The Dilemma Of Demand Side Policies Versus Supply Side Policies For Relaunching Capitalist Economies

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Abstract: - The first important economic recession in this century started in USA with the burst of real estate bubble followed by the bankruptcy of some investment and commercial banks and the collapse of capital market. The financial-banking crisis spilt over the world economy and caused the second deepest economic recession in the last 80 years. The financial crisis has badly affected almost all market economies and was the result of a combination between market failures and mistakes made in macroeconomic policies. In the financial sector there was not enough regulation and supervision of corporate governance while in goods industry the pressure of over-regulation led to higher factor costs and supply contraction. The direct result of supply side policies and particularly of monetarist instruments is seen now clearly in the USA: large deficits, huge debts, reduced savings, heavy dependence on foreign money (capital) and resources, relatively low domestic output and supply.

Key Words: - interventionism, fundamentalism, financial innovations, corporate governance, demand side, supply side

JEL Classification: - E12, E32, E42, E44, E52,E58, E62, E63, G01, G21, G24, G28, G52

1. Introduction-Financial crisis hit badly the world economy

The financial banking crisis has badly affected USA and EU, but Romania only to a small and limited extent. Only at Bucharest stock exchange, stock prices and indexes collapsed mainly under the influence of what happened in USA and Western Europe capital markets. The commercial banks performed quite well due to a restrictive monetary policy promoted by National Bank of Romania and due to the very high profits recorded during the last decade. But the financial crisis had badly affected world economy on the whole and provoked the second deepest economic recession in modern period, after 1929-1933 economic depression.

There are some important differences between these two economic recessions. Very few commercial banks have got bankrupt in the last years in the developed countries due to the strong financial support (bailouts) offered by the central governments and the central banks and due to the absence of any panic behavior on behalf of deponents. Stock prices have strongly declined and the liquidity crisis became obvious in the financial markets. Due to Keynes' contribution we have now the instruments of macroeconomic policy in order to influence economic cycle and counteract the effects of economic recession. But one question arises: is the financial crisis the result of market failures or the result of mistakes made by policy makers? I think we have a combination between market failures and mistakes made in macroeconomic policies. Anyhow, targeting the inflation, at the expense of financial stability, proved to be a great mistake of monetary policy because the financial crisis has shown that there is no self-correcting capital market and no model for effective financial markets.

While the Keynes disciples claim that there was not enough market regulation and supervision, the neoliberals believe there was too much interventionism which distorted the market mechanism. We may see a fierce confrontation between the advocates of market interventionism (market regulation) and the advocates of market fundamentalism (market deregulation), but also between demand-siders and supply-siders in finding the best policies for economic growth.

2. USA between supply side and demand side policies

Before the financial crisis, in 2006, it was Robert Freeman who undertook a brilliant analysis of the major deficiencies of supply side economics implemented in USA. Between 1973 and 1983, due to oil shocks and other factors increase, inflation soared, interest rates skyrocketed and economy took a downward trend. Higher prices cut the corporate profits and also the the purchasing power of people leading to so-called *stagflation* (a stagnant economy with high inflation). But sharp inflation and high unemployment can not be addressed simultaneously by monetary and budgetary measures.

Supply-siders, as Robert Mundell, were convinced if the government cuts income taxes on the wealthy people the savings would go to productive investments and more goods and services with lower costs will calm the inflation, cut the unemployment, raise the budget revenues and so the economy will enter a virtuous circle of tax cuts, investment, productivity and employment increase, and rising tax revenues. After 1980 elections Reagan Administration cut the marginal tax rate on the highest income earners from 75% to 38% and the results were bad: the budget deficit exploded to $208 billion in 1983 from $77 billion during Carter Administration and the public debt increased from less than $1 trillion in 1980 to $4.35 trillion by the end of 1992. Due to the fact that tax cuts were not tied to productive investments it was difficult to link them to any economic boom but only to some negative aspects: rich people became richer, budget revenues were lower and public debt increased tremendously.

Clinton Administration reversed Reagan's supply side policies by applying demand side policies focused on cutting the taxes on low-income people with the aim to fuel a boom in consumer spending and thus to support the economic growth. The results were mirrored by 22 million new jobs, the fall of unemployment to the lowest level in over 30 years, reduction of inflation rate to 2.5% per year compared to an average rate of 4.7% in the previous 12 years, an average rate of economic growth of 4.0% per year compared to an average growth rate of 2.8% during the 12 years of the Reagan/Bush Administrations. When Clinton left the office, the budget surplus attained $140 billion per year.

George W. Bush Administration returned to supply side policies and lowered income taxes on the very rich people by giving $1.6 trillion tax cuts of which 45% to the top 1% of the population. GDP has increased in average by 2.8% since 2001, employment by 1.3%, investments by 3.6%, but a $136 billion surplus of Clinton Administration turned into a $158 billion deficit in 2001 while the national debt (gross debt undeflated) increased from $5.8 trillion in 2000 to $8.5 trillion in 2006 and then to more than $10 trillion by 2008 and in 2013 it reached $16.7 trillion (more than 100% of GDP) and in 2014 $17.63 trillion. For Robert Freeman it is obvious that supply side policies implemented by the Republican party over 20 years had the only beneficiaries the very rich people (1% of the population) who became richer and richer and could afford to finance a large part of public debt. The Clinton Administration reduced the deficits and debts and lowered interest rates representing the basis for rich people high earnings while Obama Administration was not able to repeat the same performances due to the impact of financial and economic crisis. In Robert Freeman's opinion „*demand side economics, although not being perfect, produces robust growth, budgetary surpluses, and broad based prosperity while supply side economics produces middling growth, soaring deficits, and broad based debt".*

3. Demand side policies

It was the British economist John Maynard Keynes (1883-1946) who founded a new school of economic thought after the Great Depression from 1929-1933, that of demand side policies, based on the role played by the aggregate demand created by the households, businesses, governments as the main driving force in the capitalist economy. Keynes' doctrine changed the emphasis in the study of economics from microeconomic level (behavior of individuals and firms) to the study of macroeconomic level (behavior of the economy as a whole) and introduced the government intervention in the economy through public policies aiming at achieving full employment and price stability. Keynes viewed the emergence of a depression due to factors like relationship between spending and earning (aggregate demand), savings and unemployment and thought that it was necessary to cut the taxes and increase other spendings with spillover effects during an economic downturn and also to increase the tax on revenues during an economic upturn. That is why Keynes is considered the father of macroeconomic policies.Usually demand side growth is accompanied by an increase in prices (inflation growth) which in its turn impedes economic growth. Demand side policies inspired by Keynes ideas were used as the standard economic model implemented in Western Europe after the Second World War in order to establish so-called welfare state. Due to stagflation process Keynesian economics lost its influence in favor of liberal ideas promoted by Chicago monetarist school which seemed more appropriate under the circumstances of globalization and regional integration. Some schools of economic thought inspired by Keynes ideas are: Neo-Keynesian economics (John Hicks, Franco Modigliani, Paul Samuelson), New Keynesian economics (Gregory Mankiw and David Romer) and Post-Keynesian economics (Joan Robinson, Paul Davidson, Michał Kalecki, Nicholas Kaldor, Piero Sraffa, Hyman Minsky).

A concept introduced by Keynes-*liquidity trap*- is frequently used by his followers, like Krugman and Stiglitz, to explain why developed countries affected by the crisis cannot resume a robust and rapid economic growth. Low consumer demand due to high debts, huge income losses and increasing propensity to save attracts the lack of trust on behalf of investors and producers and also an inevitable decline of credit demand (productive, mortgage and consumer credit). Under these circumstances central banks strive in vain through various ways, especially through massive loans given to the commercial banks, to increase market liquidity. Despite very low interest rates that are close to zero both in USA and EU monetary policy is not able to affect notably the economy only through its effect on interest rates.An alternative to the reduction of short-term interest rates is the promotion of an expansive monetary policy through *quantitative easing* started by Bank of Japan in 2001 and proved to be a resounding failure.

4. Supply side policies for supporting economic growth

One may draw an important conclusion based on the American financial crisis and its effects on US and global economy. Who we may blame on ? Here is a dilemma worthy of serious analysis. Are demand side policies, mainly inspired by Keynesian school of economics, aiming at stimulating consumer demand, by means of monetary and fiscal policies, associated with (financial) markets liberalization and deregulation or supply side policies, inspired by Robert Mundell and other economists, also associated with (financial) markets liberalization and deregulation, that led to great deficits and to a deindustrialization process in USA? While the followers of Keynes like Paul Krugman and Joseph Stiglitz insist on demand side measures, other economists, like neoliberals (monetarists), support supply side measures, that may be used in order to stimulate economic growth by using different incentives for producing or supplying goods and services. Such incentives could be the adjusted income tax and the capital gains tax rates. Low or zero taxation of capital gains is often attributed to believers of supply side economics. Robert Mundell, Arthur Laffer and Robert Lucas jr. are the most known economists supporting supply side policies. In the 90's even Robert Lucas jr. thought that "neither capital gains nor any of the income from capital should be taxed at all" and estimated that eliminating capital income taxation would increase the U.S. capital stock by about 35 percent (Lucas, 1993).

Reagan Administration tried to apply this kind of policies, taken into account Laffer curve effect, but cutting the tax rates led to high budget deficits. Another important leader attracted by supply side economics was Margaret Thatcher who implemented with good results such policies in Great Britain in the'80s. More recently it was the French President, Nicolas Sarkozy, who may be considered a supply sider as he adopted a pro-active stance in industrial policy and tried to stimulate domestic car production by injecting 6 billion euro (a five year loan with low interest) in French car producers: Renault and Citroen-Peugeot. Obama Administration plannned to cut taxes (300 billion $) with the view to create 3 million jobs and to stimulate the demand. But the result was a worsening of the budget deficit and the increase of public debt. Inspired by the model of European Investment Bank, Barack Obama intended to establish a similar bank in USA with a capital around 60 billion $, meant to finance infrastructure projects (also in health care field) and housings.

Authors, like David Harper, support the idea of supply-side economics which try to offer policy prescriptions for stable economic growth, supply-side theory having three pillars: tax policy, regulatory policy and monetary policy (Harper, 2009). Lower rates of income tax would encourage work and stimulate output while lower capital-gains tax rates would increase productivity and stimulate investments. As regards regulatory policy, supply-siders are allied with traditional political conservatives, both preferring less government intervention in the free market. For supply-siders, monetary policy is only a macroeconomic variable and a stable monetary policy is desirable being based on a small increase of money supply and low inflation rate. Some advocate even for a return to gold standard or for pegging the dollar to gold which would reduce currency fluctuations and provide more predictibility to exchange rate evolution. If we take into account what David Harper says, one may consider supply-siders more liberal and less interventionist than demand-siders, like neokeynesians. However, stimulating domestic production or supply implies some policies and measures which are interventionist by nature and in contradiction with free market principles.

But the appeal to macroeconomic instruments represents only a limited or narrow approach of supply side policies, microeconomic and sectoral policies are needed for getting good results. While adjusting income tax may prove ineffective other measures addressed to microeconomic level may give good results in stimulating domestic supply. Among them one could mention profit tax cuts related to direct (re)investments, credit facilities for investors creating jobs and producing goods, credit guarantees for SME's, state aid for innovation and research activities, support for labor reconversion and vocational training. Cutting taxes without cutting budget expenditures in certain fields may involve printing money and pouring it into bankrupt industries, banks and insurance companies under the pressure of interest groups and lobbyists. Big banks and companies are saved usually with public money, because they are very influent and considered to be strategic actors within the economy, but this policy undermines the basic functioning principles of capitalist system. Big is important and useful, small is not, but this judgement has nothing to do with real democracy and basic principles of American society: meritocracy and equal chances.

Joseph Stiglitz advocated for a sustainable and inclusive economic growth, based on the most valuable resource which is people, both on the risk taking and on the active role of state (public authorities). The Government or public authorities may play a major role in providing infrastructure and education, in developing technology, and particularly during recession in acting like an entrepreneur (Stiglitz, 2008). Joseph Stiglitz praised *American new left* for trying to make markets work, especially when the country goes into recession or depression (see the Democrats plan to stimulate the economy by injecting another 787 billion $). *American right* was blamed by Joseph Stiglitz (maybe due to Bush Administration's weak performances) for its market fundamentalism, liberal approaches and policy mistakes. But, when referring to market regulation, Joseph Stiglitz was quite vague and the only detail offered refers to market supervision (competition policy). With good reason Joseph Stiglitz pointed to the need of an adequate response to the financial and economic crisis, and also to the necessity of undertaking long-run substantial reforms in financial sector and other important sectors. The aim of all these reforms is to insure a sustained, healthy and long-lasting economic growth and to provide prosperity and equity in the world. Maybe establishing banking union within EU represents one of the best solution in reforming financial sector. It seems to me that in his last book *The Price of Inequality: How Today's Divided Society Endangers Our Future* Joseph Stiglitz is more favorable to demand side policies than to supply side policies as he puts a large emphasis on combating great income inequality which badly affects aggregate demand, especially its main component- consumer demand, and only a reformed progressive tax would be able to stimulate the consumer demand. Supply side (state) policies, as those for restructuring the financial sector and in other fields, are not excluded, but they appear in the background with less importance or visibility.

In 2000 the European Union launched Lisbon Strategy(Agenda) which in my opinion is a good example of supply side approach based on sectoral policies. The aim was to transform the European economy in the most competitive and innovative economy in the world. Liberalization policies, aiming at completion of internal market, building of network industries, integration of financial services were applied together with specific policies targeting entrepreneurship promotion, diminishing of unemployment, innovation and technological progress, sustainable development and environmental protection, infrastructure development. Lisbon Strategy was supported by other strategies, action plans, programs and also by Growth and Stability Pact, which was seen as a guidance framework for sound macroeconomic policies of Member States. Competition policy or careful market supervision was seen as an essential instrument in counteracting inflation pressures, promoting competitive market actors and protecting consumer interests. In March 2010 Lisbon Strategy was replaced by Europe 2020, another supply side agenda, aiming at a smart, sustainable, inclusive growth and focusing on education and inovation, renewable energies, a new industrial policy, modernising labour markets, promoting social and territorial cohesion. In Sweden's opinion Lisbon Strategy was a failure and Europe 2020 has no fundamentally different approach which may raise the prospect of a similar result.

5. USA have been seriously hit by the financial crisis

During the recent financial crisis, at a time when Ben Bernanke, the Chairman of the Federal Reserve, thought that only monetary policy may save American economy, Joseph Stiglitz saw the triumphant return of

John Maynard Keynes.This because markets are not self-correcting, regulation is needed and government must play an important role in economy (Stiglitz, 2008). For Joseph Stiglitz both the market fundamentalism in financial sector and the misguided policies of Clinton Administration may be blamed for the financial crisis. Was Keynes right when he thought that monetary policy is ineffective during a severe recession and tax cuts are needed in order to stimulate the demand? Tax cuts proved to be ineffective in Japan in the 90's and may prove also in USA, where the level of public deficit exceeded $1000 billion per year in 2009-2012 period(gross public debt has already exceeded $17.000 billion). On the other hand the increase of money supply in order to avoid the liquidity trap and provide enough credit availabilities for supporting the level of economic activity did not fuel the inflation rate, as the adepts of Austrian school of economics claimed repeatedly, although it was accompanied by a currency devaluation.

As the 1929-1933 crisis revealed, the contraction of money supply is not good. But will the opposite action, i.e.increasing of money supply, stimulate the economic activity? For Joseph Stiglitz it is essential to preserve financial institutions and maintain the credit flow in order to avoid a severe economic downturn and to repet the mistakes made during the Great Depression from 1929-1933. As Milton Friedman (2002) and Friedrich von Hayek (1974), who are the promoters of laissez-faire in Paul Samuelson's opinion, pointed out, the crisis which started in 1929 had been much extended and deepened by the mistakes made by the Hoover Administration in fiscal and monetary policies. We must learn from those mistakes, but the financial and economic circumstances are not the same and the economic environment has changed to a large extent, so applying the solutions offered by Austrian economic school for healing the economy of recession like austerity at any cost, self-regulating of economy, elimination of government interventions, giving up of fractionary reserves and reliance only on real money (gold standard) seems completely unrealistic and even non-sense. The financial system has recorded important changes and not all of them are for good. It was Joseph Schumpeter that pointed to the positive role of innovation and entrepreneurship for economic development, but too much innovation and entrepreneurship in the financial sector led to the disastrous financial crisis. Big banks involved not only in lending money but also in buying and selling very risky assets and products. Profit at any price, without carefully assessing market risk and creditworthiness, led to the banking crisis. The quality of corporate governance (greed and incompetence) is also to be blamed for what has happened in the financial market.

But I cannot fully agree with Joseph Stiglitz when he blames the neoliberal approach relying on capital market deregulation and liberalization which led to risky financial products and speculations. After the World War II, free movement of capital brought an important contribution to economic growth and social prosperity in the world. It is a fundamental freedom for building the internal market of EU and it was based on important regulations proposed by European Commission and adopted by EU Council and European Parliament. Even in USA federal regulation that shrank for a brief period in the late 90s increased during the Bush Administration.This kind of regulation at macro-economic level is necessary, although the costs are sometimes quite high, but it is not enough. As Paul Samuelson said" markets cannot regulate themselves, either micro-economically or macro-economically". The financial crisis from 2008/2009 was the result of weak and ineffective regulation and supervision at microeconomic level which favoured risky activities and speculations, lack of accountability and stepping up of income inequalities. Especially in the financial sector, which deals with public money, the regulation and supervision of corporate governance performances had been very disappointing and this had a negative impact on the whole economy. The irresponsible and corruptive behavior at the microeconomic level explains why the US economy went into a destructive financial bubble and the Government's response to this bubble has been to increase the budget expenditures and public debt, that is to spread the damage throughout the economy. The irresponsible behavior had some roots in the guarantees offered by the Government and Federal Reserve according to which losses recorded by the banks would be at least partially covered. Alan Greenspan, president of FED between 1987 and 2006 is seen by the most scholars as the main culprit person for the emergence of the financial crisis, because, as Joseph Stiglitz had mentioned, he didn't believe in market regulation but in self-regulation of the market.

In January 2006 George Soros drew attention on stockmarkets potential crisis and its recessive impact on the US and global economy, warning over the real estate bubble inflated by lenders. George Soros had tried to apply the theory of reflexivity to the financial crisis, based on the interaction between the cognitive function and the manipulative function that are characteristic to market actors. While denying the market equilibrium postulated by the classic economic theory, George Soros has realized a two-way reflexive connection between perception and reality which may generate boom-bust processes or bubbles (Soros, 2008). The last super-bubble was created by local bubbles, in the same that it was the real estate bubble from USA, produced by credit expansion overlapped by the market fundamentalism. The super-bubble inflated due to three major factors, the first one was a long term and strong credit expansion associated with the propagation of financial innovations, the second one was the globalization of financial market favourable only to the most developed countries, the third one was the liberalization and deregulation of financial market.As concerns the solutions, George Soros appeared as a radical interventionist because he believed in a strict control of financial sector and in the involvement of monetary authorities beyond their traditional task of controlling money supply, such as in credit creation and in managing and manipulating market actors expectations.

Paul Krugman blames also the greedy free marketeers and deregulation for what happened in financial sector (Anderson, 2009). The financial services industry has won an important share of all income, making incredibly rich those people who run the industry but their real contribution to welfare is doubtful. They encouraged and supported the strong increase of consumer credit and demand for getting higher and higher profits with the help of government and FED which pumped up a lot of money in bank reserves thus stimulating lending and imports of consumer goods. At the same time the loss of manufacturing jobs in the United States was caused less by free trade and more by higher factor costs, including credit costs, some of them being caused by government and public regulation policies (Schiff, 2009). Federal, state and local authorities' strict and numerous regulations forced employers and entrepreneurs to bear high costs which there were no benefits or profits for. Under the pressure of over-regulation, American economy produced fewer and fewer goods excepting the politically connected firms that produced the goods required by regulators. The dramatic economic situation, especially the state of industry, was mirrored by 207.000 jobs lost in manufacturing sector only in December 2008 (around 3 million in the whole economy in 2008) and by an unemployment rate of 7.6% in the same year. That is why Obama Administration launched the rescue plan of 787 billion dolars at the beginning of 2009 and the president succeeded in cutting the federal deficit by almost 2/3 between 2009 and 2014 (from $1413 billion to $483 billion) because USA cannot generate sustained growth without getting the deficits under control and the year 2014 is a good example for this assertion. But a stimulus package requires more budget revenues and maybe tax increases while cutting federal deficit definitely involves tax raising which cannot stimulate economic growth in a crisis period. At the beginning the Obama plan could not reverse the downward tendency of capital market in the USA and in Europe. In February 2009 the economic crisis turned more visible in the USA where 500.000 jobs were lost and market depression became more prominent. But starting with 2010 USA recorded a growth rate of GDP around 2% per year until 2014 with a positive contribution mainly from personal consumption and exports.

Peter Schiff, among those very few who predicted the financial crisis and also the economic crisis, had repeatedly focused on financial bubble and on difficult economic situation reflected by large deficits, huge debts, reduced savings, heavy dependence on foreign money (capital) and resources, relatively low domestic output and supply. In USA it is quite obvious the huge gap between the level of domestic consumption and the level of domestic supply, which led to high deficits and debts. One may use fiscal policy (based on Keynesian theory) or monetary policy (based on monetarist view) for debt financing, or both of them, meaning that a substantial budgetary support provided by the government is joined by the central bank's changes in interest rates or money supply. But who was going to buy Treasury bonds under these difficult financial constraints? Peter Schiff noticed that at the end of 2008 "*Fed announced a strategy designed to bring down long-term interest and home mortgage rates through unlimited Treasury bond purchases. But the only way the Fed can buy bonds is by printing money, the more bonds they buy the more inflation they will create, but the inflation will diminish the market value of bonds*"(Schiff, 2009). Peter Schiff believed Fed would have to buy also the corporate, municipal and agency bonds in order to avoid the strong increase of interest rates. Let's remind that despite the criticism of government intervention by the liberal Chicago school, the monetarists still prefer central banks to strictly control the money supply. In Peter Schiff's opinion"*the Fed should pull out of the bond market before it's too late and let prices fall to where real buyers, those willing to hold to maturity, re-enter the market*". Several times, Peter Schiff drew attention on the real estate bubble which burst in the end, the federal Government being able to bail out private banks and companies, but when the bond market bubble would burst, it will be the U.S. Government itself that will be confronted with the worst nightmare. Important buyers like Central Bank of China would not be willing to continue the buying of bonds if the long-term Treasury bond yields will not rise significantly. Although public debt reached an amazing level in 2014 (about $17.6 trillion) no significant inflation was recorded after the crisis, the interest rates remained at very low level and no bond bubble appeared. However on October 2014 Federal Reserve board chairman Janet Yellen has confirmed the end of the five-year quantitative easing programme of $ 4.5 trillion, but Fed will maintain record low interest rates for a considerable time. On June 30, 2014, public debt held by the public was approximately $12.6 trillion, of which $6.0 trillion (approximately 48% of the total debt held by the public) was owned by foreign investors, with the largest parts detained by the People's Republic of China and Japan at about $1.3 trillion and $1.2 trillion. Maybe Paul Krugman (2012) is right when he thinks there is no risk in increasing the level of public debt in a time of economic growth and moderate inflation because the debt should not be paid on short or medium term but may be transferred to future generations. But what is the cost and the financial burden for the present generation and what are the risks of US huge public debt for the world economy and for country's capacity to face future shocks as Kenneth Rogoff (2013) has remarked?

Several years ago Paul Krugman made a strange suggestion to American Administration, to borrow (from abroad I guess) up to 5.000 billion $ for injecting this money in the economy, but who is willing and able to lend these enormous funds? Ben Bernanke wanted to print as much money as economy needs and this revealed the false belief that a lot of money would create a lot of income or wealth in a capitalist society, which is true but only for some bankers and speculators. The aforementioned concept – *quantitative easing*- became popular in the United Kindgom and USA at the beginning of 2009. Applying quantitative easing (the Japanese repeatedly tried this and it didn't work) signifies printing a lot of money and injecting it into economy by means of delivering money against toxic assets of banks and companies.

Quite recently when interest rates of ECB have dropped to 0.25% and deflation has eroded the chances of economic growth in the context of negative interest rates, quantitative easing has become a solution for European Central Bank, offering some effective instruments for relaunching economic growth (Marc Lanthemann, 2014). But ECB cannot repeat Fed's three rounds of quantitative easing as its powers are relatively limited, focusing on controlling the inflation rate. Although the Outright Monetary Transactions (OMT) program launched by ECB in September 2012 represents a sort of quantitative easing for buying the debts of countries with problems, like Greece, Spain, Italy. But this financial support was conditional on an agreement with European Stability Mechanism for assuming a program of economic/fiscal reform. But Bundesbank President Jens Weidmann, a member of the ECB's Governing Council, immediately challenged OMT, on the base that this program exceeded the ECB's mandate and violated the provisions of Article 123 of the Lisbon Treaty, which forbids monetary financing of Member States deficits and debts. Before OMT was ever activated, Weidmann took his case to the German Constitutional Court, that withheld a final judgment in deference to the European Court of Justice. Despite this disproof Mario Draghi, ECB president, described OMT as "*probably the most successful monetary-policy measure undertaken in recent time."* But OMT program has created a great problem due to the fact that banks were willing to ignore the danger/risk of sovereign entities default and were ready to lend a lot of money to indebted countries.

Paul Krugman seemed to agree with Alan Greespan's idea "*to temporarily nationalize some banks in order to facilitate a swift and orderly restructuring of banking sector*" (Krugman, 2009). It was the Federal Deposit Insurance Corp. that took over the small and insolvent banks and also their bad assets, paid off some of their debts and resold them to the private investors. For the major banks the Obama Administration backed up a public-private partnership for clearing the bad or troubled asstes from the banks with the help of private investors whom the government would lend money. But Paul Krugman was even more radical and suggested the nationalization of major banks after they would pass through a "stress test"(applied this year in EU). No long term government ownership was planned as the major banks would be returned to private control on short term. Maybe Paul Krugman believed that public control or state ownership would support the restructuring process and improve the quality of management, diminish the business risks and favour the deponents and taxpayers. But the experience of transition countries demonstrates this is not true, state ownership is associated with corruption, lack of efficiency and bad management.

More or less strange, money is like water in a capitalist economy as it may evaporate overnight due to a market fall or crash. Market value of securities is like Fata Morgana in the desert, now it is beautiful and clear then it may disappear in the sands. When more than 45.000 billion $ were lost on the capital markets during the crisis one may put a legitimate question: where all this money disappeared, in the desert or in the hidden accounts from fiscal paradises? Or maybe all this money (most of it fiat money) was a fiction and not something real, though it was saved and invested by employees or by companies supplying goods or services. Please don't ask inquisitive and stressing questions to bankers, brokers or dealers regarding a very sensitive subject: what do they do with the public money, because you, an honest taxpayer, don't have this right and nobody does. For instance JP Morgan and Mellon Bank managers became extremely irritated when they were asked by a reporter from Associated Press about the destination of bailout money. But the same inquisitive questions may be addressed to the U.S. Administration and other governments: how do you calculate the level of GDP and inflation rate? What kind of methodology do you use? Too much indiscretion may reveal incredible facts for any economist and may shatter his opinions and beliefs on the accuracy of macroeconomic indicators.

6. Is Germany a state based on supply side policies?

In the 1930s when the concept of ordoliberalism was developed by the Freiburg school of economics it focused its criticism on cartels and not on state role in the economy. Economic growth and competitiveness were based on enforcing the competition which is a supply-side vision. But the role of German state in the last 150 years, since Bismarck age, was quite important in supporting Germany strong industrialization by suppressing consumption and increasing savings to provide adequate pools of capital for large-scale industrial investments (Mark Blyth, 2013). Despite two devastating wars in the first half of the 20th century, from which Germany came out defeated, it remained a powerful industrial nation and a successful export oriented economy because it has prevailed supply-side orientation in economic policy. Even today it is not the consumption seen as the engine of growth and prosperity but the high rate of savings, productive investments and large industrial exports. Nowadays Germany is the main engine of EU economy and integration process, the major industrial exporter and the promoter of austerity policies, based on demand contraction, within the EU. For Joseph Stiglitz (2014) austerity policy promoted and imposed by Germany to Southern and Eastern European countries, mainly to eurozone countries, proved to be an *utter and unmitigated disaster,* leading to a cumulative loss of potential GDP more than \$6.5 trillion in Eurozone, record high level of unemployment in Spain and Greece (25% of total labor force and 50% of young people), medium term economic stagnation if not a triple-dip recession, forced privatization by selling state-owned assets at low prices, lowering the standard of living and massive depreciation of the middle class, weakening of the democratic system.

7. Conclusions

If in Europe Germany is a good example of a state based on supply side policies, in Asia Japan, China and the four tigers are also good examples of supply side policies implemented by governments for a long period and focused mainly on a pro-active industrial policy. In all these states economic growth is based on high exports or on foreign demand. But export oriented growth reached its limits and created imbalances in world trade and economy. USA oscillated between supply side policies implemented by Republican Administrations and demand side policied chosen by Democrat Administrations both on the background of liberalization and deregulation of American economy. In EU only Germany is a typical example of supply side economy while in the other important economies demand side policies are frequently been accompanied by supply side interventionist measures.

Supply side policies and demand side policies have their merits in inducing the financial crisis. The increase of consumption and living standard accordingly must be the result of sound and sustained economic growth, namely by increasing the domestic supply of goods and services. It is not the case in the USA where there is a huge gap between the level of domestic consumption and the level of domestic supply, which led to high deficits and debts. In 2006 and 2007 Peter Schiff drew attention on financial bubble and on the difficult economic situation of the USA, heavily dependent on foreign goods imports and financial resources. William Anderson pointed to the overregulation that suffocates the American industry while the deregulation, liberalization and also market speculators in the financial sector are blamed by Paul Krugman for the crisis. For Joseph Stiglitz, it is obvious that poor quality of corporate governance (greed and incompetence), coupled with ineffective regulation and supervision of financial sector have their contribution to what happened in the American economy.

In EU a good example of supply side policies is EU Lisbon Agenda (with mixed results) followed by Europe 2020 both based on a long term strategic vision and sectoral policies. In Romania, where there is a striking gap between consumer demand and domestic supply which led to a great trade deficit in the last 15 years, the government faces now the dilemma of demand side policies versus supply side policies. For counteracting the effects of recent economic crisis the Government has to combine effective macro-economic measures with sectoral and micro-economic policies meant to promote economic growth, competitiveness and sustainable development.

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