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The New and the Future Look of the Economy

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Abstract. *The global financial situation and our future economy remain vital concerns for us all. As a result, the government and the business community have to stimulate the economy and give it new dimensions. Virtually everyone agrees on the importance of the economy, but no consensus has or is expected to be reached soon as to the definition of the economy. Economy as a "discipline"' is a concept torn apart by current economic crisis, where fierce competition, greed and consumerism will neither solve the crisis in progress nor will they rehabilitate the economy. It is true that the current economic crisis and the times of slower economic growth that will inevitably follow are old system-related symptoms of the excesses and the recklessness accumulated in time at global level, for which reason we see ourselves forced now to reconsider the options that are lay ahead and outline a clear future perspective.*

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Foreword

The past decades have shown a tumultuous acceleration of historical-political processes that have brought about radical changes in the geopolitical sphere, which continues to influence the economy and the international relations to these days, while also impacting on the building of new global balances.

Despite these trends, autarchies has dominated the economic life of mankind from its beginnings and until the great geographic discoveries and the industrial revolution.

Economic "coagulations" have continued and intensified gradually, taking various forms, reaching nowadays to levels of inter-penetrability which some time ago were hard to imagine and turning into a factor of equilibrium at regional and international level. Current developments are confirming the old predictions about the inextricable link between the economic factor and international stability.

Adam Smith provided us with a wise prediction of how markets might someday go astray, and his novel idea that competitive markets would in time trigger the evolution of the public good, driven as they are by private profit-induced behaviour, appeared so enchanting in its aesthetic beauty that most economists could never go beyond the concept as such. Smith succeeded by what was later called "the bible of classical liberalism" to criticize and to give an insight into the economic problems. In short, Smith's theory is that the value of an asset is determined by the cost of production and that market price revolves around the natural price. But oscillations depend only on the supply and demand ratio. If the demand is lower than the supply, the market price decreases below the natural one.

The famous, "invisible hand" of Adam Smith helps harmonize individual interests with the general ones. Hence, the idea that the less the government interferes with the economic life, the better that government is. Smith's work has transformed economy into a modern and academic science and his well-known metaphor of the "invisible hand" comes to reinforce the idea that each person indirectly influences in some way or another economy. By pursuing his own goal, an entrepreneur implicitly promotes his company's goal as well, being led by an "invisible hand" that the entrepreneur does perceive as its own intention. When an entrepreneur in a market economy finds a way to cut down costs, the competition is forced to try to do the same thing.

We need to make a clear-cut distinction between economic vs. political spheres. Market participation and regulation are two distinct functions. Markets allow participants to engage in free trading. At this point, it is fully justified that market participants should be driven by profit-making interests. In contrast, the making and enforcing of rules must be guided by considerations dealing with the public good. In this respect, the profit-making argument is inappropriate. That is true when people try to break the rules to their advantage and when the political process is corrupt and the representative democracy fails to produce the results that would turn the open society into the most coveted form of social organization.

We are now at a point in mankind history when the range of uncertainty is unusually high. We are experiencing still the worst financial crisis ever since the Second World War. This crisis is quantitatively bigger and qualitatively different from other financial crises. The only relevant comparisons are the Japanese real estate bubble that burst in 1991, a crisis from which Japan has not recovered yet, and the great economic crisis (the Great Depression) of the 1930's. The difference between the present crisis and the Japanese experience is that the latter struck one single country only; instead, this new crisis has swept the whole world off its feet. The current crisis differentiates itself from the Great Depression by the fact that the financial system was not allowed to collapse and was artificially nourished. In the midst of the deepest financial crisis since the Great Depression, the instability of the global financial system is quite obvious.

But this is not just a momentary instability: there have been several crisis episodes in the industrialized countries over the past two decades, numerous financial and monetary crises in emerging markets, with trade liberalization causing many poor countries more damages than benefits. The myth of the "new economy" has dissipated, corporate scandals have shown that favouritism and bad governance are more complex and more widespread than we imagine and that wealth is distributed more unequally than before and social fragmentation and exclusion have increased both in the rich and in the poor countries.

At present, organizations do no longer ask themselves whether they will be confronted with a major crisis in the future, but rather what type of crisis they will be facing with and how it will affect them. Development and implementation of an effective crisis management plan is vital. The main objective of economic crisis management is to provide accurate and true information as fast as possible for the external public affected by the crisis.

To come out of the crisis, many countries worldwide show a tendency whereby the state chooses to intervene on the economy. Although to some point this could be a saving solution, the state should, according to economic theory, stick to its role mainly on the social and welfare fronts. By remaining active exclusively in the field of enacting the strictly necessary regulations and ensuring the general regulatory framework, the state could avoid its "natural" propensity to taint the markets, the competition and ultimately the modern democratic system itself. Although a consensus has not yet been reached on the "best state", research on the assessment of the dimension of the state will prove useful in the future.

While we have in place an effective crisis management team, in order to have an effective communication plan as well, we need knowledge about such plan or about crisis simulation. Governments should consider very carefully the crisis management process and they need to simulate similar cases, to make sure that we will be well-prepared in case of crisis. Financial crises rarely strike right out of the blue; most of the times, a financial crisis begins only after a real shock has slowed down the pace of the economy, so the crisis actually serves as a speed-up mechanism.

In any society, the government will try to maintain order and economic growth. Economic disorder leads to social disturbances and political change. Lack of economic growth leads to unemployment, which in turn generates anxiety. Most modern governments take an active role in managing their economies by means of economic policies. The purpose of such policies is to maintain a stable currency and economic growth.

But markets would only respond to the needs of individuals, and not those of social decisions. Individuals are allowed to engage in free exchange of goods, but they are not allowed to make social decisions such as establishing the rules that should govern the society or the rules on how market mechanism should work.

The biased character of state involvement derives from the fact that the state is not an abstract concept, but an economic unit represented by civil servants. These officials have their own views on the involvement of the state, which are often subjective, even if they are based on economic reality. In addition, other economic units will respond in their own way to the actions taken by the state, which enhances bias.

Government programs are pursing multiple objectives. If the only target of the government were to redress market failures, then the government would be faced with difficult technical problems such as, for example, with how to abate pollution.

But the biggest problems occur when the government is expected to compromise between two different obstacles, especially between boosting market efficiency, while promoting equality. Normally, economic periods have an asymmetrical shape. Economic boom is long and diffuse; it starts slowly, accelerates gradually, then flattens and slows down during the decline. Disappointment turns into panic, climaxing into financial crisis. A new model of economic growth should ensure the channelling of resources more towards production of exportable goods and services, the so-called tradable, thus satisfying better the domestic demand, while crediting should be sustained rather from internal savings.

The future economic theory should be based on two basic principles: 1) economic laws have demonstrated their long-term validity, 2) the large number of rational economic agents. It seems however that during the period before the crisis these two principles were seriously violated. And economists are not to be blamed for that, though we must nevertheless admit that economists have to a large extent been caught unprepared by the current crisis, as their prediction methods and models proved inadequate and unfit to the new depression and, in particular, to its rapid expansion due to the so-called globalization.

In a widely accessible formulation, economic growth policy means the actions taken by state to increase the GDP over a longer period of time. It is actually a matter of resource allocation, which shows several features: establishing long-term development targets – whichh enables increase in the quality of life; identification, orientation and sizing the products required to achieve targets – which takes place by complying with certain principles: enhancing the capacity to assimilate high-end technologies; economic rationality of minimum input with maximum results; equity between generations in terms of resources, maintaining the balance between immediate and long-term effects of the economic growth.

The essential criterion for the future of the economy is long-term improvement of life quality. The dispute over the state interference in the economy has been resolved, yet the problem now arising is to what extent and how the state should intervene to attain the desired results. All these issues must be seen and solved in correlation with market mechanisms.

The first efforts have materialized at theoretical level when the traditional theory of economic growth based mainly on extensive use of inputs and resources have caused incompatibilities in the ratio between resources and goods and between the welfare of the present and that of the future generations.

Extreme social polarization, now present in all the countries, coupled with educational and informational gap, have become a source of instability at national and even global level, and malfunctions can no longer be fixed by "traditional recipes".

Fiscal policy, alike the monetary policy, can be used to increase total demand and production in the short run. Both types of policies can be used to discourage the growth in demand when inflation threatens to rise. But these two policies do more than just change the total demand volume. Because they have different impacts on investments, they may have different long-term effects on the economy. A monetary growth lowers the real interest rate, stimulating investment. In contrast, tax increase reduces national savings, increases real interest rates and decreases investment. Using fiscal policy to stimulate economy by reducing private investments could have harmful effects on future potential output.

Financial stability is a natural condition for a financial system dedicated to a productive investment, in contrast with the inherent instability of a financial system based on credit granting, predatory actions and speculation. We need to create a new financial system, capable to provide financial services to meet community needs in the choices it has to make.

Economists are studying these choices by applying different models. Most economic models have three common elements: insufficiency, cost, marginal analysis. These three concepts make up the basis onto which the economy is built.

Insufficiency: Most people want more than they can actually afford. That is the essence of insufficiency: people wanting more than they can afford to get with their own resources.

Choice: Insufficiency prompts people to make choices. When a good is in short supply, people are forced to choose between the needs to satisfy first and the needs to be left unsatisfied.

Opportunity cost: When a good is in short supply, choosing to use a good in a different way is to give that good a different destination. The value of the good that people choose not to use any more represents the opportunity cost.

In the self-organizational cycle of the economy, the basic processes are autocatalytic, being oriented towards producing more and more capital starting from an initial volume of monetary capital. The factors influencing this process can be grouped into: personal (physical abilities, skills, knowledge, experience etc.), social (technology, science, volume and efficiency of production inputs, cooperation, forms of labour division and methods of organization) and natural. The driving forces in economic growth can be seen only in their relation to the workforce. The system can never be reduced to its component forces, because the system is more than just the sum of its component parts. Consumption, distribution and production are resumed continuously, simply because the economic processes are cyclical.

In order to solve the new global issues, new forms of global regulation are required, based on solidarity, sympathy, cooperation, respect for human rights etc. A united world society can be an alternative to globalization.

Since modern society is a system based on dynamic accumulation processes (of money and power), generating the tendencies towards unlimited concentration of capital and power, a direct, network-like democracy is needed to counteract the drifting towards totalitarianism.

What will be the new look of the economy?

Economic science is likely to suffer significant changes in the aftermath of the present crisis.

Trends in the economy should relate to:

- development of macro-models using high frequency statistical series (quarterly or even monthly macro-models);
- development of more advanced models for simulation of public debt and deficit sustainability;
- use of non-linear modeling and multiple equilibriums for early detection of the entry of fundamental macroeconomic variables into highly unstable areas (where very small variations in some fundamental or status parameters can attract the economic system towards regimes characterized by irregular cycles, the so-called multi-cycle regimes, by high fluctuations and even chaos);
- development of more refined multiannual budget planning models etc.

Conclusions

Even the most optimistic economists admit that we live in an imperfect world, faced with much too many injustices, inequalities and inequities. We continue to witness to an increase of the international turmoil, with the world beset by many crises, including structural ones, by violence and armed conflicts, famine and diseases, pollution and imbalances. There is however still hope that mankind will eventually muster its resources to overcome crisis. Each country has its own strategy for adapting and restructuring its workforce in times of crisis or major economic changes.

Since globalization has been invented to describe the importance of the growing international market and interdependent global economy, many tend to look at international markets and international financial transactions as to some novelty. In any case, globalization covers more than just a free market amongst nations.

Government should implement a national policy through action programs designed to prevent unemployment and inflation, generate new financing sources and encourage investment and global involvement.

Modern economies and societies need regulations and public policies, for the public goods to be adequately supplied and the negative externalities to be effectively prevented or minimized. This requires the public sectors to operate in an environment based on free allocation of resources (at market prices) and a vibrant economic competition.

It goes without saying that public sectors need streamlining, lest public resources should be wasted. We also need a moral compass, without which everything gets stuck sooner or later.

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