Analysis of monetary and fiscal policy mix

~ *Ph. D.* **Ionuţ Constantin** *(Faculty of Bussines and Administration)*

Abstract: *Economies are constantly hit by various shocks - that affect aggregate demand and aggregate supply and have the potential to generate recession or expansion, repective a high level of unemployment and high inflation rate. Governments use fiscal and monetary policies to try to stabilize the economy.*

Key words: Macroeconomic policy, fiscal policy, monetary policy, Economic growth

1. Introduction

Reaching the objectives of fiscal policy implies o strong coordonation (both temporal and in terms of consistency) between fiscal policy and monetary policy.

The realization of such coordination aims, in fact, the adoption of those measures that allow that the effects generated by a policy in a given field will not be annihilated by the effects arising from application of other policies. Coordination problem holds by to the ability to manage complex processes, with unclear mechanisms.

2. Macroeconomic policy: objectives and instruments

In the condition of inflationst pressure and those related with the increase in the number unemployed, of growing macroeconomic imbalances, bring into question in recent years, the appropriateness of adopting a mix of economic policies conducive to macroeconomic stabilization. Not infrequently, macroeconomic stabilization was associated with monetary stabilization. Monetary stabilization, etymologically speaking (within the meaning of the word base) requires, in fact, specific monetary system changing economy and, above all, change currency that economy. The other side of the stabilization concept is most commonly used today, having regard to economic stability by restoring the economy of general equilibrium analysis.

The process of macroeconomic stabilization is strongly influenced by the measure of economic policy adopted, of the coherence and implicitly by the degree in which the authorities involved in implementing these measures are able to work together to achieve goals.

Macroeconomic policy is embodied in all the instruments and measures adopted by the authorities of a country to influence key economic variables and attaining the desired level for the respective economy. In other words, *economic policy is a deliberate state intervention in the economic field in order to accomplish certain objectives of a structural or term*[1].

The question is the choice of economic policy objective that have to be pursued through the economic policy mix which will be adopted. Even if *objective is the same, the means to achieve – are not the same. The economy is a mechanism so complex that leadership is likened to an art rather than an exact science. Offered solutions to a problem or another problem are usually multiple, sometimes seemingly contradictory.*

Reaching these objectives is based, ultimately, on the tools used by the authority empowered to achieve macroeconomic policy. These instruments are represented by the components of economic policy; components that are translates into as many independent policy, but also correlated with one another: monetary policy, exchange rate policy (considered by some economists as part of monetary policy, and by others as separate policy in macroeconomic policy), fiscal policy, trade policy and not the least revenue policy.

2.1. The objectives of macroeconomic policy

Achieving macroeconomic stability is reflected by the way in how are reached the objectives set thrugh the macroeconomic policy and, last but not least, the nature of the objective had in view. The objectives envisaged by macroeconomic policy aimed the economic activity; economic activity can be represented by several variables such as GDP, employment, inflation, etc.. Achieving a certain level of these macroeconomic variables is the fundamental objective of macroeconomic policy in the state in general and monetary policy in particular.

The objective with the greatest social impact is the employment of labor, going on maximizing it. Regarding this objective, it is almost clear desire to register a high level of employment, on the one hand to ensure a decent living, and secondly to ensure a high level of product offerings.

Price stability is emerging as one of the most important objectives of economic policy. In pursuing these objective conditions must be borne in mind that the notion of price stability does not mean that all prices are stable or fixed. At the pragmatic level, the focus is on maintaining price stability in the environment, aiming, ultimately, their relative stability and not the absolute. Economists consider that there is relative stability of prices while the annual growth rate of prices, determined from a representative price index is at most 2%.

If price stability is now one of the main strands of authority, we must keep in mind that one of the problems arising from inflation

[1]Basno, Cezar și Dardac, Nicolae, Monedă, credit, bănci, Editura Didactică și Pedagogică, București, 1999, pag. 379

is economic stagnation. There are thus cases in which the state's economic policy is envisaged to ensure sustainable economic growth.

In terms of ensuring a certain level of growth it is, for some countries, one of the most important coordinates of macroeconomic stabilization policy.

Setting the pace of economic growth is based on quantitative records of previous years, adding to this factor is, of course, circumstantial factors which, in most cases, significantly affect economic growth. If the early twentieth century the idea is going to ensure economic growth of at least 3% - 4%, these expectations can be far more pessimistic.

To speak of a sustainable economic growth, must register an actual increase in the production of a country (quantity) rather than, simply, an increase in the national currency. To this must be added that the mix of products and services must be made to stimulate real demand and thus stimulate consumption.

All these goals of macroeconomic stabilization are considering only domestic economic issues.

Depreciation is another factor that involves the adoption of a firm policy of macroeconomic stabilization. Financing budget deficits on monetary issue can gradually emphasize inflationary pressures in the economy, these having infleunce on the value of the money, value that leads, in turn, lower purchasing power and hence living standards.

As a result, lately between the objectives of economic policy is to ensure control and the state budget deficit.

The conflict between the objectives of macroeconomic policy.

The choice of economic policy objectives is very often contradictory, because achieving one objective can lead to failure of other targets, so that puts a great emphasis on establishing a single objective of macroeconomic policy to allow, indeed to achieve stabilization macroeconomic.

2.2. Macroeconomic policy instruments

Undeniably it is considered that macroeconomic policy is represented by two major components, the realization that, as is the action of which depends, in fact, achievement of macroeconomic policy: monetary policy and fiscal policy.

To these are added, however, and policies such as income, foreign exchange policy (if one considers that the policy somewhat independent of monetary policy - and we think it is good to keep in mind this aspect, because of special importance and implications arising from the economy of the national currency exchange rate changes) and the country's trade policy review.

Problems faced by the global economy over the years have led many theorists to give ideas on restoring the possibility of general economic equilibrium. All this regard, in fact, develop a program of economic policy that prevents, if possible, of destabilizing factors, which are all geared towards achieving that goal.

Regardless of optics on courses of action taken in what concern the macroeconomic policy, has outlined very well the idea that the most important macroeconomic policy instruments are represented by monetary policy and fiscal policy.

The mix of monetary and fiscal policies in Romania.

In any economy, achieving objectives of macroeconomic policy implies a strong coordination (both temporally and in terms of consistency) between the components of stabilization policy. Achieving such coordination aims, in fact, the adoption of those measures that allow that effects they are generate in a given field will not be annihilated by the effects arising from application of other policies.

Taking into account the claims of Marshall and Swanson [1974] as well as by Dornbusch, Fischer and Startz [1998] on the macroeconomic policy mix (mix consists primarily of monetary and fiscal policy), it makes it clear that monetary policy has a very large flexibility to adapt to new economic conditions and thus allow their influence. At the other pole is that fiscal policy does not allow so great liberality in its action, is quite difficult to change, mainly the tax system at short intervals.

If we consider the conditions for manifestation of a high inflation, economic analysts have concluded that a mix of policies - monetary and fiscal - is more effective than independent implementation of each policy.

Regarding the establishment of macroeconomic policy mix, was unanimously accepted the cooperation between monetary and fiscal policy. With the state still holds a significant share in the productive sector, it is necessary to take into account salary policy, in order to eliminate the distortions related to the sharing of resources. Large role in this process of stabilization was attributed to monetary policy, which is, unfortunately, the most well defined at the time of starting the transition process (from an institutional perspective - National Bank of Romania has been in his rights central bank rather quickly - and in terms of its credibility granted).

Conclusions

Modern economies are open economies. Modern industrial economies of all countries, economically advanced, as is the number of developing countries, are open to the outside, which reflects a significant activity in foreign trade and international capital movements.

Increasing globalization of world economies and the effects of this phenomenon on countries and individuals are often the source of virulent political debates.

In an open economy, an excess demand (as there are years in the Romanian economy) can lead to fuel inflation and external deficits. But most of the excess demand has resulted in external deficits in recent years due to disinflation and the apreciation of the currency.

In the meeting point of a budget with much higher resources with a monetary policy that targets an annual inflation of 3-4% per year we have achieved an optimal compromise in macro policy - and will be difficult. And if we had dry years and energy prices keep rising, the job will be more complicated.

Budgetary policy should be calibrated so as to allocate funds necessary for basic expenses (including financing of EU funds) without favoring one big skid.

Medium and long term we have won the battle for productivity / competitiveness. This means greater investment in production, research and technological development, education. There is a need for a strategic alliance between the public and private sectors.

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