

THE INFLUENCE OF FINANCIAL CRISIS ON SECURITY

*Brigadier General (ret.) Professor Viorel BUȚA, PhD**
*Răzvan MANOLIU, Ph.D***

Summary: *Actions taken on the unregulated, or rather self-regulated, global financial market have the effect of weakening or exacerbating crises that affect the living standards of the population, leading to a deterioration in the security of individuals in society.*

Keywords: *crisis, financial, credit, investment, system, security, depression, decline.*

Introduction

Human activity is influenced by the state of security that the individual, the group, the society feel at a given moment. Also, the state of security is influenced by each field of human activity separately but also when some areas, together, degrade or raise the state of security in which society evolves, implicitly the individual, at a time of human evolution.

The increase in economic, social and security risks is currently driven by the resource crisis, on the one hand, and by economic competition and global military challenges, on the other hand, which amplify instability and jeopardize the viability of global interstate relations¹.

If one or more areas are deficient and degrade the security status of a part of the company, it is very difficult to reach the security status of the whole company; there is an area that when it fluctuates, it will cause changes in the security status. This environment is the financial environment.

* Entitled member of the Academy of Romanian Scientists, Military Sciences Section, email: vbuta@yahoo.com

** email: razvanmanoliu@gmail.com

¹ Gheorghe Minculete, Polixenia Olar, *Push and pull systems in supply chain management*, Journal of Defense Resources Management, vol. 7, Issue 2(3) 2016, p. 166, available at http://www.jodrm.eu/issues/volume7_issue2/18_minculete_olar_vol7_issue2.pdf, accessed at 18.01. 2022.

The correlation between the security situation and the global financial balance

Started in 2008, for the first time since the fateful 1930s, the world's economic systems were shaken by a systemic financial collapse: the start was September 18, the world's financial systems were in a state of disarray, and lending was stopped for a few weeks. Although the final effects of the crisis are not perceived, the collapse of financial institutions and substantial government intervention in most countries of the world are signs of a major economic landslide, very similar to the Great Depression of 1929-1933.

The effects of the global credit crunch are largely understood today, and major projects are under way to reform financial regulations around the world, with very important future results for international finance.

Understanding the current situation requires a good understanding of the notion of financial crisis and an analysis of the links of conditioning existing throughout the world economy. Thus, crises can be defined as circumstances characterized by a sharp fluctuation, being generally determined by a vaporization and an even greater uncertainty. The state of crisis permanently induces anxiety and uncertainty about what is to come, which can lead to fear or panic, at the point of its maximum manifestation.

In situations of crisis, self-defense and self-preservation of market makers can generate their illogical behavior sometimes and can highlight a decrease in financial potential, due to the fact that they process information and understand the effects of the phenomenon in particular, interpreting it in a different way, in an own market-related manner.

The characterization of these crises consists in the difficulty in determining how strong the volatilization will be or how big the fall of the markets will be in order to limit the manifestation of the crises. How big can the fall in the currency, unemployment or the decline in GDP reported in a state to certify its plunge into crisis be? In the financial field, it has been established, conventionally, that we can speak of recession when, after two consecutive quarters, the share of the Gross Domestic Product (GDP) in a state or region registers decreases². The National Bureau of Economic

² Recesiune (economie), Wikipedia, available at <https://www.google.com/search?q=%C3%8en+domeniul+financiar%2C+s-a+statornicit%2C+conventional...>, accessed at 20.01. 2022.

Research (NBER) described the crisis as "a significant decline in economic activity for several months reflected in declining GDP, declining individual incomes, declining employment, declining industrial production and consumption."³

Classification of financial crises and their manifestation

There are specialists who classify these crises into: social crises manifested by rising inflation, unemployment and poverty; financial crises characterized by increased volatility of capital markets, falling stock markets and their spectacular return; political crises, which can degenerate into wars; local or international crises; crises caused by natural disasters or widespread economic crises⁴.

Gabriel Necula recently expressed an adequate opinion on the core of the current crisis: "There was a time when everyone had access to money from financial institutions and everyone spent it at will. Banks financed almost everything, and money entered the economy, which was driven by excessive consumption by the individual. It has become possible for anyone to afford anything, just in view of the fact that they were indebted on the basis of earnings pledged for many years to come⁵. " The lack of consumer reason and the superficial treatment of the banks, led to the appearance of a bubble* due to the absence of a real discernment on the part of the two⁶.

³ George Haralambie, „Criza globală și teoria ciclicității”, *Economie teoretică și aplicată*, Vol. XVIII, (2011). No. 11(564), pp. 67-77, available at http://store.ectap.ro/articole/-664_ro.pdf, accessed on 22.01. 2022.

⁴ Ionica Munteanu, *The financial crisis 2007-2008: causes and consequences*, Universitatea „Al.I.Cuza”, Facultatea de Economie și Administrarea Afacerilor, available at https://mpra.ub.uni-muenchen.de/36771/1/Lucrare_de_disertatie, accessed on 23.01.2022.

⁵ Gabriel Necula, *Despre bursă cu bun simț*, available at <https://www.primet.ro/Despre-Bursa-cu-bun-simt-editorial-1592>, accessed on 25.01.2022.

* Bula financiară poate fi considerată perioada de expansiune rapidă și de creșteri ale prețurilor, urmată de o încetinire și contracție a pieței. Ca urmare a experienței recente de criză, mulți analiști consideră că procesul de inovare de pe piața financiară poate genera o bulă financiară foarte periculoasă. Prin urmare, înțelegerea naturii bulelor financiare și asigurarea unei politici adecvate de reglementare în domeniul inovației pe piața financiară este sarcina principală a instituțiilor de supraveghere; available at https://ibn.idsi.md/vizualizare_articol/33291, accessed on 24.01. 2022.

⁶ Luchian Ivan, „Abordări moderne ale bulelor financiare”, *Analele Institutului de Economie, Finanțe și Statistică*, nr. 1/2012, pdf, pp. 83-87.

Nowadays, the little money we have, but also the immensity of the loans contracted with the conviction that we can have everything we need and that we are all rich, has shown its effects. Once the bubble could be enlarged, funding procedures could arise, but the money no longer existed. We can only pay, because we have not shown the common sense that shows us our financial possibilities.

An important feature of world economic growth has been the manifestation of large current account destabilizations. In the United States of America (USA), Europe, Great Britain, Spain, for a long time, officials have assumed very large current account deficits, fueled by surpluses recorded in China, Germany and Japan. Thus, in the USA, total household consumption and the share of investment strongly exceeded the level of GDP, a difference which was covered by lending. The states that maintained the imbalances made more product, bought financial assets, which kept the long-term interest rate low. Dissatisfied with the share of safe-haven assets, such as treasury bills, these states, along with domestic investors, have acquired increasingly complex, opaque assets made available by Wall Street fiefdom financial alchemists, assets with superior effectiveness. In Germany, the surplus thus borne is a key motivation for large volumes of what would later prove to be toxic assets held in banks' portfolios⁷.

In our opinion, global economic growth has been the accelerated globalization of manufacturing, investment and financial relations (internationalization) without a sustained increase in monitoring and other forms of legislation at an optimal level (European, global). The world's institutions still reflect the geo-political truths of the post-World War II era, and here's how their policies and activities once again portray the needs of developing or isolated states in need of support. A consequence of this absence of institutional leadership has been the competition of legislative jurisdictions in sectors such as taxation, corporate law, financial regulation,

⁷ Ionica Munteanu, *The financial crisis 2007-2008: causes and consequences*, Universitatea "Al.I.Cuza", Facultatea de Economie și Administrarea Afacerilor, available at https://mpira.ub.uni-muenchen.de/36771/1/Lucrare_de_disertatie, accessed on 23.01.2022.

etc. The absence of viable global legislation has allowed the issue of current account fluctuations to fester⁸.

As an effect of these shortcomings, but also as a result of the major political upheaval in the logic of advanced capitalist economies, since the 1980s, we are witnessing a sustained phenomenon of the retraction of state interventions in the economic field. Here is how state ownership, not least that of financial corporations, has been reduced, the labor market and state welfare enterprises have been diminished, traded or privatized, hasty legislation has been abandoned in favor of rules of conduct and of so called self-regulation⁹.

The legal and social obligations regarding the conduct of business and last but not least the role of trade unions, have been intensely diminished in favor of new ideas regarding the right to manage and the value / gain of shareholders. Today we are not in a position to believe that governments have failed to keep up with financial renewals. Only in the United States, at first glance, has the financial sector been actively deregulated at the express request and with the contribution of significant political donations made by some financial institutions, which are currently reaching out to the state for help. Hilariously, many of the suppressed laws, such as the Glass Steagall Act in the United States, have been implemented since the Great Depression¹⁰.

In our view, these aspirations, probably embedded in technological developments, have led to major transformations in the distribution of income in most developed capitalist countries. This was a highlight of disparities in personal gain, a clear difference between poor and rich people, and in particular a decoupling of the earnings of the rich from the earnings of other members of society. This act made a significant part of the resources available to those who, rather than using real goods and services,

⁸ Caroline Banton, *Current Account Deficit*, Updated May 31,2020, available at <http://currentaccountfluctuations.com>, accessed on 25.01. 2022.

⁹ Prof. univ. dr. Florin Georgescu, *De la dereglementare din nou la reglementare în profesia contabilă și de audit*, Revista audit Financiar, available at <http://www.revista.cafr.ro/ArticolRO?CodArticol=9252>, accessed on 26.01. 2022.

¹⁰ Claudiu Semionov, Raluca Mocanu, Alex Buzelan, Andreea Ilie, Rareș Neagu, Alexandru Zărnoeanu, *Glass Steagall Act*, Econosofia, December, 18, 2016, available at <https://econosofia.ro/actul-glass-steagall>, accessed on 26.01. 2020.

used them to speculate on stock exchange transactions. In the same vein, on the other side of the income scale, poor people were determined to increase their credit to maintain their standard of living, as real earnings dragged on in several countries¹¹.

Also today, we can see the persistence of the fact that it is little understood how these states interacted with the financing of the economic field.

This hides various trends such as the steady expansion of the financial sector, the increased volume of operations and financial products (relative to GDP), changes in corporate governance in the direction of shareholder gain, the widespread use of stock options, and other kinds of incentives, in the short term, for senior managers, the growing responsibilities of managers (CEOs) in large companies and changes in the configuration and products of the financial environment itself.

The rising level of earnings in national income in the vast majority of countries has not been associated with an increase in investment.

The movements of corporate managers have never been more than justified by short-term interests, which may partially explain the low level of investment, given the high profits. A secondary process was the mobility of funds, possibly available for real investment for real assets, especially in the real estate sector or for financial assets with high complexity and opacity.

Another configuration of financing is to ensure security - the transferable sale of previously established contractual relationships, such as mortgages or various loans, and thus the dissemination of risks¹².

Technological developments and rivalries between financial institutions that do not have clear and internationalized regulations have led, despite increasing demand for savings options in the institutional investor sector (overwhelmed by the savings of pensioners as a result of

¹¹ Ionica Munteanu, *The financial crisis 2007-2008: causes and consequences*, Universitatea "Al.I.Cuza", Facultatea de Economie și Administrarea Afacerilor, available at https://mpira.ub.uni-muenchen.de/36771/1/Lucrare_de_disertatie, accessed on 23.01.2022.

¹² Guenter Franke, Jan Krahn, *The Future of Securitization*, October 2008, available at https://www.researchgate.net/publication/40500760_The_Future_of_Securitization, accessed on 28.01. 2022

demographic phenomena and the privatization of pensions), to an expanding range of increasingly complex financial products. Increased risk selling has encouraged incomplete representation of the nature and magnitude of risk to consumers who are insufficiently informed by the original contractors; the possession of various bonds and the associated dangers, has become unfeasible to sketch and monitor; customers of such products have relied on rating agencies that have a semi-legalized institutionalized monopoly and are paid by product issuers (not customers) and / or have signed insurance under the option of credit risk swaps, of dubious value and a significant source of risk¹³. This meant a significant increase in the measure of leverage, a high rate of household loans in GDP, reversing positions in the balance between capital and financing through loans, increase in mortgage obligations in relation to real estate capital.

In June 2021, Mugur Isărescu stated: "We do not propose a stimulus to lending to the area of "irrational exuberance", to use the words of Alan Greenspan, which would end in the explosion of non-performing loans, vehement accusations against banks for fraudulent behavior, loss of trust between bank and customer and many, many steps back in terms of intermediation. We have lived through this nightmare and we do not want to repeat it."¹⁴

Causes of Financial Crises

Studying the literature, we believe that the structural features discussed above, and in particular the role of the financial sector, have long been discussed, but many analysts have overlooked a number of aggregate demand shocks that have affected the European economy. In recent months, shocks have been the root cause of the crisis. This could lead to inadequate policy recommendations, such as focusing on the regulation of the financial sector in the medium term.

The main causes of the financial crisis would be:

a) Strong rise in commodity prices; the price of oil has risen by more than 100% since the beginning of 2007 until the summer of 2008; similar developments were recorded for other commodities - non-energy

¹³ *Ibidem*.

¹⁴ Isărescu, Mugur, <https://www.zf.ro/banci-si-asigurari/mugur-isarescu-guvernatorul-brnu-propunem-o-stimulare-a-creditarii-20153696>, accessed on 31. 01. 2022.

commodity prices increased in each quarter of 2008 compared to the previous year (quarter-on-quarter reporting) by about 10%. This has increased company costs and reduced real employee incomes, reducing aggregate demand, while inflation has remained at around 4%¹⁵.

b) The strong appreciation of the euro from the beginning of 2006 until the summer of 2008, the euro appreciated against the dollar by about 33% (from 1.20 USD to 1.60 USD). There was also a parallel appreciation of the Japanese yen. The nominal effective exchange rate of the euro has increased by approx. 15% compared to its average in 2005. If the appreciation of the euro offset, on the one hand, rising commodity prices, on the other hand, narrowed firms' profit rates in the tradable goods sector and reduced exports. net. As a result, euro area trade and current account balances have shifted from a surplus to a deficit and export orders have reached an unprecedented level since the recession of the 1990s¹⁶.

c) Delayed effect of high interest rates: The European Central Bank started raising interest rates in early 2006.

Eight successive increases in mid-2007 brought interest rates from 4% to 2%, despite rising inflation due to rising import prices. Through the usual transmission channels (including the appreciation of the currency already mentioned) and with the specific delay, this fact decreased the agreed demand.

These three major constraints that have adversely affected all European economies in a similar way, and especially those in the euro area, have caused a number of countries to face specific problems. The United Kingdom, Ireland, and Spain, in particular, share some features of the US economy: real estate bubbles, rising household debt and / or current account deficits, or problems with international competitiveness. These features have also been characteristic of countries with new EU membership, exacerbated by a high level of credit denominated in a non-national currency.

¹⁵ Ionica Munteanu, *The financial crisis 2007-2008: causes and consequences*, Universitatea "Al.I.Cuza", Facultatea de Economie și Administrarea Afacerilor, available at https://mpira.ub.uni-muenchen.de/36771/1/Lucrare_de_disertatie, accessed on 23.01.2022.

¹⁶ *Ibidem*.

In December 2019, Florin Georgescu stated: "Implementing a balanced fiscal policy, both on the revenue side and on the expenditure side, can lead to a decrease in macroeconomic vulnerabilities and support an increase in income related to labor productivity."

Conclusions

The current crisis is a recognition of the need to reconfigure the global financial system in the light of the following:

- Financial crises are an inevitable part of modern capitalism, a consequence of the interactions between human behavior and the ability to innovate, compete and evolve. But even if crises cannot be avoided, their negative effects can be significantly reduced by ensuring adequate risks for the right parties, and this goal can be achieved by increasing transparency, especially in the so-called shadow banking system. The government can play a central role in providing this transparency.

- Before hoping for an effective management of the risks of the financial crisis, we must master the significance of these risks, but also the means of their effective measurement. Therefore, in order to issue new regulations, it is necessary to develop a formal definition of systemic risk and to create specific measures that are practical and comprehensive enough to be used by both policy makers and the general public. These measures will require hedge funds and other parts of the shadow banking system to ensure greater transparency to regulators on a confidential basis; for example, information on assets under management, degree of indebtedness, liquidity, partners and property rights.

- The most pressing change in the regulations of the financial system is to provide the public with information on those institutions that have failed in one way or another. This goal can be achieved by setting up an independent investigative agency, which will periodically report details of registered bankruptcies and propose measures to avoid problems in the future.

- For the average citizen, the current financial crisis is a mystery and concepts such as subprime mortgages, CDOs, CDSs and the collapse of the credit market only create more confusion and fear. Therefore, a critical point of any crisis management protocol is the establishment of regular lines of

communication with the public, through which to clarify the determinants and consequences of the crisis.

- It is necessary to develop and implement a new branch of accounting, risk accounting, enabling the measurement and management of systemic risk on a global scale.

We note that technology-based industries are at risk of technological innovations that may temporarily outweigh people's ability to use them effectively. Consequently, we are convinced of the need for government intervention to support the development of as many educational programs in financial technology as possible in universities.

In our view, the complexity of financial markets restricts the ability of regulators to keep up with innovation, and we are convinced that new regulations will need to be adaptive and focus on financial functions and less on institutions, thus ensuring greater flexibility. and their dynamics. An example of adaptive regulation is the requirement to standardize the OTC derivative contract (OTC) and to establish an organized exchange for the moment when its size exceeds a certain limit.



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