

## Economic fundamentals: between consecration and contestation

**Monica-Gabriela GHERMAN**

Bucharest Academy of Economic Studies  
monicagherman24@yahoo.com

**Abstract.** *Currently, the whole world has fallen prey to the most profound and long recession in the history after the war. Based on the causes and effects of the current crisis, can we say exactly which is the best economic trend that evokes the reality of today? Representatives of classicism, neoclassicism, Keynesianism, monetarism, economic liberalism etc.? Economic laws will remain in the same stage or will change? Certainly, there will be an adjustment in economic thinking and the economic crisis will force us to choose a different economic model, based primarily on rationality, morality and temperance.*

*We can even say that a quick return to the Middle Ages, the economic thinking of the scholars, who maintain those principles of economic life dependent and religious morality, by accepting the conditions of inequality as a source of virtue practiced, and detachment from wealth, combined with the principles of economic life in capitalism, could lead to a moral economic model, linking the two categories of facts: religion and economic development, as Max Weber stated in his book "Protestant Ethics and the Spirit of Capitalism".*

**Keywords:** global economic crisis; government role; Keynesianism; neoclassicism; economic liberalism.

**JEL Codes:** G01, H12, E12.

**REL Code:** 6E.

*The purpose for studying economics science is not finding ready-made answers to economic problems, but learning how to avoid being misled by the economists.” (Joan Robinson)*

Taking into account the three years since the onset of the most severe financial and economic crisis from the last decades, the world economy seems to no longer find its way to a new economic cycle. How it evolved and still involves the global economic crises is forcing us to meditate how much things have taken a wrong turn, how soon has it happened and, especially what can we learn from this experience. What is happening in the world is proof of the most obvious that economy can not adjust itself. As the prophet of the economic crisis, Nouriel Roubini, said, Karl Marx was right when he stressed the idea of self-destruction of the capitalism, because you can not transfer income from labour to capital without having to register an excess of production capacity and the lack of aggregate demand.

The unique feature is the fact that the current crisis is a crisis of the balance sheets, a credit excess whose origin is found in the financial sector. The credit is the air the markets breathe, thus infecting all types of toxic credit assets. However, professionals have not managed to foresee the crisis, not even when the economy suffered from imbalances, because their models stated that the markets are always right and they have developed new theories to explain why the markets behaves in this way. Therefore, we must understand that to avoid harm caused by free functioning of markets, government intervention is required by adequate regulations to prevent excesses, abuses and damages incurred by all citizens.

In this respect, we could give right to Keynes’ point of view, when he agreed to the interventionism in the economy, unlike the economic liberalism that is committed to laissez – faire formula. Keynes made his famous observation that ” in a long run, we are all dead” in the argument against the value of long-term economic forecasts. He believes that the variability of the basic relations of the economy was likely to turn the projections extended into something very uncertain. And he was extremely skeptical about imposing heroic sacrifices now for the sake of distant benefits promised by the economists. This is in itself a good reason to reflect on economic fundamentals known so far. The current economic crisis confirms the validity of Keynesian ideas to accumulate resources in times of economic boom to finance the government fiscal stimulus needed in times of recession. Economic activity is not only a technical operation without regard to morality, although in the past ethics and economics were united, and now the two are separate, this is a negative aspect that can generate a serious economic situation worldwide.

The difference between monetarists and neo-Keynesianism representatives is small. Both theories are built around economic models that focus on mathematics and on the assumption that the natural state of a market economy is in balance. Neo-Keynesianism officials emphasizing on mathematical models was an important step that has been removed from the importance attributed by Keynes himself to non-quantifiable factors. They were more likely than the monetarists to accept that there are rigid elements the real economy – the privileges, trade unions, illegal combinations – which often impedes a very effective balance. The long years of the Great Depression was a clear example of an economy blocked below its real potential. But they think they can successfully force the economy to bring it in a more desirable condition, by a well thought measurement, in the form of a reduction in taxes or increased spending.

Is it time to give justice to economic analysts stating that the crisis will mean the end of capitalism? It is hard to say. But economic theories will certainly change, as has been observed in all periods of economic crisis. The effects of economic collapse in the years 1929-1939 due to reduced consumption led John Maynard Keynes to support government intervention, a theory that was accepted as a solution to the economic decline of the saving of those years, by creating new jobs, which will determine the welfare, but the long-awaited growth also. Later, in the 1940s, the Bretton Woods system changed the theory of reference currencies and the oil crisis of the '70s showed that Keynes' theory no longer functioned, marking the appearance of Milton Friedman, the leader of the Chicago school, which stands on for the minimized role of the state supported, the demand and the supply should confront and find themselves the balance, the neoliberalism operating until recently. Recent developments, the Fed and central banks that engage increasingly more, Nobel prize awarded to a neokeynesianist, many analysts issue an opinion that the state is actually saving the economy. The fundamental idea of economics, which dominated economic thinking for more than two centuries, refers to two concepts: economic liberalism and economic totalitarianism. First economic trend supported a non-interference in the economy, the exchange being achieved by the supply-demand mechanism. The "founding founder of economics", Adam Smith, stated that "*invisible hand*" is present on the market and that lead producers to promote the interests of society. On the other hand, economic totalitarianism means that the individual is subordinated to the state, his rights deriving from his own will. Neoclassical concept is among the essential foundation that the state is located above economic interests, with a small role in the economy. Twentieth century – considered by neoclassical economic as a self-limiting system, considering that the manufacturer creates its own demand by its supply.

Between these two extremes, Keynesian dirigism admitted inability of the market to self-regulate through market mechanism with free competition, suggesting to complete it with the state intervention to correct cycle imbalances and prevent them from amplification. The theory of dirigism supposed that the negative economic effects, like inflation, recession, unemployment can be prevented by the state interventionism.

Economics provides a theoretical analysis and interpretation of issues such as how to reduce inflation, how to ensure full employment of labor and reduce unemployment, the government's macroeconomic policies, why the evolution of the economy is cyclic and what are the causes of the cyclic evolution, the ways to increase national income and its distribution, etc.

The appearance of new theory of economic regulation has not diminished the controversy between the two trends of economic adjustment mechanism. Liberal current assigns the imbalances in the developed countries to state intervention in the following domains: income, prices, loans, savings. Milton Friedman argued that any intervention in the economy disturbs the money supply and that the monetary stability would be an essential component of the economic stability. Paul Samuelson believes that the government intervention in economic life should be as most limited and indirect having the the main objective balancing the supply and the overall demand in order to ensure balanced economic growth. James Tobin, considering theory of state intervention in economic life, is in favor of an active role of state intervention in economic life, mainly through the state central bank, in justified cases, through fiscal policy.

Another economic fundamental to be reviewed is the answer to the famous dilemma: "*Should good laws or good people lead?*". If almost all economic trends answered "good laws", today's reality shows that this is not enough: good laws must be implemented by good people, taking into account the consequences of their actions and decisions. Without the existence of morality, the effects can be disastrous in any fundamental domain, especially in economics. The example of economic crisis speaks for itself, people want more material goods than their purchasing power can buy, which in time generates major structural imbalances, amplifying the signals of not speeding-up of the world economy, in the context of mitigating the impact of the expansionist macroeconomic policies implemented in crisis' context. However, we can not say that we are witnessing a conflict between the economic schools: Keynesian school, adherent to stimulate aggregate demand through the intervention of macroeconomic policy, neo-Keynesian school, which emphasizes the importance of reducing spending and budget deficit for the economic recovery.

In economics, as in anatomy, a group is more than the sum of its parts. Traditional economic science says that people's motivation and economic institutions that are involved in these slowly changes, that once economic truth is established, this is largely immutable, like in physics or botanical science.

---

## References

- Dăianu, D. (2011). „Statul, finanța și criza”, *Economistul*, nr. 35, septembrie
- Galbraith J.K. (1982). *Știința economică și interesul public*, Editura Politică, București
- Georgescu, F. (2011). „Anatomia crizei și schimbarea paradigmei economice”, [www.bnro.ro](http://www.bnro.ro), octombrie 2011
- Mises, von L. (1998). *Capitalismul și dușmanii săi*, Editura Nemira, București
- Morris, C. (2010). *Criza economică și profeții ei*, Editura Litera, București
- Pohoață, I. (1993). *Doctrină economică universală*, Editura Fundației Gh. Zane, Iași
- Stiglitz, J.E., Walsh, C.E.. (2005). *Economie*, Editura Economică, București