NECESSITY OF A NEW TYPE OF SYMBIOSIS BETWEEN THE NOMINAL AND THE REAL ECONOMY

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Abstract: This paper deals with the rift between the nominal economy and the evolution of the real economy, which represented the main structural cause for the international crisis (since 2007/2008), followed by a prolonged recession and a stagnant growth rate. Analysing the causality and implications of the rupture between the real and nominal facets of the economy, the author is pleading for a new type of symbiosis between the nominal & real dimensions of the socio-economic activity of the human society in the 21st century.*

Keywords: nominal economy; real economy; international crisis; speculative monetary & financial flows.

JEL Classification: A1, B1, B2, D5, E5.

Far from being just purely theoretical notions specific to university *economics* textbooks, the two sides of the economy – real and nominal – have ample and profound implications on the functional structure of the socio-economic realm of the society.

Historically, the germ of the real/nominal dichotomy consisted in the emergency and subsequently extension of the use of money as a means of exchange and payment (for goods & services). As long as money had an intrinsic value, the tension between the real and nominal dimensions of the economy evolved gradually: "If money circulation itself separates the *real* content from the *nominal* content of a coin, as well as its metallic existence from its functional status, then it [money circulation] latently involves the possibility of replacing the metal money by a symbol"[1]

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[1] *K. Marx, "Capitalul", vol.I, Ed.Politica, 1960, p.157.*

Consequently, money becomes a token of the socio-economic value, so that centres/factors of power, which control the currency issuing and circulation, can monitor and even manipulate not only the money supply, but also the distribution and concentration of incomes and wealth by their monetary & financial forms.

For many centuries, real economy was the key-player and the nominal economy was a ‘shadow’ of the former, having a positive influence on social evolution, as long as productive investment was preferred to speculation.

Nevertheless, “if we leave aside the material content of the circulation of goods, the ultimate outcome of this process is *money*. This final result of goods circulation is, in fact, the *first form of the capital manifestation*.”[2]

Until the beginning of the 20th century, both facets of the economy – real and nominal – evolved in a certain concordance, made possible, on the one hand, by the initial forms of free competition and, on the other hand, by the specific national and international monetary systems.

After the domination of oligopolies and, later on, monopolies was established together with *credit money* proliferation, when gold-exchange standard was accepted internationally, *nominal* economy expanded at a pace and in proportions superior to *real* economy. Ever more the monetary & financial flows and monetary & foreign exchange speculation have become an aim *per se*, moving away from the trends and necessities of the real economy.

According to the above mentioned, the crisis which burst in 1929/30 (turned thereafter into the ‘Great Depression’) strikingly represented a dramatic manifestation of the *rift between nominal and real flows in the economic realm.*

It is relevant that John M. Keynes, analysing the causes and consequences of the 1930s depression, especially considered the definition and delimitation of *speculation* (speculative financial operations) and *enterprise* (productive investment). For the former, it is characteristic the obsessive target of obtaining profit by speculating on different forms of liquidity (generally in the short run), while the latter implies a vision in the long term: “…If I may be allowed to appropriate the term *speculation* for the activity of forecasting the psychology of the market and the term *enterprise* for the activity of

[2] *K. Marx, op. cit., p.177.*

forecasting the prospective yield of assets over their whole life, it is by no means always the case that speculation predominates over enterprise. As the organisation of investment markets improves, the risk of the predominance of speculation does, however, increase."[3]

Referring to the realities of the interwar period, J.M. Keynes warned of the danger that the capital development, as a factor of production, could become "a by-product of the activities of a casino", affecting the functions of stock exchanges themselves. Therefore, "the measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of capitalism *laissez-faire* …"[4]

After almost 8 decades, the financial – especially banking – crisis, unleashed in 2007/08, has peremptorily confirmed the Keynesian assertion. In our opinion, the 'autonomy' of the monetary flows, irrespective of real economy evolution, constitutes the fundamental cause of the recent crisis phenomena and of the present stagnant growth, in the context of the aggressive campaign of the transnational financial capital to 'globalise' the monetary & foreign exchange flows.

The rupture between the nominal and real dimensions of the economy is ambivalent, distorting the evolution of both national/regional/international monetary systems and factors of production markets. As it is known, during the Middle Ages, the *rent* was a decisive element of the income generating process, due to the limits of the land (as a factor of production). According to the Keynesian conception, in the economy based on *capital*, 'normally', there should have taken place "the euthanasia of the rentier, of the functionless investor."[5] In this vision, the replacement would have evolved 'gradually', which would have made a 'revolution' useless. Such an approach reflected the facts and controversies characteristic to the interwar stage, when the main forms of socio-political organisation were represented by the Anglo-Saxon capitalism and

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[3] *J.M. Keynes, "The General Theory of Employment, Interest and Money", Prometheus Books,1997, p.158*

[4] *J.M. Keynes, op. cit., p.159*

[5] *J.M. Keynes, op. cit., p.376*

Soviet dictatorial socialism (to which one could add the specific evolution of German society and economy in the 1930s).

The post-war economic reconstruction tended to re-establish the necessary correlation between the nominal and real economy. The disintegration of colonial empires and an acceleration of the international economic growth contributed to a diminishing role of various types of *rent* and speculative financial flows, while productive capital grew in importance. This tendency last about 2 ½ decades, until mid-1970s, corresponding to the ascendant phase of the first post-war long cycle.[6]

After the 'oil shocks', from 1973/74 and 1978/79, the 1980s marked the prerequisite for a broader and deeper rift between the nominal and the real sides of the socio-economic activity. Moreover, "since the late 1980s the earth's peoples have been using more of the planet's resource production each year than could be regenerated in that year. In other words, the ecological footprint of global society has overshot the earth's capacity to provide."[7] If toward the end of the 1990s, according to the research team coordinated by M. Wackernagel, the mankind's *ecological footprint* (humanity's demands on the planet) exceeded by 20% the globe's *carrying capacity* (including the absorption of the wastes), at the end of the first decade of the 21st century the mentioned gap represented about 40%. Therefore the 'global' human society would need about 1.5 planets (of the Terra type) to meet its consuming necessities!

This dramatic phenomenon has firstly affected the evolution of the real economy (factors of production and goods & services supply), but it has also provoked the *recrudescence and multiplication of various forms of socio-economic rent*. This process has been favoured by the myth of 'free competition' which, in fact, masked the overwhelming influence of transnational monopolistic corporations (especially financial) at a global scale. For example, the most important 147 multinational corporations control over 40% of the global wealth (S. Vitali, J.B. Glattfelder, S. Battiston, "The nature of global corporate control", 2011). On this background, in the 1980s &

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[6] *Lucian C. Ionescu,"Correlation and interdependence between monetary/nominal and real economy in the context of the international financial crisis", UFB Review / Revista UFB,, no.1/2011,p.14 -15.*

[7] *Donella Meadows, Jorgen Randers, Dennis Meadows, "Limits to Grows: the 30-year update", Ed. Chelsea Green, 2004, p.3.*

1990s, there developed a galloping offensive of the "free market fundamentalism" (using G. Soros terminology), which led to the famous 'de-regulation & liberalization' of the financial markets, having ultimately – a powerful destabilizing impact on the nominal economy in relation to real activity. I remarked the danger of that new deeper nominal/real fracture ever since the early 1990s.[8]

Under these circumstances, the Maastricht Treaty (Treaty on European Union, enacted in 1993) expressly mentioned only *nominal criteria* for adopting the single currency (euro) by the EU member countries, while the real convergence was either considered 'implicitly' or even ignored. But the dramatic events of the last decade have determined an increased interest in the correlations between nominal & real convergences (as regards the Romanian research studies, a particular attention should be paid to acad. A. Iancu's works).

As long as the two types of EU convergence evolve de-synchronised or even in contrast, *Euro* would risk being mainly a vehicle for speculative monetary & financial flows and only collaterally a currency meant to stimulate sustainable growth by restructuring real economy. The most eloquent expression of the *gap between nominal and real convergences* has been the specific character of the last crisis, followed by a prolonged recession and a stagnant growth, recorded in most EU member states. In our view, the intricate problems faced by the Euro-zone economy have their roots in the above-mentioned gap. Therefore any haste in adopting the single currency, especially by the less developed countries, will be damaging both for the respective states and for the whole Euro-area. A single EU currency could be beneficial for all member states only conditioned by a well-balanced correlation between the nominal and the real aspects of economy.

Having in mind the effective failure of the initial versions of the Stability and Growth Pact, after almost two decades, there has been an initiative to supervise, in a more coherent manner, both nominal and real indicators by the so-called *Macroeconomic Imbalance*

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[8] *Lucian C. Ionescu, "The role of the central bank in a transition economy", published in «An Economy in Transition», CEPR, Cambridge University Press, 1993.*

Procedure (MIP),[9] implying *Alert Mechanism Reports.* Although this is a step in the right direction, one should not neglect that the 'sacrosanct' macroeconomic stability cannot be a goal in itself: the interwar experience (mainly the 1930s) showed that the 'macroeconomic equilibrium' may coexist with a strikingly low level of real economic activity (large quantities of *unemployed* factors of production). This paradox has been brought back by the present crisis phenomena. The obsessive quest of *macrostability* (at least by the vigilant 'troika' representing IMF, EC & ECB) has been so far accompanied by recession, stagnation or a stagnant growth rate (around 1% per year): while GDP has stagnated or shrunk in many states, the derivative debt has been 16 times greater than the World's gross product.

In our approach, this incongruous situation is another reflection of the dichotomy nominal – real in the economic life: the contradictory evolution at the macroeconomic level (mainly nominal) *versus* the mezzo- & microeconomic spheres (linked more directly to real economy). In this meaning, a significant example consists in the way the role of the central banks has evolved regarding prudential supervision: "The crisis has shown that central banks' macro-prudential supervision has lacked tools to mitigate systemic risks. In practice, the most important avenue for macro-prudential concerns to result in corrective action is to work through micro-prudential *regulatory and supervisory standards*.(…) Hard separation of the two functions would risk leading to a situation in which neither central bank nor supervisory authorities would be able to perform their functions satisfactorily…"[10]

It has become obvious that a new type of symbiosis between the nominal side and the real side of economy is dependent not only on a radically different mode of organising economic activity as such, but also on creating and implementing a new functional structure of society.

Thus the excessive social polarization of incomes and wealth is acting as a brake for economic development on a longer term, generating socio-economic gaps, inequities and conflicts at national,

[9] *Regulation (EU) of the European Parliament and of the Council, entered into force in December 2011.*
[10] *Balling et al., "The Quest for Stability: the financial stability view", in SUERF Studies, 2010/4, p.26.*

international and global levels. After the totalitarian state socialism broke down, capitalism remained the only model for social-political order. According to Robert B. Rich (professor at the University of California), "as supercapitalism has triumphed, its negative social consequences have also loomed larger. These include widening inequality as most gains from economic growth go to the very top, reduced job security, instability of or loss of community, environmental degradation, violations of human rights abroad and a plethora of products and services pandering to our basest desires."[11] Using recent data, R. Rich underlines that 1% of the US citizens possess more than a third of the total national wealth. However, the social discrepancies are even graver in Eastern Europe, Asia or Latin America, not to mention the tragic case of Africa.

Despite these amplifying anomalies, in the last two decades (after 1990), a tendency to focus most of the economic and socio-political debates on extreme models of organising human society (regarding mainly economy) has been obvious: on the one hand, the offensive globalist neoliberalism and, on the other hand, the *historical* hyper-centralised state socialism (the former Soviet type). In reality, there has been and will be a much wider typology for structuring social systems, even creatively combining traits of different ideological orientations which proved to be valid within various historic circumstances.

Referring to the consequences of the last crisis (since 2007/08), Paul Krugman – the 2008 Nobel Prize in Economics – warned that "nothing could be worse than failing to do what's necessary out of fear that acting to save the financial system is somehow 'socialist'. The same goes for another line of approach to solving the credit crunch: getting the feds, temporally, into the business of lending directly to the nonfinancial sector. (…) If what has been done so far isn't enough, do more and do something different, until credit starts to flow and the real economy starts to recover."[12]

Only by knowing and learning both the benefits and the deficiencies or defaults of the various national & international social experiences, without prejudices, rigidities or imposed uniformness, human society can turn into account historical lessons and conceive a

[11] *Robert B. Rich, "Supercapitalism", ed. Alfred A. Knopf, New York, 2007, p. 209.*
[12] *Paul Krugman, "The return of Depression Economics and the crisis of 2008", W.W.Norton & Company, New York, London, 2009, pp. 186 & 188.*

new socio-political system able to promote an efficient symbiosis between the real and nominal dimensions of the economy.

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