THE GOVERNANCE MODEL OF THE U.S. AND EU AFTER THE ECONOMIC CRISIS?

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Abstract

In this paper we have treated several fundamental issues underlying some issues about interventionism, governance and so on that come in actuality in this period of economic crisis.
Over time the economic crisis that began in 2008 has had some negative consequences on the global economy. Moreover, many sparked controversy between the followers of Keynes and Friedman's and not least between Obama's policies envisaging growth and EU austerity policies that were aimed at reducing the deficit and debt.
It is necessary that both the U.S. and the EU to rethink the development model and to improve governance in all aspects. Stiglitz and Krugman are some of the biggest proponents of interventionism and higher government spending. They also are trying to find solution for economic growth.

Keywords: governance, interventionism, supply side, demand side, economic crisis.

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1. The Context Financial Crisis

Financial crisis has brought into question both dilemmas and confrontations with law to reconsider the model development and economic governance.

Keynes's supporters believe that market regulation and supervision was not made at maximum and neoliberals argue that it exercised too much interventionism that caused a distortion of the market mechanism.

Proponents of both sides have had countless controvese abouth the issue in question.

A topical issue is the Obama Administration is influnenced by James Tobin. It wants resumption of economic growth at any cost, without regard to the impact that could have on deficits and public debt and the position of Germany and France on reducing deficits and debts that could lead to significant reductions in costs budget.

President Obama made his intentions known and said he did not support the excessive fiscal austerity, which could affect the economic recovery, and urged European leaders keep public spending before the G20 summit in Toronto. Angela Merkel has totally different opinion and said it was the severe curtailment of expenditure.

Emphasizing public debt or sovereign EU member explained by efforts to rescue commercial banks from collapse during the crisis. U.S. seems to repeat the situation in Japan 90s falling into the trap of liquidity. Considering that zero interest refinance FED and increase the money supply can't generate an economic recovery, the EU believes that a more effective solution would be to pay more attention deficits and public debt and economic restructuring necessary. Moreover, the EU believes that growth through the accumulation of public debt and major private is not possible.

Another issue that raises controversy for the EU is the option of higher inflation and economic restructuring. The problem is that the notion of restructuring is not clearly defined, as regards the restructuring of the real economy of the nominal economy or the financial or restructuring of the budget of social fields and spending their due.

U.S. represent one fiscal and monetary union, while the EU is only a monetary union and therefore no complete. The problems in the euro area are signals that are required to achieve a tax and not ultimately a federal budget as the Stability and Growth Pact is not simply a solution that has proved to be just the wisest. As can be seen from the trend of events promoted by the EU deflationary policies aimed at stabilizing prices, taxes and limited budgets are not well seen because they did not have the desired result. Some economists believe that monetary policy asymmetric focused only on price stability and not to stimulate the production capacity, slowing growth, but does not contribute to counteract recessions generate increasing unemployment.

Anti-inflationary policies supported by the Bundesbank and the European Central Bank later had a major cost, namely: reducing revenues, increase unemployment, slow growth and eventually an extra care Keynesian welfare state that the Lisbon agenda is replaced with state Schumpeterian of economic competitiveness. Both the fiscal and monetary policy adopted by Keynes's supporters proved to be ineffective in trying economic recovery. Due to major budget deficits and public debt too high they could not apply the tax reduction measures sensitive.

The Obama administration has decided to extend the decision made by the Bush administration that was targeted tax relief. Initially expected it to encumber public debt by 900 billion but recorded a much higher value of over 13,000 billion. Paul Krugman have entirely different opinion by claiming that the decision to avoid a situation very similar to negative from 1929 to 1933.

Like Krugman, Joseph Stiglitz does not support fiscal austerity and balanced budget orthodoxy and questions the position of Germany and France, who believe that restoring business as possible through lower budget spending and higher taxes . Krugman believes that "there is no evidence that short-term fiscal austerity, amid an economy in depression, restores investor confidence. On the contrary : Greece has agreed to impose austerity last, only to wake up the risk associated with its debt increased further, Ireland has imposed drastic cuts in the public sector, only to be treated by the markets as a risk than Spain."

Joseph Stiglitz, challenging neoliberal approach that was endorsed deregulation and generating capital market liberalization and speculation risky financial products. However there must entirely reject the liberalization of capital because after the end of World War brought a number of benefits to economic growth. Guidelines proposed by the European Commission and then adopted by the EU Council and the European Parliament provides for freedom fundamental to the establishment of the EU internal market. The economic crisis is a consequence of financial regulation and supervision weak macroeconomic which generated speculation and risky activities. An important problem that has negative consequences for the United States was uncontrolled desire to profit in any way following the macroeconomic then the U.S. economy to enter into a destructive financial bubble, and the solution offered by the Administration to was increased budget spending and public debt which has caused injury worldwide. On the basis of failure to state government and Federal Reserve promises that the bank would recover some of the losses. After the events in the U.S. can see exactly where it went wrong and led to series of negative events. A demand side policy, aimed at boosting consumer with monetary fiscal policy has had major repercussions in the U.S. leading to major shortages and subsequent to the deindustrialization process. Many have lost their jobs, not because trade liberalization or removal of protectionism, but rather due to the higher costs of inputs, credit costs and of course even exes regulation played an important role. (Schiff, 2009).

Exes regulation of both entrepreneurs and employers forced to pay high costs from which have not obtained any advantage. U.S. produced increasingly fewer goods because overregulation, excepting of course politically connected firms.

2. Policies and Supply Side Agenda

Goal of oriented policies offer is to foster economic growth through various incentives for the production or supply of goods and services.

Among supporters of policies focused on offer include Arthur Laffer and others; this is one of the most famous. Reagan Administration was the one who resorted to the application of such a policy given the Laffer curve effect, but the result was a total failure. Both Obama administrations had little success in trying to adopt tax reduction plan that is aimed at creating jobs and stimulating demand, the result was a budget deficit and public debt. Obama believed that the establishment of a similar bank the European Investment Bank would be able to finance the infrastructure.

In D. Harper says his side supply line and proposes as main policy tools for economic growth three pillars, namely: fiscal policy, regulatory policy and monetary policy. (Harper, 2009).

Reducing income tax rates would stimulate production and encourage labor and lower taxes on capital would generate profits increase productivity and stimulate investment. Proponents believe that the free market supply is advisable to apply a more limited government intervention. Monetary policy is to only offer supporters macroeconomic variables. It is worth mentioning that stimulation should let the credit be made productive and not the consumer and real estate and a stable monetary policy should generate some increase in the money supply and inflation rate. According to David Harper supply siders are proponents of liberalism while demand siders prefer interventionism. Whatever the views of the two sides stimulate domestic production or supply requires application of interventionist policies and measures even if they are contrary to the principles of the free market. Germany get benefits from applying supply side Policies, the country that produces and exports more than consume deflationary policy situation still generating negative consequences if the standard of living in the euro area.

In 2000 was adopted the Lisbon strategy agenda represents a supply model that proposes the adoption of sectoral policies. Agenda aimed transforming the EU economy in the most prosperous economy in the world. In the EU economy liberalization policies were applied with specific policies aimed at promoting entrepreneurship, reducing unemployment and beyond, these are just some of the outcomes. Lisbon Agenda also enjoys supporting other strategies and action plans, and not least the support of Stability and Growth Pact, which is considered an environment, oriented macroeconomic policies of the Member States. A major tool to eliminate inflationary pressures, competition market surveillance and protection of consumer interests is achieved through competition policy. However the result was not expected because almost no investments in education and research and the crisis was just a secondary reason. In 2010, the European Council has come up with an interesting proposal approving the strategy "Europe 2010", which came in extending the Lisbon agenda. Macroeconomic policies are not a wise choice for obtaining positive results; a better choice is the application of macroeconomic policies. Stimulating domestic supply can be achieved by completely different methods than the use of income tax adjustment. One effective method could be reducing profit tax cuts directly connected mainly investment credit opportunities for investors, not least job creation, credit guarantees for SMEs, aid granted by the State to support activities research and innovation that would contribute to the training of the workforce. Certain lowering tax does not necessarily imply that reducing budget expenditures within certain areas may be related to the printing of money could be transferred into industries on the verge of bankruptcy. There is no mystery for anyone that often banks and companies are aided by public money, because they play an important role in the economy. Even though the adoption of such behavior is not correct because it affects the proper functioning of the essential principles of the capitalist system are not fully removed.

Important is referred to as Joseph Stiglitz was and is a bitter supporter of sustainable economic growth that is based on human resource. Moreover, Stiglitz believes that both the government and public authorities have the capacity to support the development of infrastructure and education, especially in times of recession acting as a contractor. (Stiglitz, 2008). In his paperStiglitz argues that the new American left makes that situation recession, markets work. U.S. appealed but is right by it on the background of liberal approaches and policy errors and more. Such mistakes have existed during the Clinton administration. Stiglitz does not offer many details about he is just explaining market regulation supervision. Stiglitz believes it is extremely important that for the current economic crisis to be found a solution and to adopt appropriate reforms where necessary. Whatever decisions we must take into account that the U.S. public debt is quite large and almost impossible to fully fund. When gold has recorded the highest value of 1,300 dollars history investors consider the trend of negative events will increase. Gold price increase occurred as a result of the initiative of the Federal Reserve printing press money put into operation to counter deflation. Experts say that this would be a solution that could be taken into account as a last resort, especially after the decision by China to stop purchasing U.S. treasury bonds. Fed could intervene by applying inflationary policies to increase not only the value of gold but also other asset classes. Holders of mortgage bonds and mortgage default could be affected by higher inflation and interest rates which would require government intervention in the housing market. Unlike the EU in U.S. reactions against failures of corporate governance in the financial sector were not so strong. The fact is that there was always a competition between the EU and the U.S. on how to adopt tougher rules, only U.S. adoption came with large delays, the EU has adopted Basel II. U.S. came to another decision, namely to propose limiting commercial transactions carried out in their own commercial banks, targeting mainly reduce their risky investments made by its own capital.

The European Union has focused more on the G20 proposed decisions on the adoption of international regulations, while in the U.S. focus more on domestic market regulation which give a different view on the role that global governance has.

The U.S. has been appointed to identify systemic risks and for proper functioning of the cooperation between agents a Supervisory Board of the regulators, and the EU. This is the role of the European Systemic Risk Council. Under supervision are talking about the European Union included ECB + ESCB, European Commission and the presidents of the three European authorities and macro supervision will handle national European authorities belonging to banking, insurance and capital markets. But there was also the idea of European financial authorities that do not belong to governments or financial intermediaries and ECB differently to avoid the risk that might arise from the surveillance of multiple controllers.

Both U.S. and EU are trying to find the best solutions to combat the negative effects arising from the crisis and want the decisions to achieve expected results.

However both Stiglitz and Krugman do not come with any alternative solutions on the local budget orthodoxy. The conclusion is that we need a new type of corporate governance and economic governance to be more accountable and more efficient.

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