Problems of the Impact which Globalization Has on the Macroeconomic Balance

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Abstract

A first problem is that within the evolutive context of the process of economic globalization, the volatility of the real economic resources taken into consideration for the development of programs of macroeconomic policy, increases due to the perspectives of the programs of microeconomic development, which direct the real economic resources towards objectives not considered by the development and implementation of the macroeconomic programs. This pattern of globalization will lead to the concentration of the financial resources around the main production generating sources, namely in the areas where the latter are located within the region undergoing globalization. This will cause a deficit of financial resources in the areas with a lower proportion of locations of production generating sources.

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Introduction

Globalization has both a character of process and a character of phenomenon. The character of phenomenon is stronger during the stage of evolution of globalization and its result is the reorganisation of the capacities of production and of their locations within the region, as well as the redistribution of the financial and human resources required by such reorganization.

The subsequent stage of globalization – consolidation – appears necessary in order to avoid blockages in the real economy of the areas disfavoured by the process of globalization and in the areas favoured by the process of globalization. The necessity to develop this process must be understood as the necessity to resettle the economic assets and capacities upon the end of the stage of evolution of the phenomenon of economic polarization, towards the further accomplishment of the objectives specific to the macroeconomic sustainability. In such situation, the further development of globalization from the stage of evolution to the stage of consolidation involves the existence of global institutions and of the associated strategies.

The macroeconomic strategic objective is the macroeconomic sustainability – to be accomplished through the implementation of programs of macroeconomic policy – programs whose financing source consists of the components resulting from activities conducted in the real economy.

Drawing up a macroeconomic program presumes predictability in all directions of action of the program, among which the sources of financing, the implementation of the program presuming monitoring activities whose role is to manage the possible risks and to counteract the possible adverse effects which may result from the interaction of the elements composing the program with the real economy.

The development and implementation of macroeconomic policy program relies on real economic resources – resources that can be distinguished as:

o   *Real input* resources which must be introduced as such in the program because they are indispensable to running the program – for instance, the financing resources for the program;

o   Pattern *resources,* which must be identified and quantified. They are the representation of the economic activity on which the program will act and they play a role of predictability and coordination of the program – for instance, the economic categories on which the program acts. In turn, these resources can be of the following types:

   •   *Input* – on which the program induces changes related to the possible random paths or interests other than those associated to the accomplishment of the strategic objective of sustainability;
   •   *Output* – from their indirect coordination the program yields results necessary for the activities of prediction and monitoring.

o   *Real output resources* – represented by the results obtained from the development of the program and which are expected to be convergent with the accomplishment of the strategic objective; they are to be subsequently used in programs specially designed for the accomplishment of this objective.

Starting from the usual definition of the economic volatility [6]: *volatility is a statistic indicator which measures the dispersion of profitability of a placement; in other words, volatility expresses the risk that a financial asset (share, bond, exchange rate etc.) changes its value; a high volatility means that the value of the asset can change very much (upwards or downwards) in a short period, while a low volatility means that the level of the asset is stable, changing very little over a long period of time*, within the context of this analysis, speaking of the financial assets used to finance macroeconomic programs, for the purpose of our analysis we propose the following approach: *volatility expresses the risk that the budgetary financial assets and M3 monetary mass change their value in relation to the predicted value. A high volatility means that the value of the asset can change very much (up or down) in a short time, while a low volatility shows that the asset is stable, changing very little over a long period of time*.

Of course, the volatility of the budgetary financial resources is not completely a consequence of the evolution of the process of globalization but, from the perspective of this study, we will discuss only the component of volatility corresponding to the effects of globalization. From this viewpoint, a category of effects of globalization on the volatility of the budgetary financial resources is due to the evolution of a process related to the process of globalization, the economic polarization within the region undergoing globalization. This phenomenon involves the location of the main production-generating resources in centres of economic activities which have subordinated secondary production sources (sub-production or co-production), whose economic flows are imposed and managed by the main production sources.

Manner of Action of the Main Types of Effects of Globalization on the Mix of Macroeconomic Policies

The main types of effects of globalization on the mix of macroeconomic policies, the effects mentioned previously, specific to the stages of implementation and monitoring of the management of macroeconomic policy programs act mainly, in the situation of the economies disfavoured by the process of globalization, through:

o   Higher volatility of the real economic resources combined with the reduction in terms of value and structural changes of the main categories of macroeconomic financial resources. This affects mainly the financial resources which generate:

- Macroeconomic performance:
  - Financial;
  - Risk management;
  - Higher contribution of the financial component in providing the performance conditions for the vector „economic growth";
- Higher contribution of the financial component in providing the performance conditions for the vector „sustainability";
      It also affects the human resources which generate:
  - Consumption;
  - Productivity;
  - Financial resources (saving, investment, budgetary resources);
- Reducing the general macroeconomic predictability; this generates risks towards the potential for macroeconomic imbalance.

This compromises the main indicators and objectives of sustainability and the macroeconomic performance; this yields the following types of risks:

o   Risk of national financial imbalance resulting from the migration of the capitals and/or economic activities. It can be quantified post-factum for the national budget; this type of risk is recorded as deficit, which entails a financial macroeconomic administrative effort to draw resources, which is usually more costly than the national solutions;

o   Risk of imbalance (reducing) consumption.

Regarding the risk that the process of globalization doesn't run according to the described pattern (failing to redistribute the financial and human resources within the region), the adverse effects of globalization occurring during the stage of evolution of the process of globalization may block this process, preventing its predicted progress, particularly if there are no institutions or strategies as it happens in the early stages of evolution when the process is monitored only by the movements in the real economy within the regional macroeconomic context. Moreover, part of the potential risks of the stage of evolution of the process of globalization can be caused by the very effects of globalization; thus, the strategic monitoring of the objectives of globalization presumes the implementation of the strategy globally within the region, which has no theoretic and methodological instruments during this stage of the process.

Under these circumstances, one may speak of the risk of blockages hindering the development of the real economy due to the adverse effects of globalization during the stage of evolution. This may have macroeconomic effects throughout the entire region which, given the specific interstate economic relations of the region, means the occurrence and action of shock-generating risks which may cause phenomena of economic crisis when they spread throughout the economic system of the region.

Aspects Regarding Macroeconomic Problems and Solutions within the Context of Globalization

Considering, hypothetically, such a situation specific to the stage of evolution of the process of globalization, the following primary adverse effects on the mix of macroeconomic policies can occur within the two types of macroeconomic areas:

o In the areas disfavoured by the evolution of the process of globalization, by the effects of volatility of resources associated to the phenomenon of economic polarization of the region, the deficit of financial resources may cause the macroeconomic policies towards programs of macroeconomic austerity, opposed both to the economic growth and to the need to stimulate real economy;

o In the areas favoured by the evolution of the process of globalization, also due to the effect of resources associated to the phenomenon of economic polarization of the region, the surplus of financial resources may direct the macroeconomic policies, first towards stimulating the real economy, but the lack of force of the area which generates demand and consumption (specific to the low dispersion of the distribution function) blocks the program which stimulates the real economy in favour of the option to develop programs which to absorb the macroeconomic shocks.

In the case of the areas disfavoured by the evolution of the process of globalization, the option for the development of austerity macroeconomic programs may occur on the background of the following effects generated by the economic polarization of the region:

o Lover volume of the monetary mass, particularly due to the lower volume of the following components:
  - $M0$ = cash flow;
  - $M1 – M0$ = current accounts and open deposits;
  - $M2 – M1$ = medium-term deposits;
  - $M3 – M2$ = loans from repo operations, shares/monetary market units, negotiable bonds due up to 2 years and other financial assets
o Decrease of the revenues to the budget.

In such case, the option to develop austerity macroeconomic programs is generated by the accomplishment of a macroeconomic objective which resulted from the cumulation of the objective of compensating the deficit of financial resources and the objective of limiting the draw of compensating financial resources to a level of acceptable costs; this cumulation of objectives means the compensation of the deficit of financial resources up to the limit of sustainability. The perpetuation of this situation extends the situation of austerity and implicitly the macroeconomic objectives opposing the economic growth and the development of the real economy, by the following types of measures which are indirect effects of globalization; however, not any similar macroeconomic effects are due to the evolution of the process of globalization:

o Higher fiscality due to the pursuit of the objective of increasing the revenues to the budget;
o Higher pressure of the fiscal relations of the economic agents due to the harsher related administrative measures;
o Measures of increasing the monetary mass – a particular type of increasing the monetary mass, corresponding to the necessity to restore the volume of monetary mass necessary for the macroeconomic administration through monetary policies, compared to the lower volume of monetary mass due to the effect of monetary volatility associated to the evolution of the process of globalization.

These are opposed as direction and economic significance of the objective of stimulating the economic growth and implicitly, of the real economy activities.

Concerning the third indirect effect of globalization mentioned above, we may analyse this aspect with *Fisher's equation for macroeconomic balance[3]*:

$$M \times V = P \times T \qquad (1)$$

where:

M = monetary mass within the economy
V = speed of money rotation within the economy
P = production within the economy
T = level of prices within the economy.

The decrease of production and of the monetary mass, according to the mentioned effects, within the areas disfavoured by the evolution of the phenomenon of globalization, are generally accompanied by the increase of the prices within the economy due to the higher volume of products imported in order to cover the deficit of products. Thus, we have:

$$M_1 \times V = P_1 \times T_1 \qquad (2)$$

where:

$M_1 < M$
$P_1 < P$
$T_1 > T$

If, in terms of meeting the demand, equations $P_1 < P$ and $T_1 > T$ might be considered as being sustainable, if imports are made, from the viewpoint of the necessary of monetary administration, equation $M_1 < M$ is not sustainable on the medium and long term because it deprives the monetary administration of the possibility to develop specific programs, and thus leads to the decrease of the capacity of monetary management.

Such situation described by the equation above, by the shape of Fisher's equation for macroeconomic balance at moment *t1*, is a situation lacking sustainability and characterised by blockages of the real economy due to the trend to perpetuate the situation in which the domestic demand is met by imports. This also entails other macroeconomic imbalances: trade balance, foreign payments, country risk.

As mentioned above, a sustainable solution for the region undergoing globalization, would be the evolution of the process of globalization according to the patterns detailed by this analysis. However, this would involve eliminating any possibility of evolution of the risky phenomena, which means the maintenance of the administrative capacity first at the local level, which is in contradiction with accepting the situation in which:

$$M_1 < M$$

From this point of view, the proposed solution by this analysis is determined by the need to ensure a minimal macroeconomic and monetary administrative capacity, which in terms of sustainability, can be associated optimally with internal solutions. These national solutions provide a higher stability of the financial resources compared to the foreign solutions and demand a lower public financial effort. This solution involves monitoring the evolution of the process of globalization so that the process can be associated more to the character of opportunity and less to that of risk. The need to identify and implement such solutions at regional and local level, as mentioned before, is proper only to the stage of evolution of the process of globalization and to the beginning of the stage of consolidation, up to the moment of establishment of a regional territorial administrative system and of a global processual system.

Such solution is not only proper to the monetary aspect of the local macroeconomic administration, but also to the financial aspect. This solution meets the need to replace the austerity fiscal-budgetary policy.

Consequently, the evolution of the process of globalization, according to the analysed patterns, can lead to implications regarding the option for a particular type of macroeconomic administration, regarding the implementation of austerity policies within the macroeconomic areas disfavoured by the evolution of the process of globalization, which is in opposition with the objective of economic growth and associated with the risk of blockage of the real economy.

In the macroeconomic areas favoured by the evolution of the process of globalization we have, during the stage of evolution of the globalization process, a situation of volatility of the financial and human resources, but in reverse direction compared to the disfavoured regions. We have the following type of situations:

$$M2 \times V = P2 \times T2 \tag{3}$$

where:

$M2 > M$
$P2 > P$

Consequently, theoretically, in terms of the balance of demand and offer, we would have:

$$T2 < T,$$

Practically, this will probably occur less than the theoretical expectations, primarily as balance to preserve the situation:

$$T1 > T,$$

which generate imbalances with multiple economic effects in the disfavoured areas.

Regarding our monetary problem, situation

$$M2 > M,$$

compels the monetary administration of the favoured areas to run programs of absorption.

Regarding the problem of production, i.e.:

$$P2 > P,$$

the surplus of production can be solved, regionally, to compensate the situation:

$$P1 < P,$$

which is in opposition with the possible administrative option based on austerity programs for the disfavoured areas.

In conclusion, the main types of adverse effects of the process of globalization on the mix of macroeconomic policies during the stage of evolution are generated by the phenomenon of migration of the production capacities and thus, of the financial and human resources, towards the economic polarization for the region. This causes:

o   Volatility of the financial resources, particularly of the components of M3 monetary mass;

o   Volatility of the human, labour force resources,

This causes:

o   In the areas disfavoured by the evolution of the process of globalization:

- Lower production and consumption;
- Budget constraints;
- Smaller function of financial intermediation within the economy.

This forces the macroeconomic administrative system to implement austerity programs, but their perpetuation causes blockages in the real economy;

o   In the areas favoured by the evolution of the process of globalization:

- Higher production and consumption;
- Budget supplements;
- Accelerated function of financial intermediation within the economy,

This forces the macroeconomic administrative system to implement absorption programs, but their perpetuation causes blockages in the real economy, mainly because the production capacities outrun the domestic demand because the external demands are low.

Consequently, during the stage of evolution of the process of globalization and because of the lack of global administrative systems, the solution proposed by this analysis to maximize the economic potential given by the process of globalization, involves:

o   Management of the risks of real economy blockage;

o   Identification and application of macroeconomic policies which to link the local and regional levels through common objectives and through the correlation of measures.

Protectionism and the Development of Economic Agents

The need to identify and implement a solution within the region undergoing globalization emerged due the following reasons:

o   During the stage of evolution of the process of globalization there is no coordination of the process towards the accomplishment of the objectives; the character of process is determined by the multitude of microeconomic processual elements coordinated from those particular levels;

o   Because of this, the only targeted objectives are microeconomic in nature, and this may produce adverse effects at the macroeconomic levels towards the specific objectives at the microeconomic level;

o   The possible configuration of a global system of process administration is outrun, temporally, by the worldwide evolution of the real economy; all this period, represented by the stage of evolution of globalization is characterized by the lack of risk management capacities, the only such capacities that might possibly be activated being those local ones, which have a low efficacy against the global nature of the risks and effects.

The main problem which results from the conglomeration of these aspects is the need to establish a correspondence between the administrative capacity and the potential effects, the need to temper the evolution of the process of globalization in agreement with the real possibilities of risk management.

We therefore propose the solution of international cooperation between the administrative levels of the region undergoing globalization, towards tempering the rate of globalization, as solution in the interest of all the areas composing a region.

In terms of the economic policies, particularly from the perspective of the areas disfavoured by the evolution of the process of globalization, the character of such solution is that of protectionism, particularly by the fact that the objectives accomplished in this manner tend to prevent the situation characterized by:

$$M1 \times V = P1 \times T1 \qquad\qquad (4)$$

with:

$M1 < M$

$P1 < P$

T1 > T,

This targets the objective of:

$$M \times V = P \times T$$

which can be associated to the theoretic character of the objective; practically, however, only the following situation is possible:

$$M3 \times V = P3 \times T3$$

with:

M3 ≈ M
P3 ≈ P
T3 ≈ T

The proposed solution can only approximate the practical trends, until the concurrence of those from the objective, because the proposed solution is stimulating and coordinating, not compelling.

Of the theoretically possible forms of protectionism, considering that any form of tariff protectionism is in complete disagreement with the current evolutions of international policy, we propose a form of non-tariff protectionism, i.e. agreements for the ordered trading of goods, with the following main characteristics:

o   These are bilateral or multilateral agreements aiming the negotiated and controlled limitation of the trade in specific products or groups of products;

o   They involve, besides the commitment for self-limitation of exports, specific provisions regarding the price limits and the safeguarding measures.

The efficacy of implementing such solution depends primarily on the moment of implementation: maximal efficacy appears when the solution is implemented at a moment which is as close as possible to the start of the stage of evolution of the process of globalization; the efficacy decreases as the time of implementation departs from moment t0.

The importance of this solution is given by the tempering of the speed of globalization, aiming to correlate those speeds with the real possibilities of process administration; the main aspects showing the importance of the solution are as follows:

o   The temporal aspect of implementation – given by the moment of implementing the solution;

o   The aspect of consistency of the solution – given by the size of the production and trade domains and subdomains that are negotiated;

o   The depth aspect of the solution – given by the quantitative aspects of the negotiated limits.

All these have to be correlated with the specificity and objectives of each local economy in correlation with the regional objectives. It is thus necessary to develop a strategy of the general regional economic process, which may include the process of globalization, whose main purpose is to stimulate the socio-economic development of the region.

Conclusions

The primary effects on the regional real economy are generated by the phenomenon of economic polarization. Secondary to these effects, other effects induced by the macroeconomic administrative systems also act on the real economy in response to the risks and effects generated by the phenomenon of economic polarization.

The effects on the real economy and the effects on the system of macroeconomic policies associated to the process of economic globalization, interlock with similar effects caused by other economic phenomena, processes or aspects – situation which makes it difficult, or even impossible to make an exact quantification in relation with the cause.

Once globalization started its process of evolution, action must be taken so that the potential or effects of this evolution can be used for the socio-economic development.

If no complex program of management of globalization is used, or the delay of such intervention, may allow globalization to develop in an uncontrolled manner. This will decrease the capacity of using the economic potential to accomplish economic and social objectives, while the risk factor increases in complexity and becomes imminent.

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