THE ECONOMIC CRISES AND THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN ADJUSTING THE MECHANISM OF THE WORLD ECONOMY

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Abstract:
The economic, financial and social transformations within the world economy give birth to a series of major preoccupations regarding the economic aspects of the globalization process, such as – financial crises, international financial vulnerability and failures concerning economic growth – to which this paper gives a close attention. Within the analytical framework, it is being demonstrated that the phenomena that we are dealing with today encompass globalization and they offer the latter new dimensions. Thus, the paper analyses the factors that contribute to the emergence of international financial crises, the effects of those crises, while the main objective remains to make a list of the specific problems that influence the expansion and gravity of economic crises.

JEL classification: F02, F15

Key words: globalization, economic crises, international organizations

1. Implications of the economic crises on the world economy
1.1. Theories regarding economic crises

It is no doubt that globalization rules over this century, being the almost natural consequence of the rapid pace of history while presenting itself as an irrefutable reality of the new world economy and raising a great deal of questions to political and economic sciences, in the conception of which we come across different currents, processes and structures that together define this particularly complex and contradictory phenomenon.

In my opinion, at the beginning of the third millennium, the world economy reaches a new stage, being marked especially by the change, diversification, expansion, increase in mobility and the influence of interdependences between economies and economic flows, as well as by the ascension of new political polls.

Within the economic field, humanity finds itself in front of a historical moment, that is, a transition period towards a global integrated economy.

Globalization, as an incontestable reality of our days has major implications on the system of international relations, and we could also add here, on the destiny of each national component, including Romania as a whole.

Given the current transformations and in the context of future ones within the world economy, we can state that the dynamics of globalization represents the concerted result of several factors, such as: emergence of phenomena of liberalization of trade and capital, internationalization of output, increase in the trade in services, increase in the activity of transnational firms, aspects creating an interdependence relation with the financial system.

Globalization, through its main forms of expression represents a huge opportunity to reduce the gap in productivity, through its active, efficient and increased participation in international flows of capital, technology, services and goods. Too long term necessary for positive change is too far away to be perceived and understood, for millions of our fellow creatures. Millions of people still live on the outskirts of the economic world, millions experience globalization not as an opportunity, but as a destructive force: as a siege of their material living standards, or their traditional way of living. And those who feel marginalized in this way are becoming more and more.

In many traditional societies globalization threatens cultural and religious foundation of the society. In both the industrialized and developed countries, many people feel threatened - and are threatened - by globalization. A global economy has a lot of changes, from protecting local culture, protecting environment and local jobs.

After the economic and financial crises in Asia and Latin America, many countries have reconsidered their attitude towards globalization, being outlined a tendency to adapt to this process, in accordance with national interests.

Recent wave of financial crises and contagion after countries liberalized their financial systems, integrating into global financial markets, may lead to the conclusion that globalization generates financial instability and crises.

The problems that became more pressing for all humanity are: perpetuating and even underdevelopment increasing in many countries; environmental pollution and disruption of natural ecological balance; arms race during the Cold War; energy, food and housing crises in many countries; terrorism and contraband with arms and drugs. For those global problems and risk assessment and functioning monitoring of monetary and financial system, it was expanded and diversified cooperation between all countries. Contemporary scientific-technical revolution created favorable conditions for the amplification and diversification of international cooperation. It results that, in parallel with the accumulation of many global problems, in recent decades, there were made some assumptions for their solution, which is the objective of globalization, monetary balance and financial balance becoming the key of the world economy.

The world economic crises is a set of global crises, highly interdependent, affecting national economies, in one form or another, and with different intensities, widening gaps between them, disturb economic flows and gradually paralyzes the mechanisms of economic cooperation between states. The crises represents difficult situation, serious economic imbalance, in which different segments of the economy can not fulfill their normal functions.

I consider that the result of the contradictions of the global economy, materialized in triggering quasi structural crises, of the crises of international economic flows and the institutional crises of relations between countries of the world, highlights the inclusiveness of contemporary global economic crises. At the origin of the global economic crises are contradictions arising because the world productive apparatus is unevenly distributed and developed, there being no correlation between changes in national economies and the current international economic order. Also, differences exist in the international division of labor and imbalances in the world economy caused by the discrepancy between the interdependent world economy and institutional framework that supports underdevelopment. Dysfunction occurring in the global economy expresses its transition state from a time of balance to another, state that can convert into crises when heterogeneity of economic, political and military structures of the states manifest under the plane of international relations mainly as conflict , as contradictions that can not be solved by existing international order.

The possibility of exceeding the crises in the world economy is conditioned by the joint action of all States to regulate pressing global problems, and to eradicate disparities in the economy, trade and international finance, in line with the principles and objectives of the new world economic order (Marin, G. , Puiu, A., 1993, p 223.). Crises management is an attempt to control events during a crisis to prevent a significant and systematic violence (Evans, G., Newnham, J., 2001, p 114).

The word crisis, as a true overuse, has become almost a cliché because it was used indiscriminately in too wide contexts, and historians have used it without caution or, conversely, have been reluctant to use it. Regarding the notion of crisis, Louis Michel and Andre Cabanis in "L'evolution de la notion de crise et de sa gestion", published in Revue Française d'Administration Publique, no. 62, April-June 1992, stated: "Since political thought is interested, under various names, on the notion of crisis, especially international, almost all authors have thought in this area as the balance was the ideal to be achieved, and the crisis a fail that puts in question this ideal, and which should be terminated as soon as possible ".

Crisis issue was extensively debated and received different interpretations in contemporary economic literature. Thus, liberal economists identify crisis with economic slowdown, stagnation and decline of business volume. According to other opinions, economic crisis is a form of explosive manifestation of breeding contradictions, of serious disorders and provisions as a whole and between the stages. The economic crisis of overproduction marks the moment when it starts changing the quality of the conditions for economic reproduction, preparing the premises for the new leap by creating new structures and balances. Economics has established a wide typology of economic crisis with regard to various criteria according to which crisis such as: cyclic and acyclic; long-term chronics (like land) and short term; global, regional, national and local; industrial, commercial and financial exchange, etc.

1.2. Economic crises contagion in the context of globalization

Crises problem was extensively debated and received different interpretations in contemporary economic literature, leading to the identification of problems that contribute to the occurrence, frequency and severity of international crises.

Economic thinking covers a wide confrontation of ideas amid numerous ways, such as the causes of cyclical economic developments and cyclical economic crises. For a long time, many economists have rejected the idea of the emergence and manifestation of crises in the economic system, being dominant the classical equilibrium theory, formulated by J.B. Say, who says that, at any time, it ensures full use of available resources. It argued that, any provisions or adverse events that would occur in a sector shall be corrected promptly by automatic market mechanisms.

Although the economic crises occurred throughout the nineteenth century (1825 - first cyclical crisis in England, followed by those of 1836 in England and U.S., 1847 in England, U.S., France and Germany, 1857 - the global crisis, 1866, 1873, 1882, 1890, 1900), the confidence of the theorists in the ability of self-regulation of the system led them to seek the causes of the crises in exogenous and minor domains of the economic system. In the twentieth century, after the Great Depression of 1929-1933 were shattered the self-regulation theories of the economic system, theorists trying to explain the crises by exogenous-endogenous causes, according to which economic cycles result from the correlation of internal and extra-economic factors. On this basis, the economic system contains itself destabilizing mechanisms that generate the cyclic evolution, and extra-economic factors such as weather conditions may favor or hinder destabilizing mechanisms.

There are some theories called exclusively endogenous such as “reinvestment cycle theory”, stating that the origin of cyclical must be found in fixed capital investments, which has a certain useful life, and its replacement is extensive in some periods and low in others. The alternation of periods of febrile replacement of fixed capital with other, when the volume of its renewal is reduced, would explain the development cycle and its phases.

Some authors, supporters of monetarist theories, try to explain economic crises by the excessive increase of the credit in the expansion phase, which breaks the economic balance, causing the depression phase. According to them, the economic cycle would be a purely monetary phenomenon, determined exclusively by the monetary authorities' errors. One of the most recent monetarist elaborations considers the cause of economic crises cheap credit policies, adopted by central banks which, are reducing artificially the interest rates and stimulate investment without sufficient economic justification of some investment projects, which proved impractical because the factors of production are in fact more expensive than the initial evaluations. Depressive phase begins when enterprises, unable to achieve planned objectives, reduce their investment.

Under-consumption theories had a certain role in explaining the economic crises. They say that the lack of demand blocks production and, therefore the offer, which helps rising unemployment and market imbalance and results cumulative effects which reduce production - leading to economic crises.

Also in the context of these theories is trying to promote the idea that economic crises would trigger not as shortages of liquidity, but as a reduction in the profitability of existing investments which exceed real needs of the economy. Thus, it is considered that the high efficiency of massive investments made in a short period determines flooding the market with new products unable to be absorbed by the market demand.

Recognizing the existence of cyclical swings in any market economy, the Friedmanian current believes that the cyclical fluctuations, primarily the crises, ware due to an exogenous factor in the mechanism of market economy - namely state intervention. Milton Friedman believes that any form of state intervention in the economy is reflected by disturbances in the circulation of money, economic crises are, in fact, expressions of its disturbance. (Milton Friedman, “Capitalism and Freedom”, 1968). Money supply disruption occurs essentially by the disparity between the growth rate of money in circulation and production growth rate.

On the opposite side are advocates of state intervention in the economy explaining cyclical evolutions just by un-correlation of intervention and inefficiency, instruments and policy developed and used by the state. Marxist theory sit at the basis of economic crises of overproduction the fundamental contradiction, which leads to cyclical crises triggering the direct inconsistencies derivatives (expressions of the fundamental contradiction) reaching a certain level of manifestation. Should be noted, the tendency of rapid increase of production compared with solvent demand, the emergence of disparities between labor supply and demand, which leads to the formation of a relative surplus and reducing profitability. Reducing production (and over-absorption and structural provisions of supply and demand), renewing in mass the active work media creates the conditions for a new economic boom.

A "special" thesis, but according to some researchers is accepted even in non-Marxist academics, is that which was proposed by Karl Marx, on the theory of economic fluctuations, which highlights the antagonist report between the holders of capital means and labor suppliers, strong contradictions of the system and fatality of the transition to communism without classes. To Marx, cyclicality is part of a broader crisis, especially due to the presence of two classes of permanent conflict. It is this conflict which determines the premises of perpetual fluctuations in economic activity. Marx argued in several cases with sub-theory, in his opinion, the crisis was not caused by the lack of consume, fluctuations occurring because of the intention of the working class to improve their living conditions, according to the time of productive expansion.

Fundamental nature of the work of the Austrian economist J.A. Schumpeter (1883-1950), is given by the constant reference to the economy and society in general, as places of human action always pervaded by profound transformations. For Schumpeter, the economic system is never in a stable equilibrium, but it passes from one equilibrium to another, passing through strong shocks which continually modify its internal structure. Economic fluctuations do not arise from wave motion caused by constantly disturbing elements, especially if we refer to those that occur between the traditional view of the relations of production and avant-garde vision. In view of economic cyclicality, Schumpeter reached theorizing the system crisis over the period. If Marx believed in the fact that capitalism system was unable to surveillance and that mandatory transition to socialism would have to have benefic effects on the community, for Schumpeter this passage demonstrates the impossibility of the system to welfare in conditions of perfect competition.

Schumpeter was convinced that the existence of the competition should have been provided, according to classical principles, the maximum welfare for everyone.

Contagion of crises from regional and global level has several channels of transmission, consisting of the fundamental links between world economies: financial links – it exists when two or more economies are linked through international financial system; links of the real economy - usually refers to international trade and political links.

Crises contagion phenomenon required as rule the estimation of external vulnerability of countries wishing to liberalize capital flows. Some elements have proven essential for countries wishing to participate to global market: macroeconomic stability, financial health, transparency of government policies and how government (Isard P., 2005, p.85).

One can distinguish a series of internal and external causes of economic crises, which is reflected both in the panic of foreign investors and on current characteristics of global financial system, and on the structural characteristics of economies.

The current financial crisis has gained unprecedented proportions and has crossed the borders of initially affected sectors, becoming the dominant theme and worldwide object of justified concern. Instability wave propagated from one sector to another, first from real estate sector in banking and other financial markets, then in all areas of the real economy.

A devastating effect of the crisis is a substantial reduction of exports, being increased also by the greater influx of investment in worldwide.

Reducing global commercial activities has reduced the demand for consumer goods and industrial products, lowering earnings from exports, a series of companies have gone bankrupt or have reduced the number of employees and hence the wages.

Adverse consequences of the international financial crises expanded on the Romanian economy, reflecting by the slowdown of the industrial production, reducing exports, limiting the access to external financing, difficulties in private external debt, domestic currency, reducing the flow of foreign capital, increasing unemployment, decreasing or delaying investments in the economy.

Therefore Romania's economic problems are exacerbated by the international crises, having as consequences the economic downturn and the need for external financing.

2. The role of international financial institutions to regulate global economic mechanism

2.1. Theories about external adjustments

For a country's economy to keep pace with globalization is not only sufficient holding its own companies of abroad investment. Liberalization and modernization of institutions and procedures that are relevant in business will be all necessary for national economies to be compatible with the global economy.

Economic organizations and international financial monetary in almost all, guide their activity at least by three basic principles: promoting liberalization of international trade and capital transactions; providing specialized assistance in each country to maintain economic and internal and external financial stability and economic policies, taking into account interests of all Member States of these institutions.

Thus, in the global economy have occurred in recent decades profound qualitative changes defined with different expressions: economy and global integration, global competition, market globalization, the increasing integration of world economy, increasing economic interdependence.

The role of international financial institutions increased significantly, once the process of globalization has expanded on the international financial markets.

The main financial institutions that constitute the structure of international financial system are: the International Monetary Fund, World Bank Group, European Bank for Reconstruction and Development, European Investment Bank, Bank for International Settlements (Postelnicu, G., Postelnicu, C., 2000, p 173).

These institutions have different goals and funding mechanisms, developing continuously their financial strength, assuming an active role in the international finance.

Identification of the effects of financial crises means both policies and strategies to prevent them, but also methods of management appropriate to the type of crisis, because, due to the evolution of international financial processes, of the interdependences of global capital movements, economic and financial problems arising in one country affect also the economy of other countries, and then the effects of the crises are more serious. Thus, financial policies pursued by various states acquire new forms and dimensions.

Corresponding to a list of major problems, specific to each country, that contribute to the incidence and intensity of financial crisis or creates obstacles for economic growth and poverty reduction, it is necessary to identify the challenges that countries must face. These include: - creation of a coherent strategy for national financial market liberalization and international capital flows; - institutional strengthening, information, and financial and corporate sectors; - the adoption of agreements on sustainable exchange rates; - maintaining deficit discipline, coherent macroeconomic policies and market confidence; - opening the economy to trade and foreign direct investment in a manner to result in growth-enhancing activities.

International Monetary Fund, in the early years as the institution responsible for monitoring the International Monetary System, focused on models of external adjustment. In the Bretton Woods system, sustainable deficits of payments balance could be financed by the financial markets because of poor mobility of capital movements. A deficit of current balance quickly leads to financial crisis and devaluation. In the '70s, the internationalization of financial markets and development of capital movements allowed current deficit financing. But in the '80s, the debt crisis in the developing countries pointed out that there is a limit for external debt. Mexico's financial crisis of 1994 has shown that maintaining a balance of payments remains still a concern.

Within the IMF, have been studied the financial market equilibrium conditions around the absorption patterns (Alexander, S., 1951, p 396), the monetary approach to balance of payments (Jacques Polak, 1989, p 134.) and the rules of harm to economic policy (Mundell, RA, 1962, p 77 and Fleming, M., 1962, p 369).

The impact of IMF surveillance depends not only on the quality of its analysis and advices on monetary policy, but also the desire of countries to follow these advices. National authorities are in general very reluctant to impose unpopular policies in the short term, while countries with large fiscal and external deficits refuse frequently Fund counsels to deal with these deficits. In addition, the Fund has little influence on countries that do not need to borrow. Consequently, many countries postponed the implementation of unpopular policies until their fiscal and external debts have been reached a level that is difficult to cover and have been made their economies to be highly vulnerable to the crisis.

Because the biggest challenge is to motivate countries to implement macroeconomic politics and structural reforms that will help to prevent crises, to sustain economic growth and to avoid the need for pre-financing from the Fund. A key element of strengthening these initiatives is to condition the possible access to loans of the Fund - if necessary - the existence of some strict evidences on the implementation of monetary policies and institutional arrangements before any credit request. However, such a conditioning can be lacking credibility and effectiveness in strengthening incentives unless industrialized countries - we are talking here of their representatives on the Governing Board of the IMF - are becoming increasingly hard and tend to refuse credits to countries which have poor records of policy implementation and institutions building.

An important action to reform the international financial system is strengthening legal frameworks for development aid provided to low-income countries and for loans in case of crisis and other non-concessional loans offered by IMF to other countries with temporary financial needs. Analyzing these challenges, the idea of conditioning funding and access to loans offered by IMF, of strict records kept by the countries, took an increasingly larger scale. Low-income countries will fail to develop unless the rich countries are generous in the amount offered and tough in their manner of allocation, which drives friendly countries to use them effectively.

Thus, much of this challenge is to establish a credible mechanism to refuse certain countries, in the absence of convincing evidence that the resources received will be used efficiently. Similarly, the effectiveness of the efforts to strengthen the impact of advices provided by IMF may depend on the understanding of the countries that, if they don't keep a clear and accurate macroeconomic policies and structural reforms, their access to Fund credits will be limited, if they will require any.

The failures of the policies pursued by the IMF in some developing countries can be of some analysts the task of governments in these countries, being able to say that they didn't have the political will and professional rigor necessary to apply universal prescriptions of the IMF. The difficulty and complexity of the economic situation in most developing countries has generated lively debate on the doctrine promoted by the IMF in its adjustment programs. Some analysts consider that the IMF has ignored the need for correlating realistic targets for reform with external funding granted to developing countries. Inadequacy of financial assistance to reform targets equates, practically, with a transfer, often unbearable, of social costs on the population of those countries.

In conclusion, the IMF's role should be adapted to new realities created by the globalization of world economy, its objectives must be represented by the insurance of normal functioning of the international monetary system but also by global stimulation to achieve economic growth, by promoted macroeconomic policies, balanced distributed between the countries of the world, in the spirit of humanistic principles of equity and social justice.

Thus, the IMF programs will need *to combine harmoniously the economic adjustment component with the one regarding the economic growth*, achieving a viable compromise between them, resulting the economic development of Member States, under democratic conditions, thereby creating the necessary conditions for the prosperity of people, ensuring a climate of solidarity and social peace in all countries, and an effective collaboration between them.

2.2. Policies of revival economic growth and crisis prevention

Decision makers must to anticipate risks proper and take into account of the uncertainties associated with doing internationally business.

Economic development in the context of growing interdependence in the world economy can be achieved if the fundamental economic policies are articulated in a realistic and pragmatic reform program. This program must simultaneously be accompanied by actions and measures to stimulate sustainable economic growth in sectors of national economy that can provide goods and services representing a competitive substitute for imports, ensuring also the creation of new jobs, which absorbs staff redundant as a result of adjustment. It is forming thus a solid basis for secure income and in growth of the population, as well as, increasing budget revenues to improve public services.

If we start from the presumption that a government objective is to increase economic growth rate, we will conclude that the appropriate policies implemented by governments should be those which increase the level of labor employment, of capital stock, and labor quality growth and capital in a country; so, monetary and fiscal policies can be used to redirect resources from production of consumer goods to investment goods production.

Relating to monetary policy, it can be said that low interest rates and greater availability of credit will encourage firms to invest more and thus to increase their capital stock, but at the same time, there is a danger to grow spending, which could lead automatically to an inflationary spurt, a higher rate of inflation discouraging investment. Fiscal policy can have better chances of success because by higher spending directed towards retraining programs, road construction, financial aid granted to firms located in backward regions, education, health and research, can lead to an increased productive capacity of an economy. The conflict between the two policies can not yet be solved because the growth of taxes cause higher wage demands, which, together with increased public spending can have an inflationary effect on the economy (Hardwick, P., Langmead, J., Khan, B., 2002, p 554).

I think that the main objectives of macroeconomic policy are: high employment labor, price stability, a high rate of economic growth, balance of payments balance and a fair distribution of income and wealth. It is necessary to distinguish between an active and a passive policy. When applying an active policy, the government adjusts its policy actions as response to macroeconomic conditions in change or to economic forecasts. Keynesians tend to believe that the economy is originally unstable and that it is the one who implement policy to achieve economic stability through the formulation and implementation of appropriate measures, thereby reducing excessive economic fluctuations. Therefore, Keynesians sustain active politics, to the disadvantage of the passive one. Unlike the Keynesians, monetarists tend to accept that the economy is originally stable for a long-term, and this point of view exhorts them to support a passive macroeconomic policy.

The purpose of the governments but also of industry participants in the global economic cycle is represented by providing a more stable economic processes and mitigation of adverse cyclical developments.

Advocates of state intervention in the economy explain cyclical fluctuations by the non-correlation of intervention and ineffective of levers, of instruments and policies developed and used by the state; according to these theories, by improving and better correlation of such policies and instruments and also by applying them consequently, it might prevent or even substantially mitigate the cyclicality of economic growth (Angelescu, C., Ciucur, D., 2000, p. 278.).

Economists have come to a better understanding of how to combat regular economic crises and foster long-term economic growth. Thanks to Keynes and his successors in modern period, we know that if a country chooses a set of macroeconomic policies aimed at money supply, taxes and government spending, it may accelerate or slow down its economic growth, it can mitigate excessive inflation or unemployment arising in the economic cycle or to control the large surpluses or trade deficits (Samuelson, P., Nordhaus, W., 2001, p. 461).

Lessons learned from previous crises have represented the focus of the efforts of IMF on the surveillance of its members and the global economic context, by assessing external vulnerability of member countries to crises. Vigilance and ability to respond quickly to crises and their contagion created new vectors of the IMF policies: monetary policy must be designed to be able to manage the pressures that may appear on exchange rates; tax reforms should be applied in full; moments decided to implement structural reforms should not be delayed.

Development of coherent reforms on new developing of the links between monetary and financial system and world economy, involving all states to ensure a dynamic international financial balance is decisive for creating a solid architecture of the world monetary-financial system.

Among *the conclusions* to be drawn, it should be retained the following: - create new global financial space does not mean the absence of crises; - the crises character is becoming more and more complex, due to both monetary issues and the credit which incorporates; - crises reach international dimensions due to the interdependence of national economies; - solutions applied for crises are sometimes inefficient and delayed; - liquidity crises, inevitably linked to imbalances in the credit domain can not be improved only through infusion of capital because they are accompanied by strong depreciation of the currencies that bring borrowers into financial instability and draw the countries involved in a deep recession; - in terms of globalization, the confidence in international market mechanisms is an essential component of success and of credibility of operations and transactions; - financial markets are inherently unstable, being subject to constant pressure from exchange rates, and changes in interest rates, external debt and the behavior of some central banks; - instability generated by speculative capital.

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