IMPLEMENTATION OF MACROECONOMIC POLICY AND INFLUENCE OF GLOBALIZATION ON IT

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Key words: monetary policy; budgetary-fiscal policy; money stock; budgetary deficit; economic cycle; economic globalization.

Abstract: Macroeconomic policy represents a part of economic policy of a state, consisting in the ensemble of interventions of public powers within the global development of economy. It uses specific means and instruments of financial, monetary, fiscal, budgetary etc nature. In order to reach the objectives it is auctioned according the principles of coherence and efficiency. The action looks up, especially for economic stability, insurance of efficient use of resources and equitable sharing of incomes between different economic subjects. The process of actual globalization influences a lot the future of macroeconomic policy, thus remarking the increasing internationalization of economies and accentuated difficulties of productive apparatus.

The understanding of macroeconomic policy is tightly connected to the *notion of state* with all its compounds (institutions).

The *state*, the one that applies the economic policy is formed from an ensemble of institutions that comprises legislative and executive power at national level, as well as local decentralised authorities. Some supranational economic organizations that can sometimes promote an autonomous economic policy add to them. An example in this way is European Union.

The term of *state* often implies the idea of a central nucleus or of a kind of staff of society. Within public opinion the state and government are sometimes simply confounded. On the other side, economic-mathematic models of the decision are almost always models of centralized economic policy, though they took into considerations decentralized regimes from the political and economic point of view. The majority of these models formalize the decision of a single centre, all the other agents being considered as passives in what concerns the implication within decisional act.

Thus, economic action of the state has the following purposes:

1. *Stability*, with the purpose of assuring a certain rate of economic occupancy and increase, but also a stability of prices;
2. *Affecting,* with the purpose of assuring an efficient use of resources and adequate distribution between public and private assets;
3. *Repute,* that refers to the purpose of equitable sharing of incomes between different economic subjects.

It is a formal and normative vision, but less realistic because in practice there are multiple interdependences between these objectives. Contemporaneous state exists within a network of different organizations and institutions that intervene in different degrees and at different levels of society. The collocation “public authorities” is thus very appropriate. If the government is the main agent of economic policy, it is not the only one. The extension of economic activities of the state was accompanied by a multiplication of decision centres.

The objectives of economic policy represent politic purposes or aspirations expressed in economic terms, as for example economic and social progress, national security, welfare of population or social justice. They are concretized at the desired levels of some macroeconomic measures, as for example the increase rate of national income, the grade of occupancy of work force, inflation rate etc. They are presented as numerical, but they can have qualitative aspects too. In this context, the major objectives of economic policy can be considered they following:

a. assurance of an equilibrated increase of economy in general, appreciated through the increase rate of PIB;

b. control of unemployment or realization of a market of equilibrated work force, appreciated through unemployment rate;

c. control of inflation or assurance of a stable price level, appreciated through the increase index of consumer prices;

d. realization of extern equilibrium, namely of a balance of equilibrated payments, appreciated through the cote of the deficit of payment balance towards PIB;

e. equitable distribution of incomes;

f. assurance of protection of surrounding environment (although this might be considered within the first objective, that among other supposes the protection of the environment through avoidance of pollution of land, water and air).

The first four objectives form what in occidental literature is called "*magic square*". Since all these objectives are hard to realize at the same time, proving to be less conceivable, the governments are often obliged to privilege one or another from them. Furthermore, the realization of the above mentioned objectives cannot be precisely delimited, their content combining and sometimes binding as for example the assurance of total use of work force and fight against inflation. Also, the restrictive measures of stability of price increase, might, on a policy of restriction of expenditures, affect not only the equilibrium of work force market, but also the realization of economic increase and even of equilibrated payment balance.

Realisation of objectives takes place through usage of instruments of economic policy, that are economic measures or structures determinable or direct influenced by the public powers by accomplishing the proposed purposes. The main instruments refer to public finances, monetary policy, exchange rate, direct control of prices, incomes of other economic measures, structure reforms etc.

Unlike the objectives, the used instruments are less desirable among themselves, being easily and immediately manipulated by the responsible parties of economic policy.

Appliance of a certain instrument, in a certain circumstance represents a *measure of economic policy*. The mixture of many measures of economic policy, for the realisation of one or more objectives represents a *strategy of economic policy,* whose appliance takes a certain period of time. Thus, we often talk about the strategy of a government or another.

The understanding of the content of economic policies cannot be realised without knowing the politic, social, military etc constrictions or restriction. The ones directly connected to economy are more acute, as for example: geographic, natural and demographic constraints, instability of world markets of basic products or a series of constitutional constraints. International constraints cannot be neglected either. Thus the initiative liberty of responsible persons of economic policy is many times restricted.

Economic policy thus appears as an economic option realised between concurrent or complementary objectives and instruments by a special macroeconomic agent – the state. Its actions will not have the necessary efficiency if they will not be malleable enough and will not develop within an economic frame dominated by adequate decentralised behaviours, able to react at the information and decisions of public power. In the last resort starting from the problems of citizens and addressing to their needs, being conceived and applied by politic and technocrat factors, that have their own interests, the logic of economic policy cannot be pure economic. Aspects generated by electoral cycle, where economic problems combine with political ones, neither the difficulties connected to market reaction to the decisions of economic policy cannot be neglected.

Macroeconomic policy is created from the ensemble of the decisions that the government take in order to action on economic conjuncture. Conjectural economic policy has two main compounds: *monetary policy* and *budgetary policy*.

Monetary policy is one of the oldest forms of conjectural regulation. Its first manifestations produced in 1837, when England's Bank discovered the influence that its own rate variation of discount could have. Its importance increased after First World War, once with the adaptation the standard of gold-currencies.

According to Costin C. Kiritescu, monetary policy represents an "ensemble of monetary measures taken by the state and central bank in order to accomplish the equilibrium between circulating money stock and money needs of the economy or for the influence in a certain sense of economic conjecture"[4].

French authors Jacques and Collete Nême define it as "action exercised by monetary authorities (Central Bank on money stock and certain financial assets in order to orient economy on short or medium term; it tends to be leaded according to general objectives of economic policies that design its priorities and contraindications)" [7].

Main instruments known in monetary theory and used in banking practice, and through which monetary policy looks to touch its purposes, refers to the following:

1) re-accepting operations, that can have a quantitative effect on money stock, named as effect-financing, in the sense that it limits or increases liquidity and actions on credit multiplier very fast;

2) operations on open-market, consisting in selling or purchase of credit titles of the state (debentures, treasury bills) by central bank, that have the same quantitative effect, through monetising or demonetising of these bills on monetary market'

3) Policy of obligatory reserves, that consists in the obligation that the central bank imposes to commercial banks of holding a part of its assets as legal money (also minimising banks' capacity of allowing credits).

4) Measures of direct intervention on the credit (selectivity of credits, credit limitation, exchange control etc), a right of monetary authority on monetary-banking system.

Budgetary policy is, also, an instrument of conjectural regulation, but also of more recent use. It appeared in 1930 and represents the expression of intense preoccupations of the epoch in order to find some capable solutions in order to influence the cyclic evolution of the economy, to correct its unfavourable phases.

Budgetary policy can be asserted to a priority developing objective that it is not always conceivable with the one of conjectural regulation. This can lead to budgetary disequilibrium, an unwished phenomenon.

Taxes, transfers and public acquisition are, in fact, as many means of changing circulation money stock. Through available budgetary instruments, public authorities may induce on economy inflation or deflation tendency, as the case may be.

Thus, the policy of *deficit spending* is practised in most countries with market economy, as creation method, through public finances, of an ascendant economic conjecture. The method consists in spending state's expenditures over normal incomes for financing some great works in order to relaunch the economy. Financing of deficit spending can be realised through one of the following means:▪ increase of contributions and taxes; ▪ intern loans (public credit); ▪ extern loans; ▪ monetary creation (money issuing).

The policy of deficit spending has some limits and disadvantages that were remarked within real economy. Stimulation of demand, respectively creation of buying capacity should not exceed the possibilities of economy of satisfying this thing; thus, economic disequilibrium aggravate through a negative influence on prices system, with its predictable inflationist consequences.

Budgetary or fiscal impulses can influence incomes and prices, but only on short term. Governmental expenditures financed through public loans or taxes will lead to removal of a volume approximately equal of private expenditures, not only for consume, but for investments too, so that, finally, production, occupancy of work force and global income will not suffer essential changes.

But, within a parallel analysis *monetary policy* can *neither* reduce unemployment under its natural rate nor significantly decrease nominal interest rate, only, maybe on short periods of time. This happens, because nominal interest rate depends on the evolution of real economy, less affected by monetary phenomena and anticipated inflation rate. If on short term an expansive monetary policy decreases interest rates, and a deflationist policy increases them, on long term the result may be backward.

The same distinction, between the effects on short term and on long term of monetary policy, is available for unemployment too. Its natural rate "is determined by real structural factors that escape from the control of conjectural policy in general and of monetary impulses in particular" (Aftalion F., Poncet P.[1]), the compromise between inflation and unemployment not being possible, only at most on short term.

This does not mean that monetary policy and budgetary policy would not have any influence on real variables, on the contrary, they can be major sources of fluctuations, they can be the cause of triggering or amplifying of economic crisis of all kinds, as it happened in 1929-1933, when money stock has been greatly reduced, or the contrary phenomenon (spectacular increases of money stock and of demand, in general), illustrated through a series of examples of hyperinflations.

On the contrary, a correct monetary and budgetary policy can assure a favourable economic development environment, characterised through a general stable level of prices or in slow increase, in a predictable rhythm, lacking the expensive element of incertitude. They can determine a better allowance of resources and a greater economic efficiency, they can contribute in a certain measure to the counteraction of hexogen perturbing effects (from outward the economy), thus reducing the amplitude of economic cycles.

In order to reach the objectives of monetary policy, limited objectives, but essential, monetary authorities should take into consideration *two interdependent conditions*: one that concerns the indicator that should take into consideration when taking a decision, and the other, monetary expansion rate that has to be adopted.

1. In order to satisfy the *first condition*, an indicator that may be effectively, directly and decisively controlled has to be chosen. Thus, prices general level (defined through a certain index) and money stock impose.

Within an ideal economy, *prices general index* could be the ideal, perfect indicator. Unfortunately, the connection between monetary authorities and prices is indirect and imperfect, thus often reacting with delays and in a variable manner to monetary impulses, according to different circumstances (even political).

As a consequence, we consider that a *money stock* as indicator under control should be adopted, it representing the intermediary between instruments of money policy and stability of prices as final objective. This intermediary aggregate reacts much more rapidly and precisely at a change intervened in the instruments of monetary policy and have to be considered as guide of the authorities in promoting this policy.

2. The *second condition*, is that monetary authorities to avoid, against exceptional situations, sudden moves of money stock. They have to adopt, indifferent of moment conjecture, an annual fixed rate of monetary increase, rate considered optimal on long term, without trying to reduce the amplitude of cyclic fluctuations through a discreet and always changing policy that will accentuate them.

Monetary basis is formed from cash and demand deposits. Their variation implies an amplified variation of money stock, consequence of the action of the multiplier of money supply. Thus, Central Bank lacks a good part from it discreet power, and politic power remains “captive” to electoral interests.

The level of the rate of monetary increase is controversial enough. Milton Friedman, the most authorised apologist of the idea, recommends an appropriate rate of that of increase of PIB, of 3-5%.

This simple monetary rule cannot be obligatorily considered a solution against fluctuations of activity and income, but it can contribute to the maintenance, on medium and long term, of a stable and easy inflation rate (or, eventually of deflation), eliminating monetary instability. In fact, monetary policy has to consider three intermediary objectives: money stock, interest rate and exchange rate, without favouring one of these objectives to the cost of the others.

Coming back to fiscal-budgetary policy, we stipulate that it has to establish as objective the realisation of an equilibrated budget, facilitating the redistribution of incomes and reassignment of resources and taking care of the production and efficient management of public assets that cannot be allotted to private initiative.

Of course that efficiency of policies mixture (monetary and budgetary) depends, in a great measure, of their coordination, that does not always happen. Furthermore, it has to be taken into consideration that each of them interferes with other types of policies (as for example the ones of social nature).

For example, post revolutionary experience of our country proves that monetary policy is less efficient if it takes into account the relaunch of economic activity; it has greater effects if it follows to calm or stop it. In contrast, budgetary policy is much more useful in order to re animate the activities, but, regularly, this thing is realised with the price of inflation. So, monetary policy alone cannot efficiently stimulate production; that is why, in practice, it should be accompanied by stimulant compensatory measures, as for example the ones to reduce fiscal pressure.

Reduction of taxes (especially on work) is sustained by neoliberal economists through the formula: “too many taxes kill taking”. A higher fiscal pressure discourages work and saving, thus contributing to the slowing down of economic activity, diminishing the supply. In the same situation budgetary deficits will appear too, responsible with the inflation and increase of interest rate. In other words, the crisis is not only a crisis of demand, as the adepts of Keynesism believe, but it can be a crisis of insufficiently stimulated offer.

When appreciating the efficiency of monetary or budgetary policy, the context, the conjecture have to be taken into consideration, because "in different context, analogous technical measures have unequal effects, or diversity of institutional frame of monetary policy, the same as of the budgetary ones is higher than that of their instruments" (Neme J.).

The process of contemporaneous globalization influences very much the future of macroeconomic policy. Lately, the context of macroeconomic policy knew two major evolutions: *rising internationalisation of economies and accentuated difficulties of productive apparatus*.

The openness of economies progressed very much during the last decades. The increase of trade has been stronger than that of production, the boom of direct international investment was even faster and financial globalisation gave birth to some financial movements of considerable amplitude. All these tendencies strengthened extern constraint, accentuated for O.E.C.D. countries by oil shocks and emergence of new industrialised countries.

In this context, worlding has two main consequences:

1) *Even if Keynesian mechanisms subsist, their use is much more reduced at national level.* Authorities do not lose the control of intern demand, but that of the demand of national products on other markets. Under these circumstances, macroeconomic policy remains efficient, but not in the measure national authorities wish. It does not permit anymore regulation of demand for national products, but that of national demand for products offered on the market, no matter their origin;

2) *The problem of coordination of national policy, of delocalisation of macroeconomic policies from nation-state towards a supranational institution appears*. On the other hand, progresses registered within the domain of efficiency of classical productive apparatus reduced. The increase of total productivity of factors diminished with almost 2% in relation to the 60s', in the majority of O.E.C.D. countries. This tendency reflects less a hypothetical effeteness of technique progress, as defaults of economic regulation. In what concerns causes, the opinions are divided. Lack of flexibility of economic structures, excess of obstacles for the logics of the market etc can be invoked; but an increase of incertitude ahead of technologic mutations from the last decades, of new technological revolution, as well as accentuation of work international division within a context of rising rivalry can be ascertained.

In time, many types of macroeconomic policies succeeded. During the 70s', governments were still marked by traditional keynesism. In their policy, they tried to accomplish many objectives, being always careful to avoid great and durable unemployment. During the 80s' almost all Keynesian references disappeared. Occupancy started to be only an objective of macroeconomic policy, prices stability became zero priority, especially in Europe and U.S.A.

During the last years, we assisted at a decrease of the number of instruments of macroeconomic policy, with realignment on monetary policy and even of regulation through interest rate. At the beginning of 90s', old certitudes easily reeled. Ahead of the menacing of recession, everybody accepted an increase of public deficits, some even monetarily sustaining them, others continuing to privilege monetary stability.

But during the last 10 years, world economy entered a totally new phase, atypical. The phenomenon of globalisation, liberty of information, people, capital movements special impact of new technologies, deregulation and increase of market forces that make the old economic policy recipes inutile. Contradiction of new economic cycles, massive concentrations of capital redefine the concept of national sovereignty increase in a higher measure the role and importance of monetary-financial and international politic organisms, requiring new institutions of coordination and regulation at global level and reducing the independence of national policies and institutions.

Another major phenomenon is integration in great continental block that, slowly undertake the prerogatives of economic policies, traditionally national. State-nation has and will still have a role, including in development of some specific economic policies, but the tendency is towards liberalisation, globalization, standard-uniformity with the advantages and disadvantages that do not wish to develop in here, but which will radically change during the following years the classic ensemble of economic policies.

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