The Ineffectiveness of Troika's Wrong Public Policy

by
Dr. John N. Kallianiotis
University of Scranton

August 2014

<<Οἱ γάρ κατ᾽ ἐκεῖνον τόν χρόνον τήν πόλιν διοικοῦντες κατεστήσαντο πολιτείαν οὐκ ὀνόματι μέν τῷ κοινοτάτῳ καὶ πραοτάτῳ προσαγορευομένην, ἐπί δέ τῶν πράξεων οὐ τοιαύτην τοῖς ἐντυγχάνουσι φαινομένην, οὐδ᾽ ᾗ τοῦτον τόν τρόπον ἐπαίδευσε τούς πολίτας ὥσθ᾽ ἡγεῖσθαι τήν μέν ἀκολασίαν δημοκρατίαν, τήν δέ παρανομίαν ἐλευθερίαν, τήν δέ παρρησίαν ἰσονομίαν, τήν δ᾽ ἐξουσίαν τοῦ ταῦτα ποιεῖν εὐδαιμονίαν, ἀλλά μισοῦσα καὶ κολάζουσα τούς τοιούτους βελτίους καὶ σωφρονεστέρους ἅπαντας τούς πολίτας ἐποίησεν.>>

᾽Ισοκράτης (436 π.Χ.-338 π.Χ.)

Abstract[1]

The U.S. Fed and the European Central Bank are very important central banks not only for their economies, but for the rest of the world. Their policies are affecting the lives of 820 million people in U.S. and EU. But their independence from the governments makes their monetary policies less than socially optimal, but very sound for the financial markets. The common currency in Euro-zone and the common monetary and fiscal policy in EU have negative effects on these economies and destructive consequences to citizens of the different nations that have been trapped to this prototype of globalization, the detrimental EU and the absolutely harmful EMU. The oppressive role of the IMF is well known to all nations that made the mistake to ask for its financing. The Troika's policy proved to be completely wrong, which was obvious even to non-economists from the beginning. These international institutions instead of helping the nations that have some needs, they destroy them. Euro and EMU have failed and nations have to go back to their domestic currencies, their independent public policies; to acquire their lost sovereignty and to become again democracies.

I. Introduction

In 1999, European Union introduced its common currency, the euro (€), in electronic form and on January 1, 2002 in bank notes and coins.[2] The euro is currently the second most commonly

[1] The current article is a short version of the author's paper: "Fed and ECB with Dollar and Euro as International Currency Reserves: Some Socio-Politico-Economic Considerations", *Journal of Business and Economics*, Vol. 5, No. 5, May 2014, pp. 607-629.

[2] Even though that it was an enormous opposition against this new common currency at that time because it cannot work among different nations. The reason that the fixed exchange rate regime was abandoned in 1973 was that the currencies must move freely in the market and every country must have its own currency to use it for trade policy and consequently to have an independent public policy. See, I.N. Kallianiotis, "Global Business and Economic

held reserve currency, comprising approximately a quarter of allocated holdings (24.5% in 2013). After World War II and the rebuilding of the German economy, the German Deutsche mark (DM) gained the status of the second most important reserve currency after the U.S. dollar. When the euro was launched on January 1, 1999, replacing the Mark, the French Franc, the Greek drachma and nine other European currencies, it inherited the status of a major reserve currency from the Mark (euro holdings was 17.9% in 1999). Since then, its contribution to official reserves has risen continually as banks seek to diversify their reserves and trade in the Euro-zone continues to expand until 2009 (euro reached 27.6% of the global reserves); when the Euro-zone debt crisis struck and this artificial market, currency, and union started to decline.

With the current enormous money supply and zero interest rate in the U.S., we reached a liquidity trap and this policy has not so far and might fail to promote growth in the near future. The U.S. growth in the first quarter of 2014 was -2.93%. The Euro-zone growth for 2014 is predicted by IMF to be 1%.[3] Europe is in trouble; due to lack of liquidity (the ECB's overnight deposit rate was 1%, became 0.75%, 0.50%, 0.25%, and very recently -0.10%), which led businesses to bankruptcy. Lending has declined drastically in the U.S. and even more in Europe. But, the problem is lack of demand; and only the aggregate demand, not the budget surplus, creates the aggregate supply (production and employment). The question is now: from where will the expected stimulus come? Troika believes that austerity generates growth (sic). This is the "new age" economic theory that is imposed (forcefully) on nations. Of course, if this U.S. monetary expansion had been used by the economy, we could have experienced hyperinflation in the U.S. Thus, it is safe for the economy, at the moment, because the high risk, the low income, and the high unemployment have made banks reluctant to lend and people unwilling to borrow. The U.S. has experienced high rates of inflation[4] in the past, even though that the number one objective of the Fed is "price stability" ($\pi^e \cong 0$). The dual mandate, it is not "full employment and price stability", but "maximum employment and price stability". In ECB, the mandate is price stability only. The monetary expansion, the last six years, has far exceeded any previous ones and the Fed was buying $85 billion securities per month to "improve" the economy. Then, what will follow, when the unemployment will fall, it will be a high inflation. This liquidity and uncertainty in the financial market has increased the price of gold and silver, even the stock prices;[5] another big bubble in precious metals and a depreciation of the dollar, artificial appreciation of euro by 88% compared to the U.S. dollar.

Unfortunately, lately, spreads on sovereign debt in Euro-zone nations were rising and credit default swaps (CDS) reflect the higher premiums being charged to protect against default. Some

---

Interdependence between the United States and the European Union", in *Interlocking Global Business Systems: The Restructuring of Industries, Economies and Capital Markets*, edited by Edward B. Flowers, Thomas P. Chen, and Jonchi Shyu, Westport, Connecticut: Quorum Books, 1999, pp. 37-59.

[3] Greece's deep recession (negative GDP growth) reached -9.20% in the last quarter of 2010 and for 2014 is forecasted to be -2.29%. See, http://www.tradingeconomics.com/greece/gdp-growth-annual

[4] From 1926-2008, the average inflation was: $\overline{\pi} = 3.1\%$ and $\sigma_{\pi} = \pm 4.2\%$. Source: Modified from Stocks, Bills, and Inflation: 2009 Yearbook, annual updates work by Roger G. Ibbotson and Rex A. Sinquefield (Chicago: Morningstar).

[5] The DJIA reached 17,138.20 on July 16, 2014 from the bottom of 6,547.05 on March 9, 2009, due to the global financial crisis. The index grew 1,617.70% in 5 years, which means 32.35% per annum. If this is not a new bubble in the stock market, due to the wrong monetary policy; what else can it be? Thus, speculators had a capital gain (profit) of 1,617.70% on their investment that they did in March of 2009. It is obvious that this "free market" is actually, a freak market.

countries in Euro-zone were paying 40% interest rate, due to high austerity measures that have increased the probability of bankruptcy, as it happened, lately, with Greece and other Euro-zone countries (PIIGS nations), where their unemployment has become double digits and youth unemployment in Greece reached 60% (a true "success story"). We hope that this crisis will not take place (will be prevented) in the most heavily indebted U.S.A.[6] in the near future. However, the Troika's policy on the poor Euro-zone nations proved to be not only wrong, but catastrophic. Countries that have become free market economies, are not democracies anymore; the market determines their policies, laws, and government decisions and not the public (their citizens).

II. Recommended Target Interest Rates and Budget Deficits

Today, the international financial, monetary, and economic system are very different from what they were 40 years ago. It is, now, in the process of evolving into a new stage through globalization, which its first effect became visible globally in August 2007 and continues to threaten our socio-politico-economic structure, tradition, and value system. The one constant innovation of this free-market system was and still is to maximize the market value of the financial assets by avoiding any socially imposed constraints, which is a market subjective objective and very costly for our society (anti-social). Financial institutions play a critical, but very delicate role, since they are themselves value maximizing enterprises, creators of money from "thin air", and innovators of any kind of new debt instruments (even "toxic" ones). Our economy is ultimately dependent on the viability of its financial institutions and markets, all of which are unregulated, owned by institutional investors (the predatory hedge funds,[7] insurance companies, pension funds, etc.), and are not controlled by any regulatory agency or government. Thus, the focus of most of the economic analysis is on financial markets and businesses, which are legal entities, and not on households and people, who are the base (the foundation) and the apex of our society.[8] These market prices (values) have caused serious instability, anxiety, risk, unemployment, loss of wealth, enormous psychological problems, suicides, and destruction of entire nations. Lately, these markets had difficulties satisfying their objectives, which were investments and transferring of capital between savers (suppliers of funds) and investors (demanders of funds) because they ignore the social objective.

Also, this "modern capitalism" involves the acquisition of expensive assets (real and financial) by borrowing (mortgages, car loans, etc. and buying securities with only 50% cash, margin requirements; the remaining 50% is purchased with call money loans), which is a very risky (for the society) process. The entire economy is based on financial leverage and by paying

---

[6] The total public debt of the U.S. is 870.45% of the GDP. Public plus private debt is 1,172.24% of the GDP. The U.S. debt is unsustainable. This might be the reason that the west tries to externalize domestic problems by pursuing a new cold war against Russia and start thinking of World War III.

[7] The hedge funds (Paul Singer; see, http://en.wikipedia.org/wiki/Paul_Singer_%28businessman%29) led Argentina to bankruptcy after its debt default on July 31, 2014. See, http://dealbook.nytimes.com/2014/07/30/in-hedge-fund-argentina-finds-relentless-foe/?_php=true&_type=blogs&_r=0 . Also, see, *The Wall Street Journal*, August 1, 2014, pp. A1 and C1. Of course, the country is not bankrupt, but the market (we know them by their names, the market is not impersonal anymore, as some "experts" in Finance want us to believe) declared its default with the support of the "legal" system. If the free countries continue to allow the "free market" to be uncontrolled, the entire world will become what President Woodrow Wilson said for the U.S.A. in 1915.

[8] All researchers struggle to prove that our economic system is the only right one and it will solve all the problems of the world. The grants are very generous to supporters of this system.

higher risk premium everyone can borrow money. The interest rate determines who gets credit.[9] Over an extended period of boom, high growth, and enormous liquidity, economies tend to move from a financial structure dominated by hedge financing to a structure with increasing speculative financing. The shift towards speculative positions occurs intentionally and more or less inevitably because of innovations and overoptimistic expectations ("irrational exuberance"). The shift from speculative toward ponzi finance occurs because of lack of regulations, corruption, unethical business practices, immoral way of living, and everything else that led the world, where we are today, to a global chaos.

Of course, conventional wisdom argues that the economy is naturally stable, if people (all participants and institutions) are moral, ethical, and value (fear) the true "invisible had" (God), who can lead the economy to equilibrium and humans to perfection. Institutions, without regulations, are contributing to instability because their objective is the narrow and wrong one, the self-interest, which acts against the social interest and at the end against institutions' interest and leads them and entire nations to financial distress, bankruptcy, bail outs, unemployment, recession, the destruction of the social web, and the collapse of democracy. Interventions by government and regulators can thwart the instability of the financial market. Financial innovations through trial and error tried to satisfy the greediness of the institutional market participants. Thus, stability was very limited because they cause inefficiencies and disequilibria in the markets. As the result of these, a financial crisis started and led to asset prices deflation, debtors' repudiation, and interest rates ascension, which was very difficult to stop and generated tremendous losses in financial wealth to the creditors, as well as in real wealth to assets holders (housing), and in the entire economy.

Governments and central banks intervened in these markets and monetary, but less fiscal policies (countercyclical) were used to offset the losses of the private sector. A large government investment and spending (G) could affect the aggregate demand (AD) and reduce the business cycles. Government deficits and debts have caused problems, especially in Euro-zone, but this crisis was made by the controlled and corrupted European politicians, who can be stopped by European voters in every nation, but it is difficult because they cannot be organized. Countries and economies must be independent and uncorrelated (almost in an autarky state). The large scale of this global financial crisis is due to globalization (high positive correlation among economies and humans' behavior; cultural imperialism and multiculturalism). Central banks have to be

---

[9] Minsky defines three financial positions:

(1) Hedge Finance: Income flows are expected to meet financial obligations in every period.
(2) Speculative Finance: The debt must be rolled over because income flows are expected to cover only interest costs.
(3) Ponzi Finance: Income flows will never even cover interest cost, so the debtor must continue to borrow more and more or to sell off assets (privatization for nations) simply to service its debt.

See, Demitri B. Papadimitriou and L. Randall Wray, "Minsky's Analysis of Financial Capitalism", Working Paper No. 275, *Jerome Levy Economics Institute*, July 1999. This Ponzi Finance is imposed to Greece, today, by the malevolent Troika. See, I.N. Kallianiotis, "Privatization and its Anti-Social Effects on National Economies", *Hellas on the Web*, February 2, 2012, pp. 1-29. http://www.hellasontheweb.org/2010-04-05-22-20-08/2010-04-06-19-07-44/12035-privatization-and-its-anti-social-effects-on-national-economies and "Greece's Imposed Privatization (Denationalization) and its Effects on Individuals' Utility and Social Welfare", *Christian Vivliografia*, February 20, 2012, pp. 1-13. http://christianvivliografia.wordpress.com/2012/02/20/greeces-imposed-privatization-denationalization-and-its-effects-on-individuals-utility-and-social-welfare/ . Also, see, Ioannis N. Kallianiotis, "Privatization in Greece and its Negative Effects on the Nation's Social Welfare (Expropriation of the National Wealth)", *Journal of Business & Economic Studies*, Vol. 19, No. 1, Spring 2013, pp. 1-23.

independent from the commercial banks and from the financial markets, serving only the welfare of the citizens (then, they must be dependent to democratic governments). Governments have to be in control of their countries and not under foreign control (occupation without a defensive war). So far, nations (simple citizens) have to pay for their leaders' mistakes and they are paying for six years. Social Justice demands justification!

After World War II, England lost its abusive superiority and Germany was ruined with its fallacious decision to impose its will on Europeans militarily.[10] Since the Korean War (June, 25 1950 – July 27, 1953) and the cold war[11] until 2007, the U.S.A. was concurrently the biggest economic, military, and monetary power in the world, with its currency, the dollar, to be the number one reserve currency of the world, with which all the basic commodities are priced and with this currency all transactions in the international commodities exchanges take place. The global dominium (dominance) of dollar made the new greater (but completely different from the western economies) economy of the world, China, to peg its currency, the yuan, to the dollar and following a policy, which is a monetary war between the two nations and is increasing daily by taking other forms, too (i.e., cyber war). China has become the most severe competitor of the U.S. and by buying the privatizing SOEs in EU, it will control the European economy, too. Greece is in trouble by selling off its seaports, airports, and infrastructures to Chinese. Thus, the U.S. depreciated the dollar to improve its trade, but the pegged yuan reduced U.S. competitiveness and made China very competitive because of the low cost of production and the undervalued yuan. But, the U.S. and EU are very happy because their system, free trade and market oriented economy are applied even by ex-communist nations (*sic*).

The U.S. was impelling the depreciation of the dollar towards the other non-pegged with the dollar currencies and this can be seen by looking at its value with respect the gold.[12] With this decline of the value of the dollar, the U.S. increases its competitiveness and decreases the competitiveness of the Euro-zone (especially, the peripheral countries) and of the other developed countries. The Euro-zone countries blame the U.S. for this dollar's depreciation. With more than 50% depreciation of the dollar, the U.S. has become more competitive during the decade of 2000s, where the European nations, due to the common currency have lost completely their competitiveness. The economies of the Euro-zone peripheral nations have no future except if these

---

[10] Now, it imposes its will financially and economically without any war or resistance from the other Euro-zone nations. This is an indication of the downfall of Europeans and especially of France as a big, but carrying all the socialist obsessions, nation. Greece is in worse socio-economic state compared to the other European nations because it is run by anti-Greek and anti-Orthodox politicians since 1974, who have betrayed the country to foreign "birds of prey".

[11]The cold war continues even today. See, "Germany Asks U.S. to Explain Alleged Surveillance of Europeans", *Bllomber.com*, July 1, 2013. http://www.bloomberg.com/news/2013-07-01/germany-asks-u-s-to-explain-alleged-surveillance-of-europeans.html. The most of the spying was towards the ECB and other EU institutions. But, European officials said they would start trade talks with the U.S., despite concerns of U.S. spying on European institutions. See, *The wall Street Journal*, July 5, 2013, pp. A1 and A5. Lately, the war turned again towards the "true enemy", Russia, with the pretext of making Ukraine a NATO and EU member. The unreasonable embargos of the West on Russia have destroyed many businesses in Europe (even Greek businesses are negatively affected), but there are no embargos on other nations that commit atrocities and genocides. This world that we live, lately, is unlikely to have been created by human beings, but by our "enemy".

[12] The U.S. dollar from $35/1 oz of gold in 1971 had reached in August 2011 the price of $1,895.00 per ounce; a depreciation of 5,314.29% in 40 years or 132.86% per annum. (*Bloomber.com*). Today (August 4, 2014), it is $1,290.04 oz of gold. Speculators made a lot of profit by selling gold in 2011.

nations leave the euro and go back to their national currencies. But, China by pegging the yuan with the dollar, enjoys the same benefits as the U.S. plus some extras, due to the enormous low cost of production.[13] Then, these two countries are technically making discounts to their own products and overvaluing the ones of the other nations. These are the famous "beggar-thy-neighbour" policies of the old mercantilism (modern globalization).[14]

Unfortunately, the euro caused serious problems to the countries, which were forced to accept it and abandon their domestic national currencies. These countries with high debts and deficits became less and less competitive. Before, they were surviving by devaluating their currencies. Now, with the euro, the countries of the Euro-area lost their contingency to control their monetary, fiscal, and consequently their trade policies. By losing your public policies, as a nation, you lose your national sovereignty. This new monetary conditions brought the countries-members (except Germany)[15] to a very disadvantageous position. Greece, Portugal, Spain, Ireland, Italy, Cyprus, and Slovakia, so far, were destroyed with the overvaluation of the euro and the austerities from the Troika. The Euro became the most expensive currency globally. Europeans cannot compete with the adoption of euro; they can acquire their former public policies only if they would go back to their previous national currencies (at an initial exchange rate of 1 unit of their domestic currency per euro; i.e., 1 Dr/€).

The paradox is the appreciation of the euro with respect to the U.S. dollar, at the time that the European economies are in deep recession. The Euro-zone debt and recession crises continue and many economists were creating scenaria of dissolution of the Euro-zone; but, there are powers that did not allow this to happen. Their objective is the global integration and not the division (disintegration) of EU. The ex-president of France, Valery Giscard d'Estaing, had said that Greece must examine the possibility of her exit from the euro for the citizens to avoid the pain of the austerities. Others were saying, if Greece had remained with her drachma, by now, it would have depreciated by 40-50%. Euro had appreciated with respect the U.S. dollar[16] by 88.24% and the poor Europeans have to reduce their cost of production (internal devaluation) by 88%, which had enormous social (impetuous poverty), political (parliamentary dictatorship), humanitarian (tens of thousands of suicides) cost. The adoption of the euro by the peripheral countries of EU was a tremendous socio-economic mistake and the responsible (who signed the memoranda) politicians

---

[13] In China, 1.34 billion people are working like ants and keep the wages to the lowest level compared with the other nations, especially the U.S. and the EU. The average per capita income in China was $6,076, in the U.S. was $49,922, and in EU was $32,518 for the year 2012 (Source, *IMF*). See, http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)_per_capita . This is an indication of the labor cost in these three economies. In U.S. the cost is 8.22 times the Chinese cost (income) and in EU, it is 5.35 times the Chinese cost. Then, there is no way the west to compete with China, except to protect its economies (production) and its citizens (employment) from the unfair Chinese competition.

[14] See, Ioannis N. Kallianiotis, *Exchange Rates and International Financial Economics: History, Theories, and Practices*, New York: Palgrave MacMillan, 2013. ISBN: 9781137283221.

[15] The DM was appreciated much more compared to the euro with respect to the U.S. dollar. Then, Germany is better off with the euro instead of its own currency, the DM.

[16] The exchange rate between dollar and euro was, in October 2000, S=0.8500 $/€ and reached in April 2008, S=1.6001 $/€; an appreciation 88.24%. Today (August 4, 2014), where the Euro-zone is under dissolution, it is 1.3419 $/€ (57.87% appreciation). Then, the markets might know something for the U.S. economy that the rating firms, the politicians, the central bankers, and the economists do not know or they do not want to reveal.

must be voted down for the prevalence of social justice. Bonitsis (2011)[17] examined the stylized path of the competitiveness of the PIIGS nations and France's and Germany's by using the Harmonized Competitiveness Indicator (HCI). He showed that Germany and France were at a competitive disadvantage and Portugal, Italy, Ireland, Greece, and Spain at a competitive advantage until 2000 and then, with the introduction of the euro, Germany became the dominant competitive country, followed by France. The PIIGS lost their competitiveness (and were treated like pigs, swine) and then had to follow in the middle of a recession all these anti-growth fiscal austerity measures imposed by the Troika

Further, Amstad and Martin (2011, p. 6, Chart 4)[18] show that the central banks (Fed, ECB, Bank of England, and Swiss National Bank) assets were very closed until 2008 (before the financial crisis) and then, there is a tremendous increase of the assets of the three central banks, but not of the ECB to provide the liquidity (reserves) and help the Euro-zone economies facing the recession. The ECB's increase of reserves supplying to the financial institutions was very small, which might has caused the continuation of the overvaluation of the euro (depreciation of the dollar) at the time that the debt crisis is keeping Euro-zone to a deep recession. Why is this happening? Who is dictating this anti-European policy? The common currency and the common monetary policy in Euro-zone have caused serious problems in the member-nations because they have different inflation rates, different interest rates, different indebtedness, different socio-economic structure, different value system, and their economic growth and unemployment rates vary significantly, as well as their competitiveness in trade and foreign investments. Nechio (2011)[19] says that the target rate of the ECB does not fill all the Euro-zone members. The Taylor rule suggests lower target rates for the peripheral countries (like, Greece, Spain, Portugal, Ireland, Cyprus, Belgium, Slovakia, Italy, and even France) that have been caught in the sovereign debt crisis. The current monetary rule is in line with Taylor rule recommendation in the core group (mostly in Germany, Austria, Finland, Estonia, Luxembourg, and Netherlands). This is another disadvantage of the common monetary policy for distinctive and different nations. The problem of the U.S. economy is the high unemployment, which cannot be improved with monetary policy (zero interest rate, quantitative easing), but it requires some fiscal policy ("large program of public works spending").[20]

Fiscal policy is also necessary for improving the economy. In periods of recession, an expansionary fiscal policy (low taxes and high government spending) will stimulate growth, production, and employment.[21] Then, more budget deficit is acceptable. The opposite policy is needed during periods of boom (overheating economy), a contractionary fiscal policy (high taxes

---

[17] See, Theologos Homer Bonitsis, "Eurozone Competitiveness: An Analysis of the PIIGS", in *2011 Conference Proceedings* Northeast Business & Economics Association, Rajneesh Sharma (editor), Thirty-Eighth Annual Meeting, November 3-5, 2011, Sheraton Society Hill Hotel, Philadelphia, PA, U.S.A., 2011.

[18] See, Marlene Amstad and Antoine Martin, "Monetary Policy Implementation: Common Goals but Different Practices", *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, Volume 17, Number 7, 2011, pp. 1-9.

[19] See, Fernanda Nechio, "Monetary Policy When One Size Does Not Fit All", *FRBSF Economic Letter*, Federal Reserve Bank of San Francisco, June 14, 2011, pp. 1-5.

[20] See, Paul Krugman, "What Went Wrong?", *Folio*, The Magazine of the Graduate Center, The City University of New York, Winter 2012, pp. 20-23.

[21] Exactly the opposite of what the Troika is imposing on Euro-zone member-nations. Then, it is obvious by now that Troika has specific hidden objective and not the improvement of the state of the economy in these poor and without leadership European nations; especially, the betrayed Greece by her pseudo-politicians.

and low government spending) will reduce aggregate demand, prices, and lower the inflation for the country and decrease the budget deficit (even can create a budget surplus).[22] Thus, every country will have its own budget deficit depending on the state of the economy that prevail in the specific nation.

Based on Taylor's original version of the rule,[23] the nominal interest rate should respond to divergences of actual inflation rates from *target* inflation rates and of actual Gross Domestic Product (GDP) from *potential* GDP. The rule "recommends" a relatively high interest rate (a "tight" monetary policy) when inflation is above its target or when output is above its full-employment level, in order to reduce inflationary pressure. It recommends a relatively low interest rate ("easy" monetary policy) in the opposite situation, to stimulate output. Sometimes monetary policy goals may conflict, as in the case of stagflation, when inflation is above its target while output is below full employment. In such a situation, a Taylor rule specifies the relative weights given to reducing inflation versus increasing output.

According to Taylor rule, the target rates for the ECB is high (except for Germany that it is low) and the Fed's target rate is too low for the American economy.[24] The ECB key interest rate was 1.25% during the two years of 2010 and 2011 and on December 8, 2011, it was cut to 1%. Then, on July 3, 2012, it was reduced to 0.75%, on May 2, 2013 to 0.5%, on November 7, 2013 to 0.25%, and on June 11, 2014 to -0.10%. These results (with November 2011) show that this common policy rule in Euro-zone was only in favor of Germany; for the other countries the overnight rate was very high (ineffective policy tool). The U.S. federal funds rate is 0.25% since December 2008, which is very low according to Taylor's rule. Table 1 and 2 show the target rates in Euro-zone nations at the end of 2012 and in April 2013.

When the gap between the actual output and the potential is high, the government has to stimulate the economy with an expansionary fiscal policy, reduction in taxes and increase in government spending ($T \downarrow and\ G \uparrow$); then, the budget deficit ($BD = T - G$) will increase. Thus,

---

[22] A healthy and democratic nation during periods of recessions accumulates deficits and debts and during periods of growth and expansion, reduces the deficits and generates surpluses waiting for the next business cycle. All the rest are alchemy of the Troika and its controlled leadership.

[23] There are many other interesting models trying to determine the optimal interest rate rule. See, http://www.nber.org/papers/w15986.pdf?new_window=1

[24] The target rates with November 2011 data must have been:

(1) In Euro-zone: 0.2% = 1+1.5(3%)-1(10.3%-5%), but it was 1.25% (high)

(2) In Germany: 1.7% = 1+1.5(2.4%)-1(6.9%-4%), but it was 1.25% (low)

(3) In Greece: -7.75% = 1+1.5(3.1%)-1(18.4%-5%), but it was 1.25% (very high)

(4) In Spain: -11.15% = 1+1.5(2.9%)-1(21.5%-5%), but it was 1.25% (very high)

And (5) in U.S.: 1.65% = 1+1.5(3.5%)-1(8.6%-4%), but it was 0.25% (very low).

the correct fiscal policy is exactly the opposite of what the Troika has imposed on Greece and the other Euro-zone nations. By taking, a similar to Taylor's rule for fiscal policy, we can determine the budget deficit as a percentage of the GDP.

Now, we use data from the end of 2012 and end of April of 2013 and we evaluate the public policies in EU and the U.S.; these results are shown in Tables 1 and 2. There is no country in Euro-zone that the ECB's overnight rate is optimal. The 0.75% ECB rate was high, as it was the 0.50% and could not improve (stimulate) the economies of Belgium, Cyprus, France, Greece, Ireland, Italy, Portugal, Slovakia, Slovenia, Spain, and Euro-zone on the average (Table 2). But, there are countries that the policy rate is too small and they are Austria, Estonia, Finland, Germany, Luxembourg, Malta, and Netherlands. The 0.25% Fed rate is also too high for the U.S. economy with a 7.5% unemployment rate (and $u = 7.6\%$ in March 2013). Then, countries need a mixed policy a monetary and a fiscal one to correct the high unemployment. Of course, a common policy in Europe does not work for any country, there.

Lastly, we use a similar to Taylor's rule to measure the recommended budget deficit for the countries based on their inflation rate and unemployment rate. The results are shown in Tables 1 and 2. Due to their recessions, the following countries "needed" more deficits in 2012 (expansionary fiscal policy): Italy, Spain, Sweden, Greece, Portugal, Slovakia, Bulgaria, Lithuania, Latvia, and Estonia. For April 2013, the results appear in Table 2 and countries like, Greece, Portugal, and Spain need enormous reductions in taxes and increases in government spending. Also, expansionary fiscal policy is needed for Belgium, Cyprus, Finland, France, Ireland, Italy, Luxembourg, Malta, Netherlands, Slovakia, Slovenia, even Germany and also, it holds for the average Euro-zone nation. The austerities and reductions in budget deficits is non-optimal common policy for EU member-nations. Even the U.S. needs an expansionary fiscal policy, but Congress is opposing it to afflict President Obama.

In addition, the peripheral countries are with high unemployment, like Spain, Greece, Portugal, Latvia, Ireland, Slovakia, Lithuania, Bulgaria, and Cyprus. Also, some are countries with high inflation, like: Hungary, Estonia, Slovakia, Poland, Czech Rep, Romania, Italy, Finland, Lithuania, Malta, and Cyprus. The target rates and the budget deficits are not optimal except in Slovenia and in Poland. The recommended optimal interest rates and budget deficits for the EU countries are: (1) Countries with recommended interest rate less than 0.75% and budget deficit more than 3% (due to their economic recession) are: Greece (-17.8%, -15.508%), Spain (-16.4%, -15.022%), Ireland (-6.85%, -7.657%), Portugal (-6.7%, -7.909%), Latvia (-6.45%, -7.519%), Bulgaria (-3.7%, -5.497%), Lithuania (-3.5%, -5.671%), Slovakia (-3.45%, -5.836%), Cyprus (-2.25%, -4.693%), France (-1.9%, -4.066%), Sweden (-1.5%, -3.28%), Italy (-0.75%, -3.649%). (2) Countries with recommended rate more than 0.75% (the target rate) are: Austria (4.6%, 0.647), Luxembourg (4.25%, 0.263%), Netherlands (3.9%, 0.041%), Malta (3.4%, -0.496%), Czech Rep (3.25%, -0.73%), Romania (3.1%, -0.802%), Germany (2.65%, -0.613%), Hungary (2.65%, -2.071%), Finland (2.1%, -1.471), Denmark (1.6%, -1.522%), U.K. (1.3%, -1.909%), Belgium (1.3%, -1.828%), Estonia (1.1%, -2.626%). (3) Countries for which the target rate is optimal are: Slovenia (0.3%, -2.659%), Poland (0.45%, -2.911%). (4) EU17 (-2.8%, -4.822%), EU27 (-1.6%, -4.003%), and U.S.A. (-0.1%, -2.554%).

III. Conclusion

The current paper tests the effectiveness of monetary policies pursue by the ECB and the U.S. Fed and discusses the pros and cons of common currency and common public policy. In 1999, the euro appeared and started competing with the U.S. dollar. But, this new common currency and common monetary policy among 18 nations, today, has affected negatively the most of them, as the data are showing, and has eliminated their domestic public policies. The reduction of budget deficits during periods of recession has made half of the labor force unemployed. Troika's public policy was and continue to be wrong. Also, the U.S. monetary policy is not effective; a mixed public policy is necessary (monetary and fiscal) for the United States, and undoubtedly, every country must have its independent national public policy. A country that is controlled by international institutions, organizations, unions, and the market is not a democracy anymore, it is a controlled protectorate.

Lastly, the solution is very simple and known for almost three thousand years: sovereignty and democracy![25] The public policies needed for the U.S. and the EU are mixed policies (monetary and fiscal simultaneously), otherwise the economies cannot recover from the latest severe global financial crisis, which has made half of the young people unemployed (it has destroyed the dreams, the hope, and the lives of these future generations). Fiscal policy tools (taxes and government spending) are necessary and cannot be ignored by the governments. Unfortunately, this global financial crisis was an experiment to test our reaction; the next one will be a true systemic crisis and for this reason, they are working now to include all nations (even Russia and China) to this destructive system of globalization, multiculturalism, atheism, and serf-ism.[26] But, they ignore God's Providence. Responsible for Greece are the Greek voters, who trust the lies of their pseudo political leaders (PASOK, ND, and SYRIZA) and the controlled and directed by the dark powers public media.

---

[25] Greece has lost both of these necessary political values.

[26] The best solution for people is to leave the big cities and go to small villages and live with their products that they cultivate by themselves.

Table 1
European Union and its Economy (2012)

Nations	GDP bill $	GDP % of EU	Growth %	GDP/capita in PPP$	National Debt %GDP	Government Budget %GDP	Inflation % p.a.	Unemployment % p.a.	Recommended $i_{OND_t}^{ECB}$ %	Rates bd_t %
EU 27	16,584.0	100.0	-0.3	32,021	85.3	-4.0	2.6	10.5	-1.6	-4.003
EU 17						-3.7	2.4	11.4	-2.8	-4.822
Germany	3,400.6	20.5	0.7	39,028	81.9	+0.2	2.1	5.5	2.65	-0.613
France	2,608.7	15.7	0.0	35,548	90.2	-4.8	2.2	10.2	-1.9	-4.066
U.K.	2,440.5	14.7	0.3	36,941	90.0	-6.3	2.8	7.9	1.3	-1.909
Italy	2,014.1	12.1	-2.4	30,136	127.0	-3.0	3.3	10.7	-0.75	-3.649
Spain	1,352.1	8.2	-1.4	30,557	84.2	-10.6	2.4	25.0	-16.4	-15.022
Netherlands	773.1	4.7	-1.0	42,194	71.2	-4.1	2.8	5.3	3.9	+0.041
Sweden	526.2	3.2	0.8	41,191	38.2	-0.5	1.0	8.0	-1.5	-3.28
Poland	487.7	2.9	1.9	20,592	55.6	-3.9	3.7	10.1	0.45	-2.911
Belgium	484.7	2.9	-0.2	37,883	99.6	-3.9	2.6	7.6	1.3	-1.828
Austria	398.6	2.4	0.8	42,409	73.4	-2.5	2.6	4.3	4.6	+0.647
Denmark	313.6	1.9	-0.5	37,657	45.8	-4.0	2.4	7.0	1.6	-1.522
Greece	256.3	1.6	-6.4	24,505	152.7	-10.0	1.0	24.3	-17.8	-15.508
Finland	250.1	1.5	-0.2	36,395	53.0	-1.9	3.2	7.7	2.1	-1.471
Portugal	212.7	1.3	-3.2	23,385	123.6	-6.4	2.8	15.9	-6.7	-7.909
Ireland	210.4	1.3	0.9	41,921	117.6	-7.6	1.9	14.7	-6.85	-7.657
Czech Rep	196.1	1.2	-1.3	27,191	45.8	-4.4	3.5	7.0	3.25	-0.73
Romania	169.4	1.0	0.7	12,808	37.8	-2.5	3.4	7.0	3.1	-0.802
Hungary	126.9	0.8	-1.7	19,638	79.2	-1.9	5.7	10.9	2.65	-2.071
Slovakia	91.9	0.6	2.0	24,249	52.1	-4.3	3.7	14.0	-3.45	-5.836
Luxembourg	56.7	0.3	0.3	79,785	20.8	-0.8	2.9	5.1	4.25	+0.263
Bulgaria	51.0	0.3	0.8	14,312	18.5	-0.8	2.4	12.3	-3.7	-5.497
Slovenia	45.6	0.3	-2.3	28,195	54.1	-4.0	2.8	8.9	0.3	-2.659
Lithuania	42.2	0.3	3.7	21,615	40.7	-3.2	3.2	13.3	-3.5	-5.671
Latvia	28.4	0.2	5.6	18,255	40.7	-1.2	2.3	14.9	-6.45	-7.519
Cyprus	23.0	0.1	-2.4	27,086	85.8	-6.3	3.1	11.9	-2.25	-4.693
Estonia	21.9	0.1	3.2	21,713	10.1	-0.3	4.2	10.2	1.1	-2.626
Malta	8.7	0.1	0.8	27,022	72.1	-3.3	3.2	6.4	3.4	-0.496
U.S.A.	13,665.4	82.4	1.8	43,255	119.9	-8.8	1.8	7.8	-0.1	-2.554

Note: $i_{OND_t}^{ECB} = 0.75\%$ and $i_{FF}^{Fed} = 0.25\%$.

Source: World Economic Outlook, *IMF* and http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics

Table 2: Target Rates in Euro-zone Nations (April 2013)

Country	Inflation rate (π_t)	Unemployment rate (u_t)			Recommended rates	
			Policy Recommended		Target rate	Budget deficit
Austria	2.3	4.9	$i_{OND}^{ECB}\uparrow$	$G\uparrow$	3.55%	-0.019%
Belgium	2.9	12.3	$i_{OND}^{ECB}\downarrow$	$T\downarrow, G\uparrow$	-2.95	-5.137
Cyprus	3.6	15.6	$i_{OND}^{ECB}\downarrow$	$T\downarrow, G\uparrow$	-5.20	-7.108
Estonia	4.3	8.7	$i_{OND}^{ECB}\uparrow$	$G\uparrow$	2.75	-1.429
Finland	3.0	8.2		$T\downarrow, G\uparrow$	1.30	-1.990
France	2.4	11.0	$i_{OND}^{ECB}\downarrow$	$T\downarrow, G\uparrow$	-2.40	-4.522
Germany	2.2	5.4		$T\downarrow, G\uparrow$	2.90	-0.466
Greece	1.5	27.0	$i_{OND}^{ECB}\downarrow\downarrow$	$T\downarrow\downarrow, G\uparrow\uparrow$	-19.75	-17.17
Ireland	1.9	13.5	$i_{OND}^{ECB}\downarrow$	$T\downarrow, G\uparrow$	-5.65	-6.757
Italy	3.7	12.0	$i_{OND}^{ECB}\downarrow$	$T\downarrow, G\uparrow$	-1.45	-4.336
Luxembourg	3.0	5.6		$T\downarrow, G\uparrow$	2.90	-0.040
Malta	3.8	6.4	$i_{OND}^{ECB}\uparrow$	$T\downarrow, G\uparrow$	4.30	-0.064
Netherlands	2.8	6.5		$T\downarrow, G\uparrow$	2.70	-0.859
Portugal	2.9	17.8	$i_{OND}^{ECB}\downarrow\downarrow$	$T\downarrow\downarrow, G\uparrow\uparrow$	-8.45	-9.262
Slovakia	3.7	14.5		$T\downarrow, G\uparrow$	-3.95	-6.211
Slovenia	2.9	10.2	$i_{OND}^{ECB}\downarrow$	$T\downarrow, G\uparrow$	-0.85	-3.562
Spain	2.0	26.8	$i_{OND}^{ECB}\downarrow\downarrow$	$T\downarrow\downarrow, G\uparrow\uparrow$	-18.80	-16.66
Euro-zone	2.6	12.2	$i_{OND}^{ECB}\downarrow$	$T\downarrow, G\uparrow$	-3.30	-5.278
U.S.A.	1.1	7.5		$T\downarrow, G\uparrow$	-0.85	-2.833

Note: $u_t^N = 4\%$, $i_{OND_t}^{ECB} = 0.75\%$, and $i_{FF}^{U.S.} = 0.25\%$, $T\downarrow$ = reduction in taxes**,** $T\downarrow\downarrow$ = enormous reduction in taxes**,** $G\uparrow$ = increase in government spending, $G\uparrow\uparrow$ = enormous increase in government spending. *Source: Eurostat.*