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Three historic phases of macroeconomic governance

Macroeconomic governance is based on the use of instruments of economic policy by national governments to ensure growth and regulate national, budgetary, monetary and financial aggregates.

Whilst it may respond to political, if not ideological, considerations linked to the positions taken by particular public authorities, macroeconomic governance is also and above all determined by the economic environment on both a national and international scale. This environment and the constraints and/or opportunities it presents often determines the direction of economic policy. It is also the characteristics of the economic environment that permit the implementation of a number of elements to support this policy.

To contextualise the specifics of macroeconomic governance as it appears to be developing today to help the world economy to emerge from the crisis of 2008 to 2009, I am proposing to focus on the historical development of macroeconomics in three phases: offensive macroeconomics, defensive macroeconomics and finally the phase currently underway, which is characterised by a combination of a number of factors.

In each of these three phases, macroeconomic governance is primarily determined by an analysis of the actual situation (the diagnosis), the use of instruments of economic policy (the treatment) and the implementation of support mechanisms.

The creation and confirmation of offensive macroeconomics

The economic crisis of the 1930s called on the public authorities in the United States and Europe to develop an interventionist economic policy designed to rescue and above all relaunch the economy. Practice came before theory in achieving this. Roosevelt's New Deal was conceived in 1933, before the development of Keynes' General Theory in 1936. The theory, however, helped to clarify the nature of the crisis and validate the tools used to tackle it. It was caused by a decline in so-called effective global demand, which led to a decrease in production, a staggering increase in unemployment, deflation and therefore stagnation.

The instruments of economic policy are the result of budget policy (more public expenditure to boost demand) and monetary policy (reduction in the cost of money to encourage funding of the economy).
In the immediate aftermath of the Second World War, the demand for reconstruction in the economies of Europe continued to favour macroeconomic governance: for some 30 years, Keynes' prescription for consolidating demand was to be confirmed. In tangible terms, it was represented by the predominance of the welfare state brought in by the British Labour movement and the French-style practice of indicative planning.

This long period of sustained growth (the 30 Glorious Years) was also characterised by the use of instruments associated with the gradual internationalisation of the economy, namely:

- Massive transfers of funding from the United States to Europe (the Marshall Plan) and certain Asian countries as part of a geopolitical approach determined by the Cold War.

- The confirmation of the role of the IMF and World Bank in regulating the operation of national economies and supporting the move towards reconstruction and, later, the requirements of development.

- The increasing number of multinational firms as an essential factor in the internationalisation of economic activity.

- Low prices of raw materials, particularly oil, which favoured the development of new forms of transport (such as the car).

All of this inevitably favoured a growth in productivity and an increase in salaries, two essential elements in the virtual circle of growth in developed capitalist societies.

In the immediate aftermath of decolonisation, a phenomenon that lasted from the end of the war to the early 1960s, the State found itself at the centre of macroeconomic governance in what was then called the Third World with a mixture of Keynesianism and state control, fostered by the growth of anti-Western tendencies and the attraction of a degree of imitation of the Soviet system.

Defensive macroeconomics and the rise of the liberal orthodoxy

From the early 1980s through to the economic crisis of 2008-2009, macroeconomic governance was influenced by a predominantly liberal approach.

The requisite analysis that followed the two oil crises (1973 and 1980) highlighted the risks of overheating and excessive demand: there were inherent dangers in soaring inflation, budget deficits and balance of payment deficits, all of which tended to cause the economy to stagnate: this was the beginning of stagflation.

This situation inevitably favoured the liberal tendency embodied by the arrival in power of Mrs Thatcher and President Reagan and framed in theoretical terms by the Chicago-based supply-side school, notably the work of Friedman: a loss of control in the economy was deemed to be the consequence of State interventionism. The finger was pointed at Keynes.

Treating the problem meant less State involvement: lower public spending, lower taxes and maximum levels of privatisation.

The main aim of budget policy is to reduce the level of national debt and deficits in the public accounts. The primary goal of monetary policy is to combat inflation. This results in an increase in the official rates set by the central banks, which become increasingly independent in relation to the political authorities.

The most salient supporting factors in this period are essentially linked to the acceleration of globalisation and the increasing influence of information technologies as a real new driving force for growth.

Overall, though, the growth rate of the world economy dropped to a much lower level than that seen during the 1950s and 1960s. This, along with globalisation and the Internet revolution, fostered the financiarisation of the economy. Banking groups and the financial markets took over from the State as the engines of economic dynamism.

During this phase, and particularly after the break-up of the USSR, the United States asserted its position as a leader in both economic and geopolitical terms. The world was governed by a single power base for some 20 years. Paradoxically, the deficit in the United States' balance of payments increased in line with its budget deficit.

Slowly but surely, starting in 1995, we began to see the rise of the emerging economies, particularly China, followed by India and Brazil, and a consolidation of surpluses in the oil-producing nations, in particular from 2004 onwards. Faced with an omnipresent but deficit-ridden American economy, the position of the new economies, which were producing surpluses, grew stronger and they began to play a part in the development of trade as well as contributing to funding the world economy.

In developing countries, the accentuation of macroeconomic imbalances at the end of the 1970s inevitably led to the implementation of structural adjustment policies under the auspices of the Bretton Woods international organisations, policies which did indeed reduce macroeconomic imbalances but often to the detriment of the social aspects of economic policies. These countries were gradually obliged to accept a reformist approach and the liberalisation of their economies.

Since the beginning of the 21st century, we have seen the rise of the major emerging countries, with growth rates sometimes approaching 10%, at a time when their demand for energy, raw materials and food products was increasing. This increase in demand was the determining factor in the twofold food and energy crisis (2006-2008), which itself has become a factor of imbalance in the world economy. It has thus contributed to the indebtedness of deficit-ridden developed and under-developed countries and as a result contributed to triggering the financial and economic crisis.

The genesis of a new form of macroeconomic governance

The 2008-2009 financial and then economic crisis, which began in the United States and spread to the rest of the world, will mark a turning point in the development and implementation of economic policies.

The analysis the whole world was forced to accept in September 2008 is clear: this was a financial system in danger, with a lack of liquidity and a self-confessed inability to support the real economy. Production suddenly fell back in two sectors at a stroke: property and the automobile industry. All production sectors then found themselves affected by the fall in demand provoked by the soaring increase in unemployment. There was even some evidence of deflation. This, in short, was the vicious circle of the economic crisis that has taken hold in the United States, Europe and Japan, has begun to affect the emerging economies and represents a risk for international trade and the whole of the world economy.

Such a diagnosis calls for treatment, through the supremacy of the State. The economic sector is calling for political intervention, to organise rescue operations for a banking sector in disarray and to implement sectoral and global recovery plans. The Keynesian approach has truly been brought back into the fold, with all major countries implementing recovery plans on a massive scale, including the United States, China, Japan and the European Union. These plans involve increasing public expenditure, making credit facilities available to the most vulnerable sectors (such as the automobile industry) and tax reductions (in Germany), which is the reason for the increase in budget deficits and national debt.

The use of budgetary instruments is accompanied by the use of monetary instruments in terms of lowering the cost of money: the central banks have thus reduced their official interest rates, sometimes almost to zero, to encourage the banks to help fund the economy and end the deflationary trend.

The new macroeconomic governance, the result of a new balance of power between the State and the market, is gradually becoming more varied in form. As far as the banks are concerned, it is calling for more regulation and taxation of bonus-based compensation systems (in Great Britain and France) but is faced with resistance and even demands for a new kind of recognition. The new forms of regulation could breathe new life into a twin-track system of merchant and investment banking.

This involves a rehabilitation of political life and the development of new forms of public-private partnership.

Adaptations to macroeconomic governance at a country-specific level have been accompanied by confirmation of the international consultation between governments and central banks, which has itself been imposed by the requirements of globalisation. The role of the IMF has, similarly, been restored. Now equipped with new resources, it should be able to respond to the difficulties encountered by some semi-emerging economies and be prepared to offer support to developing nations and the world's poorest countries.

Above all, we have witnessed a change in global governance with three successive meetings of the G20 being held in November 2008 (Washington), April 2009 (London) and September 2009 (Pittsburgh). By taking over the role of the G8, the G20 has paved the way to a multi-centric world. Above all, this change reflects a consolidation of the positions of the major emerging countries in economic debate on a global scale.

The various regional hubs are trying to get involved in managing the end of the crisis and shaping the world economy: the Asian hub is proving to be by far the most dynamic and the most capable of acting as an engine to drive the necessary demand to overcome the recession. The American hub, thanks to a weak but still attractive dollar and a real capacity for adaptation, could play a part in ending the stagnation in the world economy. Finally, the European hub, which is still trying to develop a consistent approach, is hesitating between the historic attraction of Atlanticism and the lure of the East, not forgetting the potential advantages to be gained from developing a closer relationship with the Mediterranean and the Middle East.

The end of the 2008-2009 crisis, like all those that have shaken the development of capitalism, will enable the emergence of new driving forces that will be called on to give new impetus to growth. These driving forces will be linked to the interest generated in the green economy and more generally in environmental protection and the use of renewable energy sources.

The climate change summit to be held in Copenhagen in December 2009 should accelerate this trend.

The Mediterranean needs to find adequate responses to the changes arising from how the end of the crisis is managed. In a world governed by regional centres, it is vital for it to incorporate a coherent regional approach to improve its position in the world of the future. This is an important moment marked by two major transitions, which, alongside demographic change, will mark the development of the world economy in the decades to come: an energy transition and an ecological transition. The southern Mediterranean holds the keys to both, with its reserves of hydrocarbons and sunshine. The northern Mediterranean has the technological expertise to play a role in managing these transitions. The Mediterranean should not simply act as a conduit between Asia and America: it must try to build up its own capacity to influence.

It is for Europe to work to create the conditions for a proper relaunch of the Euro-Mediterranean partnership to take advantage of the relationship and improve its own growth performance. It is Europe’s responsibility to find an equitable solution to the conflict in the Middle East, which will contribute to creating a political rapprochement between the different elements that make up the Mediterranean region.

It is for the countries of the southern Mediterranean to work to reform their domestic governance in both economic and political terms. It is their responsibility to develop the south-south partnerships necessary for the overall progress of the Mediterranean region.

Both sides of the Mediterranean must work to ensure that development issues in general, and particularly the question of combating poverty in Africa, gets onto the agenda in international economic debates. The G172 needs to find its own place alongside the G20.