

## A NEW SYNTHESIS FOR NEW ECONOMY?

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### ABSTRACT

Michael Woodford (2009) predicted convergence on economic theories in a New Synthesis. We examine in this issue some argument which could strengthen or weaken this statement. We take some example of economic politic after exogenous shocks, as natural disasters or subprime crisis in European countries. Development of organizations and new management is necessary to make face shocks supplies. Thus, the organizational dimension should be present in the New Synthesis, and we explore it.

**KEYWORDS :** Organization, Economic politic, New Synthesis

**JEL CLASSIFICATION :** E6

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### 1. INTRODUCTION

Goodfriend and King (1997) were the firsts whom told about New Synthesis from the convergence they found among economists, despite the cleavage introduced by Keynes, cleavage deep in the methods, objectives of models and in the direction of economic policy. The divide persisted since 1960 and 1970; it opposes the Keynesians and monetarists. It is perpetuated in competing approaches between econometricians enrolled in empirical and theoretical approaches based on rational expectations denied all relevance to economic stabilization politic. Woodford (2009) takes this view on convergence in a New Synthesis, heiress of two streams that crossed economic research after the Second World War. On many questions a variety of theoretical approaches cannot be reduce, Woodford concedes, but the core of all these approaches expanded and covered theoretical aspects and applications to economic policy.

Contrary to this opinion, Mankiw (2006) proposes to see in New Synthesis less than more a "truce" between adversaries. Debate on economic policy would be only a smolder fire. Today the subprime crisis brings many new elements that allowed to reconsider the conflict in predictions.

### 2. FACTORS PROMOTING NEW SYNTHESIS

#### 2.1 Factors of convergence

The prediction of convergence of the economic theories takes support for instruments used by the economic analysis in huge economic institutions such as central bank. The models used to base on a macro-econometric or type DSGE (dynamic stochastic general equilibrium). The approaches include the contributions of approaches of rational expectations and Real Business Cycle, while regaining market imperfections, for example through a matching model for labor market. Woodford cites an example of Smets and Wouters (2003) DSGE model developed for the Euro zone. Blanchard and Gali proposed the version of a New Keynesian DSGE model with unemployment (2010). The New Synthesis is based to share tools and consensus the consequences of economic

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politic measures. In this toolbox the New Synthesis placed dynamic stochastic general equilibrium (DSGE) approach by matching a labor market model, a macroprudential approach particular systemic risks. The new consensus, according to Woodford (2009), also proceeds to evaluation of the respective share real and monetary shocks, the first carry weight the quantity and importance of second (measured only 10 or 15% of total volatilities).

A succession shocks of various origins (technological, financial, productive, regulatory ...) tied with stabilization policy vary the demand according to nature of shock: a supply policy adapted to shocks supplies, a demand policy for a demand shock. If the exogenous shock alters the relations between production and prices (for example oil shock and backlash that affect producers' margins) we have recommendation for the supply policy. If the shock modification exogenous changes the relation between demand and prices (for example households become rich in reason of discovery oil field or gas field, either deplete because bank failure), we have a recommendation of demand policy. The policy choice is controlled by evaluation based on huge statistical indicators. We introduced the same time the friction (in the Keynesian tradition is not clear markets) and expectations (like in Real Business Cycle models) and optimal economic policy based on appropriate choice politic demand for a demand shock, offer politic for offer shock (Artus, 2012).

**Table 1: Economic policies of supply and demand**

<b>Political Supply</b>	<b>Political demand</b>
In response to a supply shock	In response to a demand shock
Means : - Business-friendly tax reforms, - More flexible labor market, - Deregulation of markets for goods and services, distribution.	Means : - Increased public spending (investments, consumption in the public sector, - Increase in private spending: higher wages, lower taxes.

Two types of errors from economic policy are not equivalent. The first type error is implementation of the boost demand policy for a shock supplies. Demand policy does not work for a shock supply. The loss accumulated the costs of remedy (inoperative, but very expensive) and the disease (the consequences of shocks supplies that are not injured by unavailable treatment). The second type error is supply policy in response to a demand shock. A long-term supply policy supports the demand. The loss of well-being when demand shock is associated with a response of supply policy is to delayed effect. In general, the consequences of first type error are more important than second type error. Discrimination between shocks supplies or demand answers simple judge a "rigid" supply policy are a blind choice to avoid the mistakes made by first type error. It is justified by absence in national statistical system, for example.

The principal data exploration by country permit to make on evidence type cases of economic policy-oriented through policy demand (for example: France, Italy) or esteem by having a rigid supply policy: Japan, United States, United Kingdom, Spanish (Artus, 2012). Due to equivalent productivity, France and Germany form a simple base for comparison, and indicate the better macroeconomic adjustment for Germany which conducts in the last ten years the economic policy oriented supply (Artus, 2012).

## 2.2 Factors dissension

Perhaps this is only a "truce", conjecture Mankiw (2006). Theoretical advances, according to him, today not reach advisers economic political, neither undergraduate programs the students and voter. Intermediary role between the politic class and academic research was exclusive play at United States by Keynesians, also beside Democrats and Republicans. Mankiw (2006) propose to see gap wider in the time between engineers according to him, in Keynesian tradition is the high theories neoclassical and new Keynesian. This makes sociology with three groups: practitioners, theorists and policy makers. Mankiw insists on factors dissension between practitioners and academics, the

evidence concern to renew the generations which will suppress economists on intermediation position with policy makers.

The divorce between practitioners and academics seems a scenario sensible to against-measures and limited consequences. In fact; the theoretical experiences seem broadcast, although adjustments on scheme studies may be desirable. Approaches DSGE types are used today by practitioners. On trunk practice common, a magnification effect the divergence may be related to access communication to public. Journalists do not like the consensus view is a, strategic behavior of economist may accent on divergence appreciation.

The subprime crisis presented the question of economic policy on front of scene. A risk will probably lead assessment between technical consensus joined practitioners and academics in part politic makers, other possibility of the truce proceed from factors that which exceed large the staff academic, expand perennial dissention strike around the assessment of step collective action applied a favorable to organizations (Companies, NGOs) and approaches which affliction to consider collective action out State bureaucracy.

### 3. MEDITERRANEAN STATES: ECONOMIC SYSTEM CRISIS

#### 3.1 The subprime crisis has shaken the old economy of Mediterranean States

Esping-Andersen (1990) distinguished three types of system social protection: Beveridgian, Social-Democratic and Bismarckian. Amable (2005) proposed to distinct three subtypes of Bismarckian systems: Asian (minimalist), Mediterranean (intermediate) and Continental (high level). Countries had show weak resilience during subprime crisis, amplified initial shock with as propagation the crisis 2008 Revolutions Jasmine concerned one types of economic system in typology, the Amable's type Bismarckian intermediate shared with many states around Mediterranean.

The choice of economic policy or same the degree of interconnection with the first banks affects by the subprime crisis does not permit to characterize the whole Mediterranean area. This Mediterranean economic system is characterized by next elements: decrease rates weak density of organizations (companies, NGOs), decrease pressure competitive, increase regulation of labor markets, less space to negotiation wages, "traditional" heavy debt State, large firms who dominated productive specialties distant from the technological frontier, products and services less-intensive technology.

**Table 2: The economic system of a Mediterranean State**

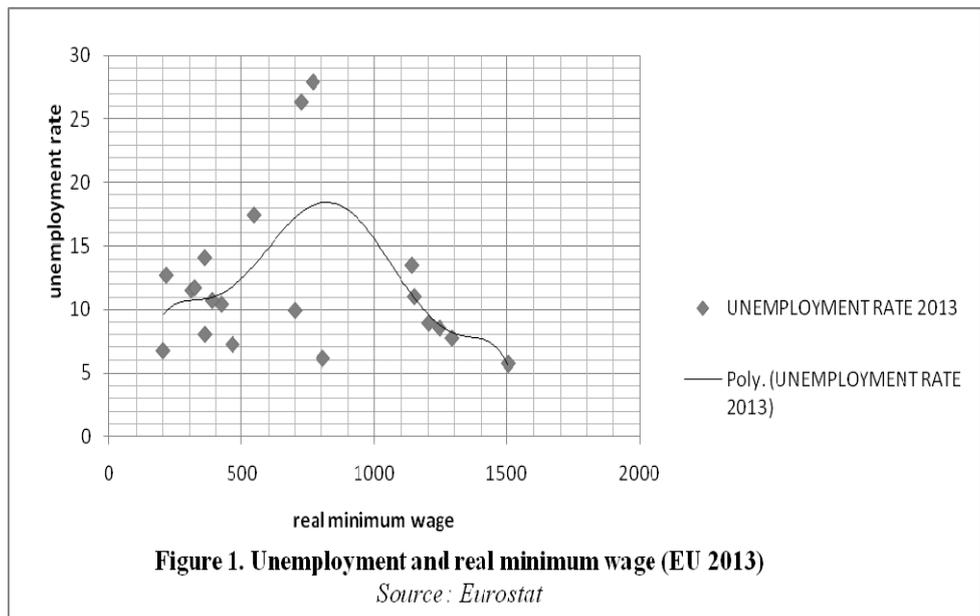
	<b>Product market</b>	<b>Labor market</b>	<b>Financial system</b>	<b>Social protection</b>	<b>Education</b>
<b>Product market</b>		Weak competitive pressure allows large firms	Stable relationship between finance and industry		lack of specialization in small firms need low skilled workers
<b>Labor market</b>	Employment structures of large firms are slowly adapting to change		Stability of employment depends on short-term constraints	Stability of employment reduces social protection demand	Stability of employment does not need a large amount of new formation
<b>Financial system</b>	Financial market is small				
<b>Social protection</b>	Limited social expenditures	Lack of short-term constraints allows job retention	Greater share of individual social risk diversification		Weak social protection limits specific investments
<b>Education</b>	Poorly trained workforce does not allow the development of high technology activity	Education products low skilled workforce		Low specific investments limit social protection demand	

Source : Adapted from Amable (2005)

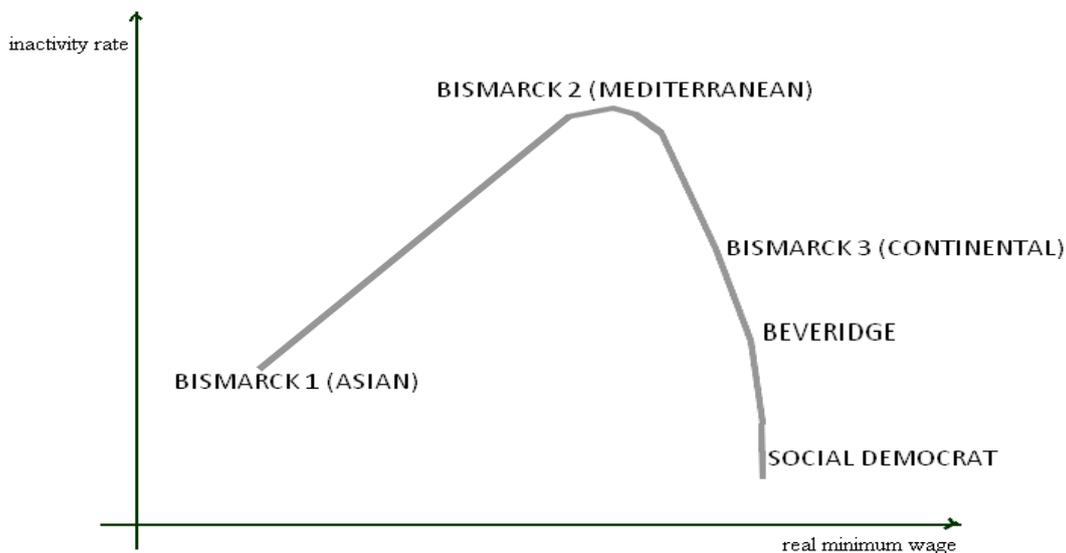
#### 3.2 Institutional dynamics of social protection

The Mediterranean zone correspond an intermediate position in typology, the minimum wage net monthly. For minimum wages, three zones could delimit for countries member of European Union:

200 euros (Romania), 800 (example Greece), and 1200 more. Intermediaries values (between 500 and 1000 euros) provide huge volatility figures of unemployment and inactivity on contrast with decrease or increase values of minimum wages.



The Spanish situation recorded the most increase values of unemployment rate. Several features intervene for this situation: crisis initial immobilization feverish management of crisis by personal Spanish politicians divided and deprive the direction of economic policy contributed to increase the volatility of unemployment. The management of crisis consist the standard Mediterranean with a bank fusion concentration altered sane part of system bank and lead to solve *in extremis* by the European Union (Sala i Martin, 2012).



**Figure 2 : Institutional Dynamics of social protection**

Spanish economic policy is supply type. However, the Spanish competition authorities favor the construction of national champions, on derogation of the European rules on competition. The Mediterranean crisis is not a crisis related to type of economic policy: Italy and Spain have for example the alternative economic policy: Demand (Italy) or Supply (Spain). Institutional dynamics lead to have lecture or version according to organizational densities. The social protection systems are building from organizations (firms, insurance companies, mutual ...). A simple quantitative

expansion result without doubt weak competitive pressure leads to configuration type "Bismarck 2". It seems there is relation between unemployment rate and organizational densities. An organizational context dense is associated with increase rate activities, and organizational context less dense have low rate of structural activities.

Improvement governance of whole institutions social security leads to differentiate the three types of Esping-Andersen's original classification (Bismarck, Beveridge, Social-Democrat). This Esping-Andersen's typology had been realized in countries with high density of organizations. The majority of world countries is the "Bismarck 1" Amable's type classification, with formal sector offering restrain social protection, and a large informal sector. The origin point of dynamics social protection is increase organizational densities.

This lecture of institutional dynamics of social protection is compatible with differential performance of two types of economic policy: the politic supplies present the advantage to contribute organizational densification, contrary to policy oriented demand households.

#### 4. ORGANIZATION AND MANAGEMENT IN THE NEW SYNTHESIS

The dimension of organization and management appeared necessary to treat the supplies shocks. Thus, this organisational dimension should be present in the new synthesis.

##### 4.1 The organization in response to a supply shock

The discussion on the burden of the dependent old persons is an example of epidemiological impact. The more dependent persons are whose suffered from neurodegenerative diseases, like Alzheimer's disease. An increase of neurodegenerative disease is found in the long series with different dates by countries, rather the United States towards 1985, later in Japan towards 2005. Natural risks are generally shock supplies, the prevalence of Alzheimer's diseases estimated about 100 million on 2050 in the world.

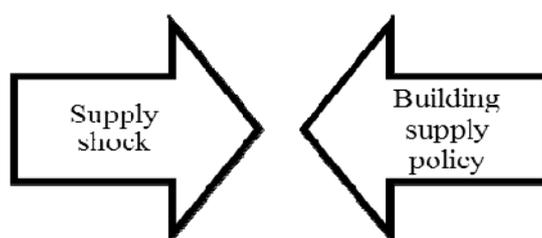


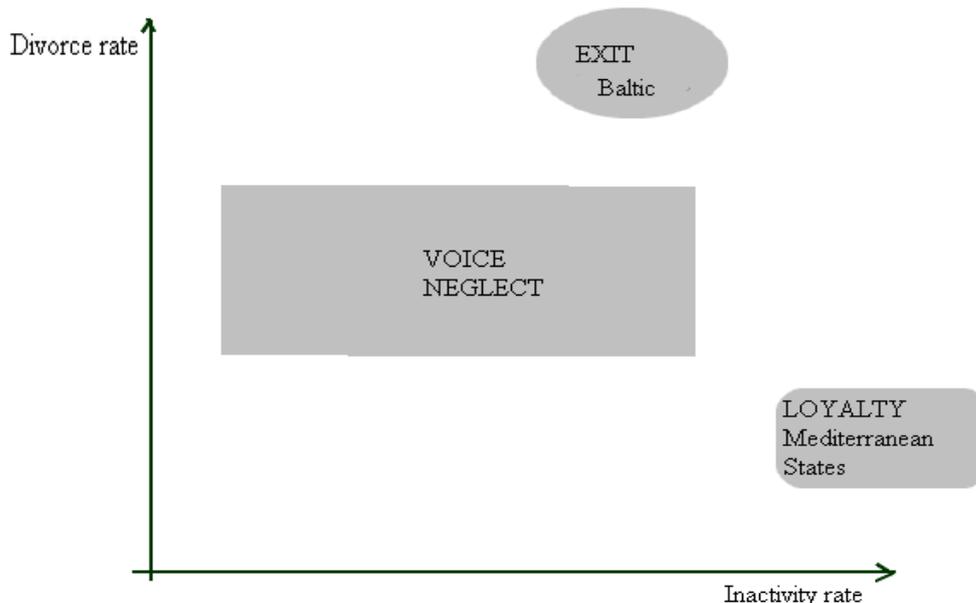
Figure 3: Health policy

The situation in France is marked by a demand-oriented economic policy. In France, Dependence has been discussed for 20 years, while Germany took provisions related to health insurance. Policies initiated in France were those of subsidized jobs or to increase domesticity, is to promote jobs for long-term unemployed (Croff, 1994). Neurodegenerative diseases require specialized organizations for their support and training of qualified personnel. In France, the burden of care for dependent elderly is based on volunteer caregivers and local authorities, a paradoxical result of an oriented households and demand policy.

##### 4.2 Family Solidarity and management culture

Alesina *et al.* (2010) indicates that labor market rigidities are probably as conventions or family solidarity often. A political crisis in West Africa increases the informal sector because of the type of family solidarity. Similarly, a regional entity like the European Union reacted very differently to the subprime crisis because of the heterogeneity of family models. In the world, a group of countries improves its results between 2007 and 2012 by more family involvement in the labor market: Germany, Malta, Poland, and Turkey. This is an increase of female employment in a catch-up scenario. Most countries have no change on average (eg, Japan, France). There is a withdrawal of

the order of 5% household participation in the labor market for the countries of "Exit" group: United States, Bulgaria, Denmark, the Baltic countries, Portugal, Iceland, and Slovenia. The withdrawal of the order of 10 % for the group of countries «Loyalty» group: Ireland, Greece, Spain, Croatia, Cyprus. It is Mediterranean countries, except Ireland. This "Loyalty" group of family structures is marked by low divorce rate, that is to say, a strong intra - generational solidarity, close family with little children, and an egalitarian rule of intergenerational transmission. The group "Exit" is one of individualistic behavior before the shock of life, both in work and in love life. This is the group with high divorce rate. Hirschman had distinguished Exit, Voice, Loyalty, and Neglect as coping strategies to a stressor. Management cultures based on Voice and Neglect would be more resilient in the sense that the rates of participation in the labor market did not appear to be modified during the subprime crisis.



**Figure 4: Divorce and unemployment**

### 4.3 The Role of Management in a New Synthesis

A greater or lesser capacity for innovation in front of a supply shock depends on the existence of a management culture: it has to be reinvented to deal for example, the various pandemics that follow, affecting population very different protocols and to deploy special care. For a given supply shock, there may be progress in the informal sector, or otherwise reduced. There was increase or decrease in the informal sector in the country, in the last great political and humanitarian crises. The informal scenario is an expansion of the informal sector, a quantitative growth without an increase in productivity and a reduction in labor supply by households. The alternative scenario for informal organizations is based on the establishment of a diversified supply, and an opportunity to improve products and services, as well as productivity.

## 5. CONCLUSION

The work of Stiglitz (2012) led a discussion with Mankiw (2013), these advisors major political parties, both belonging to the great Keynesian family. This is a discussion on the importance to a policy of redistribution and reducing inequality in the United States. It is a question still open and legitimate for a public space. It does not seem there has been a widening gap between practitioners and theorists, even in the context of the subprime crisis. So, Mankiw's prediction is not realized: debate is inside Keynesian approaches, and there are no more gaps between theory and practice. The political debate brings a lot of controversy does not contradict our opinion on the measured Woodford prediction of improved procedures and methodologies for economic analysis and management.

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