years that bring no gain. In the US, the yield of Treasury securities with a maturity of 10 years reached 1.8% last week, the minimum nine months. Government bonds are usually considered safe investments in troubled times.

Regarding the trends such as the above, Olivier Blanchard, former chief economist of the IMF concludes: the current reactions of the market is a classic case of herd behaviour in which "investors fear that other investors know that something bad happens and they sell, although they have no

information "... He is very worried that these fears will be those who will give the final blow to the economy.

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