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CONTEMPORARY ECONOMIC CRISIS AND APPLIED METHODS OF ITS OVERCOMING

ABSTRACT

The economic crisis that hit the global economy in 2008 was unprecedented in the post-war economic history. The crisis started in the USA real estate market, and spread from there to the euro area and other regions of the world. The purpose of this study is the analysis of the causes of today's economic crisis in order to determine the effective methods of its overcoming. To develop the effective methods of combating the crisis and prevent future breakdowns, changes must cover not only economic policy of the states, but also mechanisms of international cooperation. A typical example of crisis is the euro area, where the current situation is far from stable. The crisis of the euro area turned out to be a crisis not only of the economies of member states (Greece, Ireland, Spain or Portugal) but also of the mechanisms of integration. It concerns especially the economic policy carried out at the EU institutions level, which affects the economic policies of individual member states. Hence the article also tries to find the answer to a question what changes should the EU and its member states make to overcome the current crisis and prevent its occurrence in the future. A permanent answer to the crisis can only be an economic transformation of member states which were most acutely affected by a decline in production and an increase in unemployment.

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INTRODUCTION

The economic crisis that hit the global economy in 2008 was unprecedented in the post-war economic history. The crisis started in the USA real estate market, and spread from there to the eurozone and other regions of the world. The crisis was accompanied by a considerable change in the magnitude of global imbalances. Although its size and extent were exceptional in many regions, the crisis in the euro area has many features in common with a global crisis. It was preceded by a long period of rapid credit growth, low interest rates, and abundant availability of liquidity, strong leveraging, soaring asset prices and the development of bubbles in the real estate sector. In the early stage, the crisis in the euro area manifested itself as an acute liquidity shortage among financial institutions in member states. The interbank market virtually closed and risk premiums on interbank loans soared. In these circumstances confidence collapsed and investors liquidated their positions in stock markets on a large scale. Concerns over the solvency of many financial institutions also emerged.

It is rare for the crisis to paralyse a completely healthy economy, generally an economic collapse is due to the fundamental weakness of crisis-hit countries. Transmission of financial distress to the real economy evolved at record speed in 2008. In countries affected by the crisis there was a decrease in production, investment and trade, at the same time unemployment, debt and budget deficits increased. A decrease in revenue and an increase in government spending dramatically increased the level of budget deficit in many countries. To finance growing deficits, the public debt reached a level threatening the solvency of some countries. Increased risk and reduced debt rating in effect raised the interest rates. Many countries facing the problem of debt servicing asked international institutions for financial assistance. It is estimated that due to the crisis there are 80 million extra unemployed people worldwide.

In order to prevent the crisis, all countries invoked state intervention tools. Looking at today's recession, the scale and speed of public intervention and expansionary policy response is conceivably the striking feature distinguishing the current crisis from the Great Depression. Several financial institutions have been prevented form failing through direct recapitalisation or partial nationalisation. Unlike during the Great Depression, EU member states have not resorted to protectionism at the scale of the 1930s. The main difference in the economic landscape of Europe between the 1930s and the present crisis is the close cooperation between the countries in the EU and the euro area.

The crisis in the euro area shows that the outlook of member states on business is strictly interrelated with success or failure of integration processes. Although the crisis in the eurozone has spread to Europe from the United States, it shows, however, some specific features that are associated with certain features of the European economy and the integration process. The State policy of social welfare and the structure of the European economy is slightly different in Europe than in the USA, hence in the EU countries it is harder to overcome the economic crisis. In addition to this, the EU has created a monetary union on different terms than the USA, without common fiscal policy and with lower workforce mobility.

Therefore the main objective of this elaboration is to investigate the causes of current crisis and to seek the best methods of its overcoming. The author compares the current crisis to earlier ones, especially the Great Depression in the 1930s. In particular, the causes and course of the crisis in the USA and the EU as well as its four member states most affected by its negative effects (Greece, Ireland, Portugal and Spain) are compared. This analysis serves to present the methods applied in those countries in order to overcome the crisis. Because the crisis in the eurozone has its roots also in monetary integration, the author tries to look for, in addition, the causes of crisis in terms of economic integration. The crisis in the euro zone also has implications for countries which intend to join the zone, like Poland, so the author tries to predict the future evolution of the euro area. Ways to overcome the crisis lie in a better policy mix, including better coordination of fiscal policies of the member states. Analysis of the crisis is to serve the formulation of recommendations for the reform of the economic policy in order to overcome the current crisis and avoid this kind of disruption in the future.

1. THE CONCEPT OF CRISIS

Economic crisis is defined as a violent decline in economic activity. If there is any agreement among economists as to what a crisis is, there is no agreement among them as to what should be called a crisis and what measures one needs to undertake to overcome an economic crisis. For some, crisis is the expression of the collapse of the market and its self-regulatory mechanism, while for others it is the result of market constraints and its self-regulating role. What causes perpetuating sequences of recessions and expansion in the economy? Must what goes up always come down? Understanding the sources of an economic crisis is very difficult. Every new episode of the business cycle is different from the previous one. Just as a man has in his life better and worse periods, so the economy goes through the periods of growth and downside or even crisis.

In a market economy, as a result of free competition mechanism, there are fluctuations which are understood to be repeating in a specific rhythm of more or less regular changes of the basic macroeconomic data. In the long run one can find repeated, for a longer or shorter time, swings in economic activity, which is called the business cycle. The economic history shows that in a market economy factors such as macroeconomic size, consumption, investment, employment, national income do not grow evenly. Any long term growth is accompanied by repeated fluctuations in economic activity. Hence the business cycle is an irregular and non-repeating upward and downward movement of business activity that takes place around a generally rising trend[1].

The degree of change of individual elements of a business cycle is under the influence of many different and sometimes opposing forces. The types of disturbances which could bring the crisis or boom are sudden changes in investments, innovation and technological development, balance of payments, changes in money supply, inflation, tax and budgetary policies, industrial policy, trade and capital liberalization, population movement, etc. These factors have influence both domestically and internationally. Crises may affect the whole economy or individual sectors, crises emerging in one sector may then be transmitted to the whole economy. We take into account currency crises, banking and financial crises, debt crises, economic crises.

In the global economy there occur crises handled with ease by the institutions that make up the global financial system. As far as the last decade of the 20th century was dubbed the era of currency crises and the first decade of the 21st century is the era of banking crises, the current decade is the time of debt crises and financial crisis. The last financial crisis turned out to be so deep, that it was seen in the real economy and caused the economic crisis. An increasing share of capital turnover and globalization trends brought about vulnerability to the economies open to international finance. These crises are cumulative, and so for example the euro zone crisis is both a banking, financial and debts crisis, as well as an economic crisis, not only in individual countries but in the entire euro zone. The current financial and debt crises became even more the crises in global economy and not only in the euro area or in the USA.

The specificity of the current crises due to their causes are related to the effects of globalization, liberalization and deregulation of financial markets. An additional issue is the dynamic development of many financial instruments to enable the use of the so-called leverage, which multiply the potential crises. Currency crisis, debt crisis and banking crisis can rapidly worsen in times of economic crises. Strong economic links between the countries make possible the fast transfer of crises to other countries. Although the current crisis erupted in the USA in 2008, it quickly spread to Europe, as well as to Asian countries, South America, Australia and New Zealand. Consequently, the economic crisis and risks increase the potential costs in terms of decrease in production and trade and growing unemployment all around the world.

There are multiple types and various causes of crisis. The currency crisis is considered to be a sudden and significant depreciation of the national currency against foreign currencies. J. Frankel and A. Rose define currency crisis as a nominal depreciation of the national currency to the US dollar by at least 25% and by

[1] M. Parkin, *Economics*, New York 1996, p. 826.

more than 10% in a given year as compared to the previous year[2]. Other authors suggest that the feature of currency crisis is also a sudden negative balance of payments, the decline in stock prices, the outflow of capital abroad, and the decline of national reserves as well as the increase in interest rates. The crisis in the foreign exchange market usually precedes the instability of the banking sector and capital market collapse. C.M. Reinhart and K.S. Rogoff underline that the most important indicator of an advanced crisis is a sudden essential outflow of capital abroad[3].

In turn V. Sundararajan and T. Baliño define banking crisis as a situation where a significant group of financial institutions has commitments exceeding the market value of their assets, leading to restrictions in credit and investment portfolio shifts, and sometimes to banking panic and collapse of the banks and government intervention[4]. A. Demirguc-Kunt and E. Detragiache think that we use the term "banking crisis" whenever one of the following phenomena occurs: 1. the ratio of loans outstanding to paid exceeds the entire banking sector by 10%; 2. the costs of operation for the rescue of endangered banks exceed 2% of GDP; 3. problems of the banking sector lead to the nationalization of banks; 4. bank panic takes place[5]. Bank panic is the loss of business and consumer confidence in the financial sector and results in the fact that the depositaries suddenly withdraw their bank deposits, which can lead to cash-flow problems of the financial sector, collapse of many, even strong, banks, and increase in interest rates.

Currency crisis and banking crisis may also be accompanied by debt crisis. Debt crisis means the inability of the borrower (government, local government) to repay debt (borrowed capital or interest on the debt) within the agreed period of time. According to E. Detragiache, debt crisis arises when arrears in paying the capital or interest on obligations with respect to commercial lenders exceed the level of 5% of the total commercial debt[6]. However, in the opinion of A. Pescatori and A. Sy, debt crisis occurs when the official government insolvency, or spreads on bonds, are so varied in the secondary markets that they exceed the critical value (10pp above the interest rate of American bonds)[7].

The concept of a financial crisis is used in a broader sense and includes both monetary and banking crisis, as well as debt crisis, when a country is not able to handle its debt. From the broad perspective one can see the two main stages of

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[2] J. Frankel, A. Rose "Currency crashes in emerging markets: An empirical treatment", *The Journal of International Economics* 41.

[3] C.M. Reinhart, K.S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*, Princeton, NJ 2009.

[4] *Banking Crises: Cases and Issue*, ed. V. Sundararajan, T. Baliño, New York 2010.

[5] A. Demirguc-Kunt, E. Detragiache, *The Determinig of Banking Crisis: Evidence from Developing and Developed Countries*, New York 1997, p. 106.

[6] A. Demirguc-Kunt, E. Detragiache, *Financial Liberalization and Financial Fragility*, IMF WP 83, Washington 1998.

[7] A. Pescatori, Sy, *Debt Crises and Development of International Capital Markets*, IMF WP 44, Washington 2004.

financial crisis: the first is an increase in uncertainty in the market, accompanied by an increase in interest rates and a fall in prices in the stock market; the second, followed by the severity of the phenomena of negative selection (operators financing investment credits venture too loose), and the temptation to abuse (lenders engage in too risky projects, hence undesirable from the point of view of the lender), which leads to a reduction in credit growth and in investment, a fall in prices and economic activity[8].

A situation in which the economy of a country experiences a sudden downturn brought by a banking, debt or financial crisis is defined as an economic crisis. The economy facing an economic crisis experiences a falling GDP and growing unemployment. Economic crisis can take the form of a recession or a depression. Some economists suggested to define recession as "two consecutive down quarters of GDP". On the other hand, depression is a sustained and long-term downturn in economic activity. Depression is a more severe downturn than recession, which is seen by some economists as part of the modern business cycle. The most popular definition of depression includes two general rules: 1. a decline in real GDP exceeding 10%, or 2. a recession lasting two or more years[9]. It is worth adding that contemporary economic costs of crisis are getting bigger: P. Honohan estimated the average cost of crisis as the drop of GDP to 15.5%[10].

Therefore deep and long-lasting breach of a general economic balance usually leads to profound changes in the gross domestic product (GDP), a drying up of liquidity and savings, decrease in employment, investment, consumption, and foreign trade. During the crisis, some macroeconomic factors change more than others. Prices change usually to a lesser extent than the production, a decrease in consumption is lesser than the variability of production. Production shall decrease more slowly than investment expenditure. Unemployment growth is slower than the decline in production. Foreign trade (export and import) is a very unstable part of the GDP. It is a decline exacerbated by lower domestic production and consumption. The most unstable part of GDP are investments, which are forced to a sudden decrease, especially investments in stocks. As a result of the decline in investments in stocks following the fall of the capital value of the companies. The crisis may be accompanied by both inflationary processes and deflation of prices.

A classic economic cycle lasts from eight to ten years and consists of several phases. In the literature on the subject one can encounter a lot of concepts of periodization of the cycle, but the the concept of four phases has the most supporters: 1. Recovery; 2. Boom, 3. Crisis and 4. Depression. Economic crises are a stage in the economic cycles — emerging from time to time fluctuations in economic

[8] M. Gruszczyński, *Kryzysy walutowe, bankowe i zadłużeniowe w gospodarce światowej*, Warszawa 2013, pp. 38–39.

[9] "Diagnosing depression", *The Economist*, 30 December 2008.

[10] "Risk Management and the Costs of the Banking Crisis", *National Institute Economic Review* 2006.

activity, where there is a causal effect between individual phases. The status of the superheated economy inevitably leads to depression and depression results in the end in economic recovery. In a classic economic cycle each phase should not last longer than two to three years. At present, state intervention tries to gain control over the course of an economic cycle: states intervene both during the crisis, in order to restore economic growth, and also during the boom, in order to avoid speculative economic overheating, which is the reason why the economic cycle changes in the direction of only two phases, namely recovery and depression.

Overall the economic crisis phase is characterized by a decline in production and national income and rising unemployment, it is connected with falls in credit, often due to banking or financial crisis, and a large number of bankruptcies including sovereign debt defaults. In a market economy, based on making millions of independent economic decisions, there may be situations of a potential mismatch of production to the volume of demand. In other words, there may be cyclical fluctuations arising from an excess of production in relation to the size of demand. Excessive increase in production and investment in relation to the size of demand leads to an incomplete use of the economy's capacity. Decline in sales and profits of companies shall be accompanied by an increase in inventories, which brings about an increase in pessimism about the prospects for future development, followed by the decrease in investment. Decline in production in one area causes a decrease in demand for the production of other branches which is accompanied by rising unemployment and lower income resulting in further decline of global demand and supply. The crisis in one country, through a decline in demand and imports, is a cause of a drop in export and production in other countries.

Recovery phase is characterized by an increase in specific indicators of economic activity: growth in demand entails increased production, improved economic climate is conducive to increased investment, falling reserves and lower unemployment. The increase in production in a particular branch translates to an increase in the production of other branches. The decline in unemployment and an increase in income is conducive to further recovery in demand and production. Because the economy is in the recovery phase of the underutilized capacity, increase in production and demand is not yet accompanied by inflationary pressures. Only during the heyday of the long lasting recovery there appear the price increase and competition between enterprises for the free factors of production, because the reserves are running out and unemployment is close to its natural level, followed by a speculative increase in bull stock prices resulting from the anticipation of further rapid growth of prices. Market participants encouraged by the profits of other players acquire assets for credit, leading to the emergence of a speculative boom, that is now unfortunately a signal of the impending another economic crisis.

Boom always ends in unexpected bankruptcy of several companies, causing a sense of uncertainty in the market. The sources of uncertainty lie mainly in the short term behavior of financial institutions. The bankruptcy of a major bank or a known company can stir panick entailing sharp selling of shares. Boost in uncertainty causes banks to begin to refuse lending, investments and sale of businesses are falling, there is an increasing number of bankruptcies of companies and the crisis begins. It should be noted that the post-war cycles are characterized by a decrease in the amplitude of fluctuations. The reduction in the amplitude of fluctuations, is believed to be caused by contemporary developments in a market economy under the influence of the monopolization of production and national intervention policy[11]. This post-war "deformation" of the traditional business cycle applies the concept of a two-part series. Only two phases are distinguished: a downward phase (phase of recession which connects the phases of crisis and depression) and the phase of growth (expansion which connects the phases of recovery and boom).

In a classic economic cycle mechanisms to reverse the economic situation take place through inflation. Economic recovery leads to overheating of the economy, increase in capacity utilization, there are bottlenecks, and demand growing faster than the production causes price increases. Inflation rate growth entails higher interest rates, which causes decrease in investments and consumption and leads to recession. In the current cycle of influence new factors can be observed: declining importance of inflation and the growing role of portfolio and speculative capital. Reversing the situation is no longer through inflation, but through the situation in the stock exchange. The change takes place under the influence of the prices of assets, because they determine capital flows and keep speculative asset price bubbles from cracking. In the classic cycle the collapse comes after a period of boom, the use of full capacity and low unemployment, now bursting speculative asset price bubbles may occur regardless of the degree of production capacity utilization and the level of unemployment[12].

The basis of the traditional theory of economic cycles was the analysis of changes in demand and investment made in countries and the surplus of supply over demand from time to time on the domestic market. However, the current crisis takes place under the conditions of globalization, where access to the global market demand undermines the fundamental role of the domestic market in the activation of enterprises. Decrease in domestic demand does not necessarily create a crisis, if companies can sell goods in the global market. Competitiveness and the quality of resources, the level of infrastructure, investment in scientific research work, human capital, such supply side factors are decisive when it comes to the demand for products produced by domestic companies in the global market.

Apart from that the classic explanation of an economic cycle does not take into account developed and linked stock markets in the contemporary economies and technological revolution. Increase in capital flows, especially very mobile

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[11] R. Milewski, *Podstawy ekonomii*, Warszawa 2001, pp. 513–515.

[12] W. Szymański, *Kryzys globalny. Pierwsze przybliżenie*, Warszawa 2009, pp. 89–90.

portfolio and speculative capital is today the main cause of cyclical fluctuations. Business tendency survey and its collapse in the operative part depends on the behavior of capital, its response to interest rates, exchange rates, short-term profits. In terms of global capital migration, there occurred at the same time distracting fluctuations in the financial market situation of countries in their sphere of real economy, hence the economic collapse may occur at different levels of production and unemployment[13]. Therefore the main cause of today's crises are to a greater extent speculative bubbles in the stock market, real estate market, or currency rates than overproduction resulting from overinvestment. Most of the theories indicate volatility in investment as the most important cause of the cyclical nature of economic growth. Currently, the need for the modification of the classical theory of cycle is indicated and for taking into consideration the process of globalization and information technology. Capital flows, especially short term, investing in securities, currencies, real estate, are the main factor of the formation of asset price bubbles and speculative fluctuations in the business cycle.

1.1. CAUSES OF CRISES

The latest crisis, which started in 2008, was a financial crisis in banking and turned into the deepest economic crisis since the Great Depression in the years 1928–1933. The causes of crisis are complex and they are usually a result of a number of overlapping factors. Although no two crises are ever alike, they share some common features.

The evolution of the world economy has changed the nature of crises and the causes of current economic problems should also be linked to the effects of globalization, financial liberalization and deregulation of financial markets. Increase in the money supply, which was not eliminated by a growing inflation and interest rates, began to strongly increase credit expansion. Low interest rates encourage the purchase of shares and real estate centre countries overtake savings from less developed countries, resulting in multiple developed parts of the world to credit expansion. An additional cause of the current crisis is the development of the derivatives market that allows for the use of the so-called financial leverage. Other reasons for the rapid spread of the crisis on an international stage is the development of internet, computerization and the expansion of media.

Deregulation of the financial market is caused by an increase in speculation. Capital began to migrate under the stream of current rational allocation of resources from developing countries to the USA and Europe. The ease of migration of capital on a global scale has made it easier to tear off the rates of exchange, securities and rate of interest from the ground up fundamental economies. The

[13] Ibid., pp. 135–142.

pressures of globalization and international capital for tax reduction brought the countries importing capital budget deficits financed by a growing public debt.

The current crisis is also a crisis of liquidity as banks and other institutions refused further financing of loans and investments in debt securities due to high risk. An important cause of the current crisis is the development of the derivatives market that allows for the use of the so-called financial leverage. As a result of the lack of confidence in financial institutions the crisis appeared in the interbank market, in the real estate market, the foreign exchange market, in the money market. Other reasons for the rapid spread of the crisis on an international stage are the development of an internet, computerization and the expansion of media.

The evolution of the world economy has changed the nature of crises and the causes of current economic problems should also be linked to the effects of globalization, financial liberalization and deregulation of financial markets, and at the same time, to the incomplete economic globalization with the lack of freedom of movement for workers, the protection of agricultural markets, increased mobility of capital, uncertainty and economic instability[14]. The free movement of capital in the global economy directs capital to the markets' least fortified regulations, as a result states have become ever weaker to transnational corporations, competing with network to adapt to its requirements. To increase international capital links policy tools of state intervention have become less and less effective in regulating the course of the business cycle. Globalization has weakened the ability of international coordination, so the objectives of the microeconomic enterprises and the financial sector and the objectives of ensuring macroeconomic balance of economy by the states.

Currency crises are especially a consequence of inconsistent economic policies: a lack of harmony between fiscal policy and monetary policy, in particular, of the exchange rate policy. Expansionary fiscal policy is likely to lead not only to economic growth, but also to the imbalance in the balance of payments and the growth of imports, which is associated with the devaluation of the national currency. On the other hand, restrictive monetary policy and raising interest rates brings important capital and appreciation of the national currency. Too expansive fiscal policy leads to excessive debt and an increase in interest rates of public bonds. Increase in the cost of servicing public debt raises the risk of insolvency and the loss of credibility in the financial market. This may result in the outflow of capital and the imperative to introduce drastic austerity program.

Currency crises often occur at the same time as a financial sector crisis. Modern currency crises often occur at the same time as a banking crisis, it is even said that they can be combined with the occurrence of an epidemic (appearance). The borrower can invest money in risky projects because risky projects can produce potentially higher profits, while in the case of investment banks it will incur losses

[14] Ibid., pp. 13–24.

of losers. Banks may also have difficulty with liquidity due to mismatched lending and foreign investments in the purchase of risky bonds. Bad investments usually funded by the banks will lead to sudden currency devaluations, the outflow of capital and an increase in interest rates. Problems with liquidity of one large bank can cause the entire credibility crisis of a banking system. Some authors join currency crises with improper monitoring of financial institutions and the lack of effective banking supervision[15].

Deregulation of the financial market has created additional opportunities for funding to obtain the insufficiently understood instruments, and the different types of risk have not been sufficiently evaluated. Derivatives with a tool of insurance risks have become a speculative tool for hiding debt, avoiding taxation, thwarting debt restructuring, as instruments completely opaque and incomprehensible and treated by a lot of institutions (including pension funds) as some capital investments that have led them to excessive debt. Warren Buffett has called derivatives the financial weapons of mass destruction[16].

When in the USA the so-called Internet bubble broke, the FED lowered the interest rates from 6.5 to 1% between 2001 and 2004, the wave of easy money has helped banks to overcome its negative effects, but has contributed to speculation in the real estate market. The credit boom in the USA and Europe has enabled banks to lend to clients not known to banks to purchase real estate. With large borrowing, real estate operators see their wealth soar as the prices of buildings and land rise. According to the assessment made in 2006, real estate prices in the USA were probably overvalued by more than 50%, and in some States, for example, in Miami, Florida, even twice[17]. As the boom rolls on real estate, the operators try to borrow more to increase their leverage, but when the bubble bursts, the highest leverage is the first to fall. Anyone who bought a house in a period of boom lost at the beginning of the crisis at least 20% of investment and the owners of homes worth less than the loan value is now were the first candidates for non-observance of the terms of the contract (12 million households in the US). The financial crisis could be then a result of the following banking panic due to the inability to return the loans, causing the collapse of large financial institutions, cash-flow problems and decline of asset prices. If the crisis is as deep as the current one, it can be extended to all financial markets: the stock market (strong declines), the price of raw materials (strong declines), the currency markets (decrease of rates and weak currency exchange rates strong), and money market (strong boost in interest rates in the interbank lending market). Crisis in the markets of expenses moves sooner or later to the real economy causing a drop in investment and consumer demand.

[15] K. Kletzer Chinn, "International capital inflows, domestic financial intermediation and financial crises under imperfect information", NBER WP 7902, 2000; R. Radelet, J. Sachs, *The Onset of the East Asian Financial Crisis*, Harvard University 1998.

[16] N. Roubini, S. Mihim, *Ekonomia kryzysu*, Warszawa 2011, pp. 229–230.

[17] P. Krugman, *Powrót de recesji. Kryzys roku 2008*, Warszawa 2012, p. 152.

The decline of the global demand brings then reduction in supply and increase in unemployment.

Because countries are connected by ties of trade and capital, the crisis in one country and violent devaluation of its currency could trigger a similar reaction in its trading partners. An increase in interest rates might not prevent the defense course and escape for impatient capital to migrate. What is more, when countries are seen as part of a group, devaluation of currency in one country can result in pressures on financial markets for the reduction in the exchange rate in other countries of this group. Governments cannot defend well from the change of exchange rates as stable courses often turn out to be an anchor of anti-inflation policy. Currency crises are usually preceded by the poor state of public finances and the negative information on the State on the balance of payments[18].

Monetary crisis may also be accompanied by a banking crisis. Problems of a banking sector may be caused by problems with the liquidity of companies and an objective lack of international acceptance. In normal times the difference between the rates on three-month loans in the interbank market and the interest rate of the Central Bank amounts to 20–30 basis points when, in October 2008 the difference reached 350 basis points[19]. Financial crises are also related to the activities of foreign investors in the local currency markets and securities. Incomplete information about the local markets, government purchases, and the implied warranties of speculative short-term capital uncontrollable flow make them vulnerable to excessive risk of sudden changes. Deep financial crisis may prompt the governments to review fiscal policies.

Therefore crisis in the financial markets may be a result of not only erroneous decisions previously taken by States, but also bad investments made by other participants in the market. Investment decisions can be influenced by this "behavior of the gregarious", when investors invest to a lesser extent on the basis of scientific knowledge, and more on the basis of observation of the behavior of competitors who have the greatest prestige and the biggest means for processing the data. If most investors buy or sell assets (currency) imitating the purchases and sales of big investors, then the market may appear imbalanced, which will eventually lead to panic and crisis and as a result, inefficient allocation of funds and the collapse of courses. Then the problems in financial sector may arise from the lack of liquidity of the banking companies involved in international transactions and the lack of internationally accepted security. The State debt and the budget deficit financed by foreign investors can be so severe that it is difficult to restore the balance in finance in the short term, which causes a sudden escape of

[18] G. Corsetti, B. Maćkowiak, "Fiscal imbalances and the dynamics of currencies crises", *European Economic Review* 2006, no. 50.

[19] A. Szablewski, *Migracja kapitału w globalnej gospodarce*, Warszawa 2009, p.154.

capital, the decline of currency rate, loss of reserves, the decline in investment and production[20].

Economists use the term "cyclical deficit" to refer to the part of budget deficit that is a result of a downturn in a country's economic activity. The remainder of the deficit, the so-called structural deficit, exists if the economy operates in full employment. Some economists argue that under normal circumstances the structural budget should be balanced each year. If the budget deficit is allowed it will add to the national debt and shift the burden of current spending to future generations. Other economists share the opinion that more important than the balanced budget is the equilibrium in the national economy (internal and external). If the economy is in recession, the cyclical budget deficit and increasing public debts are allowed to grow to counter the economy's recession.

J.M. Keynes believed that in a market economy crises are caused by over-production in time as a result of higher level of global supply than global demand. Consumption and investment are a total of about the size of production and employment. If the propensity for consumption and investment do not present a big enough demand, the actual level of employment will be different from the potential[21]. When one investment ends, it should be replaced by another, but when there is another that will replace it, it may begin shrinking the economy. If entrepreneurs invest more or less than the public is able to save, it is the economy that needs to adjust, and it mainly depends on the situation of boom or crisis. Investment expenditures are crucial for the economic downturn, in accordance with the concept of a multiple increase in national income. The size of global investment, however, is unstable in a market economy, it may be temporarily smaller than the savings, as a result of objective factors: a growing propensity to save and the decreasing tendency for consumption and investment. If the economy develops successfully, all savings are used for investments, but excessively optimistic market prevision in boom period entails a sudden collapse of the marginal efficiency of capital and investment. New capital investments exceed the current capital losses only when consumption spending is expected in the future[22]. The collapse follows because all of a sudden there are doubts as to whether the expected revenue from new investments is reachable[23]. If the tendency for consumption and investment does not make a sufficiently great demand effective, the actual level of production will be lower than the production potential. Keynes rejects the assumption of neoclassical economics that, thanks to the movements of prices and wages, the economy reaches equilibrium at full employment and of a viscosity assumption of prices and wages. "Prosperous society must find much more investment opportunities so that more savings of its citizens could go hand in hand

[20] R. Radelet, J. Sachs, op. cit.

[21] J.M. Keynes, *Ogólna teoria zatrudnienia, procentu i pieniądza*, Warszawa 2003, p. 29.

[22] Ibid., p. 95.

[23] Ibid., p. 287.

with poorer employment”[24]. The sensitivity of the economy to play between savings and investments is, in a sense, the price we pay for the economic freedom[25].

The monetarist theory of a business cycle regards fluctuations in the money stock as a main source of economic cycle. The impulses in the business cycle come from the growth rate of the quantity of money. A speedup in the money growth may bring expansion, fall of interest rates, and fall of money foreign exchange rate, growth of investment, demand, production and decrease of unemployment. These initial financial market effects begin to spill over into other markets. When the money growth rate increases quickly and consistently, it could even bring a speculative price increase in the stock market and wages increase in the economy. On the other hand, a slowdown in the money growth rates decreases aggregate demand that brings about decrease in investment, production, fall of prices and growth of unemployment. In this way, the sudden change in the monetary policy of the Central Bank can cause crises; they may be a consequence of an outside force but once money growth slows down the economy cycles turn to recession.

Real cycle theory assumes that the pace of technical progress is subject to large irregular fluctuations and shocks on the supply side caused by changes in production and employment. On the one hand, technological progress increases demand and production, productivity, affects the price structure, resulting in the increase in income, on the other hand, the productivity shocks, the decline in innovation, state regulations bring the storm to economic growth and destroy the structure of the economy. Therefore, the irregular character of technological change is believed to be the root cause of the recovery and the recession. Such groundbreaking inventions as the invention of a steam engine, electricity, car, and computer brought fast economic growth, but following the spread of new technology, increase in demand leads to a reduction in prices, drop in profits and lowering investment and production.

Therefore crises may arise not only under the influence of global demand deficiency and refrain consumers from buying goods, but also as a result of restrictions on the production and sale of goods by manufacturers. The failure to achieve the production capacity and full employment may result from the unwillingness of producers to provide more goods at existing pricing. In this case we are talking about the so-called supply side crises. The unwillingness of producers to produce more may originate from barriers in rising costs, resource sources or from government taxes and regulations. Limitation of output may also result from political uncertainty, monetary policy and raising interest rates, high inflation, the previously accumulated surplus storage, uncertainty in the goods and financial markets. Not every author blames either the demand side or the supply side of

24 Ibid., p. 30.

25 R.L. Heibroner, *Wielcy ekonomiści. Czasy. życie, idee*, Warszawa 1993, p. 237.

economy exclusively: various theories indicate various supply and demand causes of economic crisis.

Due to its depth, the current economic crisis is often compared with the crisis in the years 1928–1933. The production in the United States decreased to 58.5% of the 1929 level and unemployment rose to the level of 25% of the labor force. In the USA the level of investments decreased by as much as 94% from 15 billion USD in 1929 to 886 million in 1932[26]. The crisis and therefore the decreasing demand brought in the 1930s and now run the risk of a deflationary process. Deflation is a very serious threat, because it runs as a mechanism for reducing the spiral of demand. When prices are falling, the demand is postponed, because it is believed that the later you buy, the cheaper you buy. The crisis also brings a decrease in wages and excessive bonuses paid during the economic boom, which reduces the so-called luxury consumption. In 2007 the company Goldman Sachs paid its employees 18 billion USD in bonuses: 623 million per head. The Lehman Brothers a year before the crisis paid their employees 9.5 billion USD in awards[27]. Both crises were connected with high running investor confidence and overoptimistic risk taking. If, however, during the Great Depression there was no globalization of the economy, the current crisis shows that the states are unable to function in the global economy and are unable to cope with the opening of markets and free capital flows.

The current crisis was triggered in the United States by the bankruptcy of the Lehman Brothers bank and the loss of the solvency of some American largest banks. When the Lehman Brothers fell in the real estate market in 2008, oil prices were at an astronomical level. Although the bankruptcy of the Lehman Brothers contributed to the contamination of the world financial system with a crisis, it was not the only catalyst of this process. Agencies established by government, such as Fannie Mae and Freddie Mac, were taken over by the State, in view of the fact that their investment portfolio was charged with high-risk loans. State benefiting from the growing real estate, now faced a significant fall in tax receipts and deepening financial difficulties of some States such as California. At the same time more than 200 parabanks specializing in mortgage credits fell, independent investment banks were subjected to State control, financial guarantees were extended to a value of 360 billion dollars. Because the companies did not have access to cheap credit, all credit line was granted from the General Motors to financial companies like GE Capital[28].

Taking low-cost housing loans was also the FED's policy, which in two years lowered interest rates from 6.5 to 1%. A lender providing the loan took into account mainly its security, rather than the financial situation of a borrower.

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[26] Ibid., p. 244.

[27] A. Mitraszewska, "Moralne bankructwo bankierów", *Gazeta Wyborcza*, 2 February 2009.

[28] N. Roubini, S. Mihim, *Ekonomia krzyzysu*, Warszawa 2011, pp. 134–135, 140.

As a consequence, a typical behavior of Americans was to live on credit, so increased demand for houses, real estate prices soared in the speculative. When the demand for housing declined, and there was an increase in borrowers' insolvency and declines in property prices and the subprime bonds were securities, real estate financing institutions were left without scarcity means to regulate their own commitments. Because banks and other financial institutions around the world took part in the subprime loans refinancing treating this as an investment, secularization of mortgages spread to the global economy.

Therefore the collapse of the high-risk mortgage market in the United States moved to Europe, where reputable banks began to feel the effects of the crisis and their reaction was to limit credits to entrepreneurs. In the era of globalization, financial institutions also moved their activities with the United States and Europe to regions with a minimum number of regulations and restrictions. The crisis sparked excessive loans granted by the banks with a high risk of payment to persons with small possibilities of their repayment (the subprime mortgage). These loans were sold in the form of structured bonds based on real estate and having Government guarantees by the largest American and European banks. So in connection with the crisis in the USA, banks around the world offered as loans about one-third of their assets.

It should be underlined that in contemporary economy there is no complete rationality of behavior of either its main actors, or the financial markets. Managers of banks assume that, in the case of financial difficulties, they will be helped by Central Bank intervention. A. Haldane, Chief Economist of the Central Bank of the United Kingdom asserts that the State aid to banks encourages them to take risks. In the financial sector there is a governance model, where companies dominate the short-term objectives geared to reward stock holders. Stocks, bonuses, dividends, quarterly profits count more than the production of quality products and services. This leads to seeking managers capable of enchanting investors focusing on short term increases in stock prices, while economic development has to be mostly through the long term inventions. The need to ensure an immediate financial success caused the company to look for managers (wizards) and the vast range of income: while in 1970 an average income of heads of the largest US corporations was 28 times higher than the average earnings of employees, it is now 400 times higher[29]. Furthermore, the bonus system, which was organized around the short-term profits, over the years encouraged to provide risky loans by financial institutions. Such banks as: Goldman Sachs, Morgan Stanley, Merrill Lynch, Bears Steers or Lehman Brothers paid bonuses in increasing amounts, which accounted for 60% of the total wages paid there. Bonuses were ten or twelve times larger than

[29] See *Polityka*, no. 2 (2991), 7–13 January 2015, pp. 36–37.

the basic salary. In 2005 these banks paid out a total of 25 billion USD in bonuses to themselves, then 36 billion in 2006, and a year later — 38 USD[30].

There are clear similarities between the 1929–1933 and 2008–2013 crisis in terms of initial conditions and geographical origin. Both were triggered in the USA and spread internationally to deeply affect the world economy. A common feature is that both crises were preceded by long periods of favorable times. They both occurred after a sustained boom, characterized by money and credit expansion, rising asset prices. As prior to the current crisis, banks have stepped up to increase the loans that caused a credit boom in the real estate market. The banks provided free hand loans for the purchase of shares resulting in a boom in the stock market. The production in the United States decreased to a higher level than today — 58.5% of the 1929 level, but unemployment rose to the level of 25% of the labor force as it did in Greece and Spain. The crisis of the 1930s was accompanied by deep deflation (price drop of up to 40%), and, in the case of the current crisis there occurred deflationary pressures. In both crises the insolvency of banks entailed a complete lifelessness of interbank money market. Both crises were connected with high running investor confidence and overoptimistic risk taking.

The main differences between the current crisis and the Great Crisis of the 1930s are: currency — the United States and European countries were based on gold; trade links and equity were not as intense as they are now, the share of public expenditure in GDP was on average five times lower than at present; public debt was considerably lower than at present (less than 50% of GDP). In addition, during the Great Depression monopolization processes in the economy increased, new agreements were created between undertakings, now Member States protect their markets by imposing trade restrictions. The recession of the 1930s was characterized by a strong and persistent decrease in the overall price levels. The Great Depression deepened dramatically due to massive failures of banks and inadequate policy responses. Central banks did not undertake sufficient expansionary measures in due time. The cause of such a deep crisis in the years 1929–1933 in the United States was also due to FED errors which applied a restrictive monetary policy and raised interest rates in three stages from 3.5 to 5%). Moreover, President Hoover instead of increasing spending policy to come out from depression, tried to restore a balanced budget through cuts in expenditure. In effect in the USA the level of investments decreased by as much as 94% from 15 billion USD in 1929 to 886 million in 1932. Governments were persistent in their restrictive fiscal stance and reluctant to expand expenditure.

Before the crisis, in the period of 2004–2006 in the United States the interest rate for federal funds also raised from 1 to 5.25%, but it only incidentally influenced long-term interest rates and mortgage interest rates and was then significant-

[30] Ch. Harper, *Bonuses at Wall treet Big- Five Surge to 36 billion*, Bloombeg.com, 6 November 2006, http://www.Bloomberg.com/apps/news.

ly reduced, both consumers and financial sectors went into debt and used financial leverage to increase investment. New mortgage-backed securities such as CDOs were created. The level of private sector debt in the US increased by 123% in 1981 to 290% in 2008 in relation with GDP. Simultaneously the USA bonds depending on international investors were to the largest extent dependent on global markets: foreign investors were estimated to amount to 40 to 50% of the buyers of USA securities[31]. Factors such as excess savings in China, Japan, Germany, and invested in USA bonds, policy of easy money, financial innovation, alternative banking system, lack of adequate supervision of the banking system contributed to the creation of the crisis. As a result, the crisis broke the interbank system, no bank would lend money unless on high percentage. Several major financial institutions were prevented from failing by means of direct recapitalization or partial nationalization. The difficulty for State financial aid to banks was the opposition of banks which only lost their liquidity (the good ones) to those that have become insolvent (the bad). As a result, the aid was aimed at the entire sector and deposit guarantees covered all banking institutions. The scale and speed of expansionary policy is the most striking feature distinguishing the present crisis from the Great Depression.

If the thought of neoclassical theory of economy resembles a rocking horse, where after a period of rocking, it then comes back to balance, the current recession is similar, and the crisis of the 1930s is reminiscent of a herd of wild horses: just one gets frightened by something and the whole herd gallops in the opposite direction to balance. Deregulation of the financial system and the lack of adequate banking supervision encouraged of course speculative credit and making risky investments. President of FED Ben Bernake stated that: “we could have prevented the crisis, if we had skillfully used regulations”[32]. The primary differences between today’s crises and that of the 1930s also arise from the fact that now we have a different, more advanced knowledge on the causes of crises and methods of their control than it was 80 years ago. Most importantly, it is believed that the Great Depression was caused in large measure by the flawed economic policies and incorrect use of intervention tools. Countries affected by the crisis were totally unprepared in theoretical terms to fight the crisis and they did not know much about what tools to use.

1.2. REASONS FOR CRISIS IN THE EURO ZONE

The reasons for the crisis and methods of overcoming the depression in the euro zone to clarify the causes of crisis has so far featured little analysis. The causes of the crisis are poorly researched and imprecisely explained, an unwillingness to tackle this issue is perhaps caused by the complexity of the phenomena that can

[31] N. Roubini, S. Mihim, op. cit., pp. 106–107.
[32] Cf. ibid., p. 243.

be explained only interdisciplinarily, referring not only to economic theory, but also to the theory of economic integration and international relations, and even to the field of political science.

In the euro zone, we have to deal with both the financial crisis (banking, debt crisis), as well as with economic crisis. The crisis in the euro area primarily manifested itself in the acute imbalance in the budget system of several member countries and has become an important link in the development of the global financial and economic crisis. However, the negative developments in the euro area should not be seen as only a medium term depression. The crisis has its structural factors arising from the structure of the economies of member states and their flawed economic policies. It is also caused by the integration factors and policies of the ECB. The situation in some EU member states, like Greece, Portugal, Spain or Ireland whose economies experienced a sudden economic downturn, in effect developed into the deepest economic crisis since the Great Depression in the 1930s.

The crisis in the eurozone was undoubtedly the continuation of the global crisis. However, many of the causes of the current crisis are rooted in specific factors in the internal features of the development of EU integration. In the euro area before the crisis began there could be observed trends of unnecessary borrowing capacity, especially in the public finance system as well as households and banks. In the euro area there was an increased bank debt, especially foreign both in partner countries as well as in third countries. The deepening of the cross border banking activity has led to an increase in the proportion of operation of banks in the European single market. Although each bank was accountable to the supervisory authority of the home country, cross border operation increased the vulnerability of banks and their financial risks. Indebtedness of the EU member countries could not be considered only from the point of view of the Maastricht criteria, but also of leading banks which bought government bonds of troubled countries to the tune of 2 trillion EUR. Moreover, the rate of the euro was falling, breaking an important psychological threshold of 1.20 dollar per euro.

All these gave rise to the crisis of confidence and many players in the financial markets began to doubt the ability of the EU to solve the problems. The decline of confidence in the financial markets has led to a dramatic decline in investment. Decline in investment was accompanied by the breakdown of production, falling demand and soaring unemployment. The situations in individual member countries of the euro area were different but among the most problematic countries were three in Southern Europe (Greece, Spain, Portugal) and Ireland. Each economy facing an economic crisis experienced a falling GDP, growing unemployment, a drying up of liquidity and rising/falling prices due to inflation/deflation.

The current situation in the euro area is far from stable and leads to a change of government policies in many countries. To develop effective methods to combat the crisis I will first of all examine the causes of the crisis and its evolution in the four member countries of the euro area, i.e. Greece, Ireland, Portugal and Spain.

Crisis in the euro area has an economic impact on economic transformation of those countries, and the success of the transformation depends to a large extent on their ability to overcome the crisis. Although the crisis in the euro area covers also other countries such as: Cyprus, Italy, France, the crisis development in the analysed four countries was the most characteristic for the entire EU. What is more, the crisis of the euro area turned out to be the crisis of not only economies of member countries, but also the crisis of mechanisms of integration. Hence in order to effectively fight the crisis and prevent future breakdowns, the present reform must cover not only the changes in the economic policy of individual member states, but also a mechanism for the European integration. It concerns especially the economic policy carried out at the level of EU institutions that affects the economic policies of individual member countries.

The genesis of the current crisis in member countries of the euro area is of course very complex. However, it should be noted that the original source of problems in certain member states of the euro area was their flawed economic policy and structural weakness rather than just the introduction of a single currency. The introduction of the euro was accompanied by a decline in interest rates and increased loans in countries with weaker, less competitive economies. These loans have been allocated not to enhancing the competitiveness of their economies for investment in sciences and new technologies, but to the needs of the current consumption and investments in the construction sector. In countries with weakest economies the imbalance grew because the lack of independent money policy and flexible nominal exchange rate was not accompanied by sufficient flexibility in prices and wages in the economy and there was a lack of structural reforms. Structural reforms aimed at, among other things, increasing flexibility of labor and product markets, reduction of budget deficit and public debt were not processes that accompanied the introduction and functioning of the euro currency.

The debt problems of the EU member countries are still large, especially in some member countries, like Greece, Italy, Portugal, Spain, and Ireland, projected to return to the path of sustainable economic growth. Secondly, many of the causes of the crisis in the euro area were rooted in the internal features of the EU development. Thus a sustainable economic growth in the EU depends on its institutional reform. In the euro area a single supranational monetary policy is not rightly correlated with member states' fiscal policy. Moreover, the euro area composed of partners with different structure and economic competitiveness could not effectively carry out harmonized economic policies. In brief, one can point to a few of the essential causes of the crisis in the euro area.

Firstly, it should be pointed out that the crisis did not originate in Europe, but in the USA, in the mortgage market in 2008 and then spread to other countries in the EU like Greece, Portugal, Spain, Ireland. The USA not only sparked the global economic crisis, but for four years showed difficulties in returning to the path of fast growth, which did not facilitate the EU countries' overcoming of the crisis. What is more, increasing debts in the USA (public debt in this country has increased in recent years from 60 to 90% of GDP) increase the competition in the securities market between American bonds and euro area members, and increases the interest rate of the European bonds. President of the Vatican Bank, in a speech to the Italian public, noted even that the Americans stand behind the euro crisis because less risky American debt displaces in the trading book part of the debt of the European countries.

Secondly, the crisis in the euro area is affected by the structural imbalance in the world economy, where some countries consistently have a positive balance of payments and increasing reserves, while others have a negative balance of payments, as a result becoming more and more indebted. The rapid growth of China's exports caused the massive reserves estimated at 4.4 trillion USD, comprising, inter alia, not only the US public debt, but also the debt of the European countries amounting to 630 billion USD in the estimated 200 billion USD worth of bonds from the French government. Chinese government's policy to promote exports undercut the value of Chinese Yuan, the low level of consumption in China's GDP of only 36% and low wages in the Chinese economy contribute to the imbalance in trade with the USA as well as with the EU.

Thirdly, an imbalance occurs not only outside the EU, but also within the Union, where two groups of countries have developed — those with a surplus in foreign trade (Germany, Netherlands, Austria, Belgium) and those recording a deficit in current speed (Greece, Portugal, Spain, Ireland, France, Italy). Productivity growth and wage trend divergence caused the lowering competitiveness of some economies, and so for example, within a period of eight years prior to the crisis wages in the euro area increased by an average of 14%, in Germany they increased only by 2%, and 17% in France, 23% in Italy and in Spain by as much as 26%[33]. What threatens the euro is not asymmetric shocks, but the lack of wages discipline in the Southern countries, where growth is not warranted by an increase in productivity.

Fourthly, the euro crisis is not so much the monetary crisis and its function a means of payment, the value of the gauge, or even a store of value, but the public debt crisis. Some countries, such as Greece, Portugal, Spain, Ireland, Italy went into excessive debts due to low interest rates in the euro zone and low inflation. Increase in the national debt, however, is a result not only of economic, but above all political decisions. Political science argues that public debt is related to the functioning of a political system as such, political cycle in a given country and explains that the less chance the government has to be reelected, the more it is willing to go into debts. Weak governments, unable to reform, not only failed to increase taxes, but did not reduce expenditure or public debt either in a struggle to gain voters and the financing of the public sector.

[33] Ch. Saint-Etienne, *La Fin de l'euro*, Paris 2011, pp. 34, 59.

Fifthly, the euro crisis reveals, unfortunately, the weakness of the institutional EU and its dysfunctional economic policies mechanism based on a centralized monetary policy and decentralized fiscal policies of individual member states. As far as the ECB's monetary policy has a clearly defined goal of maintaining low inflation, fiscal policy before was built on too many conflicting goals, for example to maintain fiscal discipline, external balance and sustainable growth. Emphasis on restoring budgetary balance and lowering debt has brought, of course, deflationary consequences, and low economic growth. The EU, however, lacks the structure characteristic of federated states to enable automatic stabilizers to operate the federal budget in line with the Central Government and regions or states. J. Sachs and Sala y Martin calculated that the US federal budgets are amortized over the decline in production in one of the states by about 1 USD 40% through reduced tax burden to the federal budget and through the transfer of social aids from the federal budget to one of the states[34].

Sixthly, the euro has become a victim of its own success, by obtaining money position worldwide, the second after the US dollar component of the reserves (more than 20% of the world's reserves). The euro exchange rate against the US dollar at the initial level was established at 1.18 USD for 1 EUR, which then fell to 0.823 USD for 1 EUR, and then gradually increased to more than 1.40 USD for 1 EUR. The appreciation of the euro hit the export of many members of the euro area (especially Greece, Ireland, Portugal, Spain) in third country markets, hence it is believed that only with a reduction in the value of the euro to the initial level will it be possible to get payment balance in least competitive countries.

1.3. METHODS TO COUNTER THE ECONOMIC CRISIS

The starting point for an effective fight against the crisis is a proper and thorough diagnosis of its causes. In case of a crisis just as in case of a disease first, one must put the right diagnosis, to then carry out a proper treatment. In today's economy in view of the great importance of the public sector the central government as well as the entire administration takes on an essential role and takes the initiative in the anti-crisis activities. The governments have at their disposal demand policy measures as well as supply measures. Although today central banks in most countries are independent from the Government, they also play a fundamental role in overcoming crises.

Between the 1970s and the year 2007 394 financial crises occurred in the world, including 124 banking crises, 207 currency crises and 63 debts crises[35].

[34] J. Sachs, X. Sala y Martin, *Federal Fiscal Policy and Optimum Currency Areas*, Cambridge, Mass. 1989.

[35] M. Gruszczyński, *Kryzysy walutowe, bankowe i zadłużeniowe w gospodarce światowej*, Warszawa 2013, p. 64.

Governments have over the years developed more or less effective tools of intervention in the economy. Economic interventionism is most commonly defined as any state measures taken with a view to interfering in the economy. On the one hand a procyclical monetary or fiscal policy is one that increases the amplitude of business fluctuations, on the other hand a countercyclical monetary and fiscal policy is one that reduces the amplitude of business cycles and helps to overcome the depression. The anti-crisis intervention can rely on boosting demand, investment, economic growth, fight against unemployment, subsidies for failing enterprises, increasing liquidity, restoring internal and external balance, financial market system aiding, banking, etc. Measures to be taken in order to fight the crisis are divided into direct and indirect, fiscal and financial. They may be short- and long-term. The financing of measures is an essential part of any intervention aimed at countering the crisis which could lead to a significant temporary deterioration of an economic situation of member states. The costs of interventions are rising especially when public money is being used for restoring the liquidity of the financial sector, protecting the deposits and bank nationalization of private operators.

The first very important means of combating the crisis is the policy of budget deficit. If the crisis is a result of a shortage of demand in the economy, the government should increase spending or reduce budgetary receipts in order to increase consumption. Demand can be increased also with additional public investment (the demand aspect of investment). According to J.M. Keynes, it is wise to lead an attack on two fronts: to expand investment and facilitate consumption growth at the same time[36]. The state should exert its influence on the evolution of the propensity to consume partially through the tax system, using the redistribution of income through progressive tax system or unemployment fees. Keynesian economists believe that during the crisis taxes should be reduced for people with the lowest incomes, and increased relatively for those with the highest savings. It is worth noting that during the Great Depression no one thought of lowering taxes, but of restoring budgetary balance, which further deepened the crisis.

The best methods of ensuring closer to full employment may be public investments which do not exclude any kind of compromises in cooperation of public authorities with private initiative. Financing public investment should rather be done not by increasing taxes, but by public debt. The crisis will last until consumer spending and investment increase again, it must take a certain amount of time before marginal efficiency of capital starts to improve, unless governments quickly initiate public investment and increase employment. In addition to the necessity of state intervention for the mutual adaptation of propensity to consume and invest there are no more reasons for the socialization of economic life. The task of state intervention is not to replace the market but to regulate the business

[36] J.M. Keynes, *Ogólna teoria zatrudnienia, procentu i pieniądza*, Warszawa 2003, p. 294.

cycle and cyclical tuning. The richer the society, the bigger investment is needed to overcome the crisis and to employ the majority of citizens[37].

The second and as important means of combating the crisis is monetary policy of the Central Bank. If excessive credit action and inappropriate monetary policy are the common causes of crises, confronting them, however, may not rely on the restriction of money supply and the increase in interest rates, which is the anti-inflation policy. If the economy faces a decline in investment and consumption, the Central Bank should keep interest rates low, which is to lead a policy of easy money (quantitative easing). In such circumstances easy money with free production will not cause inflation, but the increase in production and a drop in unemployment. The lack of liquidity of the banks should also be supplemented by easy credit from the Central Bank. If the Government goes into debts and the bonds do not find buyers among private investors, they can be purchased by the Central Bank due to an increase in the emission of money.

One of the worst consequences of crisis is deflation, which encourages consumers to refrain from buying in anticipation of a further decline in prices. Moreover, enterprises refrain at that time from investment not believing in its profitability until prices stop falling. Because during deflation the real value of debt increases, all try to pay it back as soon as possible, and the more forced borrowers are to repay their debts, the more likely the are to go in greater debt. (the paradox of debt). When the deflation spiral becomes higher, Central Banks have no other choice and must lead to reflation, that is loosen monetary policy and cause a return of inflation.

Although in the time of crisis the banks should reduce the interest rate in relation to the marginal efficiency of capital, to the point of full employment, during the Great Depression the banks in the USA not only lowered interest rates, but the rate being promoted. If the crisis is deep, the reduction of interest rates alone may not be enough to boost production. According to Keynes, it seems unlikely to impact the bank's policy on interest rate enough to determine the optimal rate of investment. Moreover, during the period of crisis uncertainty limits investment demand even for cheap credit. A significant reduction in interest rates might not be a sufficient stimulus to the growth of investment, as stated by P. Samuelson: you can bring a horse to the source, but you can't force it to drink.

If today's economy wants to overcome this crisis, the governments and central banks should work toward reviving demand, as supply side economics argues that state intervention distorts the natural play of the free market. Any State intervention only prolongs the crisis. Because the basic contention of supply side economics is the high regulatory costs of states intervention, in order to improve the economic performance the states must deregulate the production process. The supply side economics asserts that mechanisms for self-regulation alone solve the prob-

[37] Ibid., pp. 29–30, 283–294, 340–343.

lem of balance and overcoming the crisis should be associated with a reduction in government intervention, to restore budgetary equilibrium and to reduce inflation. NeoKeynesians maintain that prices and wages are sticky in the economy, while monetary economists claim that they are flexible and adapt quickly to the situation of the crisis. As the main source of investment recovery is an increase in the rate of profits, anti-crisis actions should be aimed at getting savings by reducing the role of State in the economy. Joining tax cuts with a reduction in expenditure is mainly to spur investment, an increase in investment and production would later bring — in accordance with the Laffer Curve — increased budget revenue.

In their intervention fiscal and monetary policy focus mainly on the demand side. Both are motivated by the conviction that appropriate shifts of the aggregate demand can bring about desired changes in output. The measures which may be used for this purpose include: reduction in taxes, increase in budgetary expenditure, reduction of interest rate, reduction of minimum reserves, currency devaluation. Supply side policies offer an alternative that seeks to shift the aggregate supply curve. The most known are tax cuts, liberalization of economic sectors, financing projects leading to an increase in productivity, research, subsidies for higher education. Somehow a reduction of interest rate and increase in budget expenditure may work in the short term, on the other hand investment in research and development of education may act over time. Anti-crisis policy can rely on domestic measures or the past concentrated on supply-side, it can also be a combination of both methods, considering the length and the depth of the crisis it can be pursued in the short or long term.

If the crisis is a result of unequilibrium in internal and external balance resulting from excessive debt or budgetary deficit, the fight against crisis can rely on restoring balance by reducing public debt and budget deficit. The highly indebted countries paradoxically introduced savings programs in terms of expenditure and increase in taxes (austerity programs). Re-balancing the internal balance, cost reduction and internal devaluation improve competitiveness and lead to the external balance. Austerity programs through further reduction of costs and demand can in the short term cause deep depression in countries introducing them. However, in the long run the crisis is also an opportunity to carry out structural reforms in economy and to create a healthier financial market. Under the influence of crises, the countries affected carry out rich restructuring of their economies. This applies both to the real economy as well as the financial and capital market. To prevent similar crises from happening and to avoid new speculative banks in the future rules on the financing of the financial markets and banks must be reformed.

Therefore there are three main approaches in the fight against the crisis. The first method assumes that the best solution to the problem is to cut expenses and introduce fiscal discipline. If the cause of a crisis is excessive debt and expansive fiscal policy, in the fight against it governments should restore budgetary balance and reduce the level of public debt. The austerity program should contain a number of savings obtained largely through cuts in public spending that lead to cost reduction and improve competitiveness. In the second method, the fight against the crisis lies in the transitional period, an increase in budget deficit and further indebtedness. Starting here with an assumption that the decline in demand and investment needs to be supplemented by additional public expenditure, and restoring balance in public finances is postponed until the post-crisis period. Changes in fiscal policy are as usual accompanied by Central Bank anti-crisis moves on monetary policy that is mitigated. Low interest rates and increased money supply increase the liquidity of the banking sector, improve financial situation of companies and enable the acquisition of State bonds, and are designed to increase investment, increase demand, boost production. The third method is to fight the crisis from the supply side, and so to remove all the obstacles that inhibit the growth of production and investment. Actions are aimed mainly at the structural reforms of the public sector, financial and capital market and tax policy. Reforms should also include action to foster innovation, increase competition and the development of human capital. At the same time, it calls for deep institutional changes like privatization and introducing greater supervision of the financial sector. A stricter control of the banking sector is recommendable as well as returning to the Glass and Steagall Act of 1933 that separated commercial bank and investment. This separation would close links between one banks and the other and limit the ability to borrow money for investment from banks exposed to greater risk than insured commercial banks.

During the actual crisis the US has become a leader in the implementation of the aid package for the economy. American Recovery and Investment plans (787 billion USD) include all aspects of fiscal policy: tax breaks, public expenditure on goods, services and transfer payments, investments. The original plan was to redeem bad credit mortgage, but it was quickly supplemented by classic expenditure under the State intervention: help for banks and businesses, tax cuts, discounts when purchasing a car, first apartment, infrastructure spending. According to the plan by Paulson (Troubled Assets Relief Program), harmful assets of banks were bought, with the use of direct financial support amounting to a total of 700 billion USD. In addition, with the approval of the US Congress, the economy was stimulated through a reduction in taxes for individuals and companies of up to 275 billion USD. Another 550 billion USD accounted for an increased expenditure of the Federal Government, of which 40 billion USD were allocated for the construction of roads and bridges, and public transportation, 50 billion USD on modernizing the electricity grid and infrastructure related to new energy sources.

Reduction of interest rates of central banks (in the US from 5.25% before crisis) and in Europe almost to zero did not translate immediately to the increase in liquidity of the banking system as a whole. Banks with money from the Central Banks did not want to lend them due to high risk, and at the height of the spread between three-month Treasury bill interest rate and three months loans on the interbank market amounted in the USA to as many as 465 points. Therefore, in order to increase the liquidity FED used unconventional methods: 1. easing credit policy — quantitative easing of monetary policy; 2. set the aid program — Primary Dealer Credit Facility which was one-day loans; 3. non-financial Institutions (not deposits) were able to borrow money directly from FED; 4. convert illiquid assets into safe and liquid state securities; insurance of bank deposits[38]. Federal Reserve system assisted every bank that had trouble with liquidity for the whole month: two giant investment banks received help: Goldman Sachs and Morgan Stanley in Exchange for permission to convert into bank holding companies and more widespread supervision, 17 billion USD of government assistance was threatened by bankruptcy, and even some companies — two of the three largest car companies in the USA: General Motors and Chrysler. The total value of this plan amounted to 837 billion USD, which represented 7% of the GDP of the USA.

Before the crisis the big cross-border banks were subject to supervision in the EU countries in which the headquarters were registered. A national supervision of banks has proved to be insufficient, and during the crisis many banks from Ireland, Spain, Greece, Portugal, and even Great Britain stood on the verge of bankruptcy. State costs for the banks were so big that they brought about the financial insolvency of countries. As a result of the crisis in the euro area rules have been developed that move banking supervision of the biggest banks to the ECB, which will, inter alia, be responsible for helping to save banks from insolvency.

The European Central Bank financed also commercial and investment banks in the form of "quantitative easing" with loans at a low 1.0% and then 0% interest rate, it could act also in favor to finance potentially solvent partners and keep calm in the financial markets. For the first time in its history in June 2014 the ECB lowered the interest rate to below 0 to –0.1% and in September of the same year to –0.2%. The main reason for this reduction was the incentive for commercial banks to expand lending in order to increase investment and production companies and revive consumption. The ECB implements quantitative easing by purchasing financial assets from banks with newly created money which increases their excess reserves. The ECB did not act as efficiently as for example the FED-lender of the last resort in its own banking systems. The Maastricht Treaty forbids the ECB from buying bonds in the primary market. The limited effects of intervention in the financial market speak for the application of other methods to resolve the crisis in the euro area and large scale ECB intervention in the secondary market. In September 2012 ECB decided on purchasing bonds in potentially unlimited quantities with a maturity of up to three years, if the euro government first formally requests the aid from the bailout fund. The program named Outright Monetary Transaction was directed to the highly indebted provided that they abide by reform of their economy and public debt. Since then, the ECB has continued its gigantic purchase program and the assets issued into

[38] N. Roubini, S. Mihim, *Ekonomia Kryzysu*, Warszawa 2011, pp.172–176.

the European economy during the year and a half amounted to 1.5 trillion euro. Comparisons between the present global crisis and the Great Depression of the 1930s reveal a number of key lessons about the best methods of combating the economic crisis. After the collapse of any economy, revival usually follows, but the first condition for coming out of the crisis is to maintain the financial system to avoid financial meltdown and to restore the health of the banking sector. The record of the Great Depression had shown that in case of an economic crisis the financial system of a country should be supported by government intervention to prevent banking failure and credit allocation. The banking sector should be rescued by additional capital, subject to supervision, when the bad assets are separated from the good ones. The model for such intervention was Sweden's policy against crisis at the beginning of the 1990s, when the government found bad assets and focused them into a single fund and helped the banking sector capital with the sum of 25% of GDP.

First of all, governments and central banks must maintain aggregate demand to avoid deflation. The collapse of the free market system in 1929–1933 was due to the downward spiral caused by the adherence by the governments to the doctrine of balanced budget. Decline in private investment and consumption in many countries has been additionally increased by reducing the governments public purchases. Hence the Great Depression experiences demonstrate that it is important to support aggregate demand by expansionary monetary and fiscal policies. The role of monetary policy is to provide the necessary liquidity by lowering interest rates. Fiscal policy and budgetary spending should also act to increase global demand.

1. Maintain free trade and avoid protectionism. The Great Depression started recurrence of a series of protectionism measures. The world average own tariffs for 35 countries rose from 8% in 1920 to almost 25% in 1934[39]. In the USA the tariffs were raised from 37 to 48%[40]. The growth of protectionism has brought the crisis on rollover trading partners as well as a further decline in trade and production levels. In the current crisis countries do not repeal to protection as a means of overcoming it, there was also no manipulation of currency markets on a large scale in order to pass the crisis on to business partners (beggar my neighbor policy). The growth of protectionism contributed to the fall of international trade, so the policy lesson is straightforward: protectionism should be avoided in every case.

2. Maintain international finance to avoid capital movement restriction. The Great Depression contributed to a breakdown of the international flow of capital.

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[39] *Economic Crisis in Europe: Causes, Consequences and Responses, European Economy*, Luxembourg 2009, p. 19.

[40] H.-J. Chang, *Economics: The User's Guide*, London 2014, p. 76.

Several countries introduced control of flow of capital across borders: Germany and Hungary, for example, banned capital outflows and imposed controls on payments for import. After the Second World War there was a reform towards the establishment of a new order in Bretton Woods with gold-dollar system and permanent rates of exchange between currencies. Now we lack such a universal system like Bretton Woods and we need a new system to ensure balance in the world economy. In the current crisis the most negative impact of capital movements occurred not in the countries where the crisis originated, but in some emerging economies whose growth has been highly dependent on import of FDI. The world system must be more balanced in trade and capital migration and globalization based on global institutions, warning against the crisis and combating its effects. The USA and Europe made use of powerful fiscal and monetary instruments, but to stimulate the world economy appropriate steps should be taken in other global economy centers, such as China, India, Japan. In the USA there are already signs of coming out of the crisis, once the recovery from the present crisis sets in, international capital flow is likely to expand.

3. If during Great Depression central banks limited their passive issuance, this time they have used a whole range of measures amounting to interference in the economy: increasing liquidity (quantitative easing), allowing financial institutions to change the toxic resources for safe government debt; through providing loans, outright debt purchase in the open market; insurance bank deposits. For example, insurance of bank deposits was raised in Ireland up to 100,000 EUR, and then covered all deposits in the six largest banks by the guarantees, in the USA up to 250,000 USD, in the United Kingdom to 50,000 GBP. In many countries banks emitted at risk assets and placed them in a “bad Bank”, in this way the “good banks” having the only remaining good assets can continue to lead the provision of credit.

4. Just as during the Great Depression there were needed some intervention measures taken at the level of individual states, in the case of the current crisis one needs some crisis management and coordination activities between different states. The current crisis is the expression of failure of the operation within the framework of the global economy, where there are no coordination institutions to fight against it, and struggling with the negative consequences of an economic crisis. Due to the increase of mutual economic relations the world economy now needs a coordinated action in the field of economic policy between the most important building stones of trading partners to revitalize economic growth.

5. Right time for coming out of the crisis. Public policy to come out of crisis timely is crucial. If fiscal and monetary policy intervention stop too early before

the underlying recovery sets in, it will create a risk of extending the crisis for the subsequent years. On the other hand, too late an exit and prolonged states intervention will lead to the inefficient allocation of resources and inflationary pressures.

2. REFORMS OF EU INSTITUTIONS AND THE EURO ZONE MEMBER COUNTRIES

In addition to the USA, the crisis, in the form of the acute crisis in the euro zone, particularly touched four countries: Greece, Spain, Portugal and Ireland. In order to combat the crisis the euro area member countries have adopted austerity programs to restore internal and external balance. The assumption of transformation in the countries most affected by crisis is to cut budgetary deficits, reduce public debts and turn to export, but this transformation process creates high costs of adjustment. In addition to fiscal adjustments Portugal, Spain, Ireland and Greece must carry out deep structural reforms of the functioning of the economy. For these countries, there is no way to restore economic growth and competitiveness by advice on such matters as economic transformation. Improvement of structure and competitiveness will restore growth in these countries through export development. This internal devaluation will also improve the efficiency of performance of their enterprises. The transformation programs in Greece, Spain, Portugal and Ireland contain then three main elements:

1. Fiscal consolidation. The governments take steps to restore the long term sustainability of public finances. The debt problems in Greece, Spain, Portugal and Ireland are stock problems: unsustainably high and rising levels of debt to GDP. Low interest rates in the euro area have led to "malinvestment" — a disastrous bubble in the property market in the private sector in Spain, Portugal, Greece, Ireland and under-funding of social services in the public sector. Debt overhang in these countries continues and financial markets remain segmented. The deleveraging of public finances by increasing taxes and cutting spending worsened the economic situation in the short run. However, in the long term all four countries must lower the level of budget deficit and public debt to recover the confidence of the financial markets. Lower level of budget deficit and debt will enable in these countries debt financing at lower interest rates, easier financing of private investment and return to the path of economic growth. Thanks to the consolidation of public finances Ireland and Spain recovered the confidence of capital markets and interest rates on their debt approached the pre-crisis levels.

2. Structural reforms. Low competitiveness of Greece, Portugal, Spain and Ireland economies is a structural problem, which produces low economic growth in these countries and tradeoff between internal and external balance. In effect the

euro one-size-for-each (one-size-fits-all) led to an enormous imbalance in current turnover between partner countries. Before the euro crisis in Portugal, Spain, Ireland the current account deficit remained at 5% of GDP, in Greece even 10%, entirely funded by the private European commercial banks. What should be done in Greece, Portugal, Spain and Ireland to overcome the crisis now are supply side reforms that boost productivity, investments, output and employment. These actions should include: privatization, labor market flexibility, deregulating professions. Governments in Greece, Spain, Portugal and Ireland should reform the labor market to improve its activation for the unemployment. Efforts are also ongoing to encourage more competition in sheltered sectors, such as the legal professions, thus bringing down costs and improving competitiveness. Wages reduction to the competitive level should include not only the public sectors, but also workers remuneration in private firms. More workers ought to be employed in private enterprises and less in public sectors. Policy should aim to reduce non-tradable prices to enable depreciation of real exchange rate and boost in competitiveness. Ireland, Spain, Portugal and Greece should return to an export-driven path to recovery. For example, Ireland's attractiveness as a globalized economy with the highly open labor market means that this country has already emerged from the crisis as a mature, high productivity contributor to international trade.

3. Banking sector reforms. Societies in Greece, Spain, Ireland and Portugal must now deal with the consequences of the imprudent and high risk lending practices. Many of the regulatory provisions which were designed to protect the stability were either removed or relaxed in the 1990s. Banks in these countries had the discretion to expand their operation with little regulatory oversight. They applied this freedom to exercise profit maximization and the majority of this expansion was property related. Exposure to toxic finances assets naturally went together with large capital outflows and current account negative position. External imbalance of current account balances in the euro area increased "investment" thanks to zero or even negative real interest rate, greatly contributing to the banking crisis. Moreover, sharp declines in property have exposed banks' reckless lending practices and funding models across the banking systems. These debts can never be paid off, so they must be restructured. The examples of Spain, Greece, Ireland and Portugal showed that banks were prone to periods of instability with large and expensive consequences to the wider economy. First and foremost the capitalization of the domestic banks in Greece, Spain, Portugal and Ireland should be completed. Bank mergers and deleveraging of bank balance sheet are also recommended. The banks must reach full capacity to support the recovery through new lending, including to SME which play a key role in job creation. Because due to the crisis the capital base of the banks has been destroyed, to avoid future crisis the financial regulation must be put in place in order to limit the risk of loss by depositors and maintain confidence in the financial system. These financial

regulations must limit the probability of bank failure (minimum capital/liquidity requirements) and protect the interests of bank customers, more from just inspecting compliance to rules to evaluating risk management systems[41].

Although fiscal austerity reduces debt, structural reform can spur growth. The only way out of the current crisis is not only cutting spending and taxes but deep transformation reforms — hoping that as an effect the economy recovers. Fiscal austerity works for internal balance, but aggravates unemployment. Calling for still more fiscal austerity produces net effect in declining GDP, which makes debt/GDP worse. What Greece, Spain, Ireland, and Portugal need is a long-term transformation to improve the competitiveness of their economies. The economic growth in these countries should be animated by increasing the production of the most technologically advanced products. In order to do this it is necessary to increase expenditure on scientific and technological work-research and education reform. Public investment should compensate the decline in demand in the construction industry and be directed at the development of infrastructure and sustainable energy. The labor market should be liberalized to bring down labor costs. To sum up, the cures in Greece, Ireland, Spain and Portugal to overcome crisis should include the following actions:

- national budget consolidation,
- reducing of public debts,
- structural reforms,
- privatization,
- growth of investment and productivity,
- restoring competitiveness,
- growth of export,
- reform of labor market and decrease in labor cost,
- avoiding price deflation,
- decrease in unemployment,
- bank restructuring,
- reform of bank regulation,
- reform of bank supervision and resolution.

Many authors indicate that the crisis in the euro area is not only the crisis in such countries as Greece, Ireland, Portugal and Spain but also a structural crisis of the European integration and its institutional framework. The financial crisis has changed the perception of risk in the global economy and the euro area does not have a reputation of an area of stability and credibility. Consequently, a crisis within the euro area is more costly than in the USA because: ad hoc arrangement to extent credit rather than automatic, spreading and self-fulfilling panics, deeper

[41] D. Rodrick, *The Euro Crisis, Portugal and Europe's Future*, www.sss.ias.edu/files/pdf/Rodnik/Presentations. September 2013, pp. 3–6, 29.

economic recession in some member states, mutual resentment on all sides[42]. It seems that the economic crisis in Greece, Portugal, Spain and Ireland will be overcome permanently without reforms of the EU and the euro area. Without reforms, the EU itself will not guarantee that similar crises will not occur in the future as a result of inadequate rapid response on the part of the euro area for the signs of crisis. The EU "misbehaved" because the area is an incomplete economic union, whose structural weaknesses are exposed especially in the time of external financial shock due to:

— lack of a banking union,
— insufficient resources accumulated in the EU budget,
— imbalance between single currency and multiple sovereign fiscal policies,
— lack of automatic stabilizers,
— absence of a legal order and bankruptcy regime,
— low level of labor mobility.

The present crisis of the euro area rises a fundamental question as to the processes of European integration and the question also arises if the euro is necessary only for the proper functioning of the European single market or to be more an element of a genuine economic and political union. Some authors assert during the crisis that the benefits deriving from "one money for one market" are rather modest. In practice the size of the cost of exchange rate instability suggests that it is an obstacle to trade development and foreign investments. The euro still serves the development of trade in the EU and contributes to avoiding the transactional costs. However, many experts asserted even that the *raison d'etre* of monetary union was political rather than economic and the success of a monetary integration rests on coordination of economic policies between member states.

The crisis revealed that monetary integration has crossed the Rubicon towards a more harmonized economic policy. Monetary integration simply does not work without further tax integration policies among member states. Countries of the euro area fell into debt crises relatively easily despite the Maastricht conversions criteria and Stability Pact. To make the convergence criteria more obligatory partner countries have agreed to introduce more strict debt and deficit rules to be included in the law of member states, but there is no guarantee that debt crises will not happen again. To escape from the current crisis and prevent future ones, there is no alternative but to elaborate a proper policy mix between monetary policy and fiscal policy at the European level. The euro area is now a combination of decentralized national fiscal policies with centralized monetary policy. Budgetary policy in the euro area aims primarily at an absorption at the national level, and less at establishing an optimal budgetary spending for the entire EMU.

[42] C. Fitzerald, "The debt crisis in Ireland", *The Quarterly Review of Economics and Finance*, No. 53, Dublin 2013, pp. 353–355.

The latest crises have showed that in the future transfers of national policy sovereignty from the member states to supranational organs are necessary, so that the monetary and fiscal policies may be better coordinated, as they are crucial for the proper functioning of a currency union. More needs to be done to ensure better governance in the euro area to improve budgetary coordination or even partial budgetary unification. The common budget equipped with more resources with redistribution function might help the highly indebted countries to return to the path of economic growth. It is worth adding that a famous report delivered by Mac Dougall for the European Commission predicted the gradual increase in resources transferred from members states to the common budget: from 2–2.5% of GDP in the prefederation stance to 5–7% in the period of "federation naissante", and up to 20–25% in the structure of federation "bien établie". The report also suggested that a Community budget equivalent to at least 7% of the GDP would be necessary to tackle 40% of existing inequalities among the European regions[43].

A key reason why a single currency works in the US and does not work so efficiently in the EU is the insulation provided by the federal fiscal system. Managing a large monetary union should be straightforward like in the Federal State. Monetary policy requires the Central Bank to take monetary decisions in the name of all member countries as well as manage the substantial union wide budget to transfer income from more successful parts to the less successful countries and regions. Government borrowing should operate through a single union wide bond market with borrowing determined by a decisive central authority. In the US Federal Reserve manages the union's monetary policy via a single bond market with borrowing belonging to the institutions of the federal states, while the borrowing of states and municipalities is constrained due to their inability to monetize their debt. In a federal state like the US nobody linked the potential default of one state to the dollar functioning as a legal tender. For example, during a recent budgetary crisis the State of Illinois simply stopped paying 5 billion of its bills; California issued vouchers for wage payments. In both states there were cuts in public services. However, nobody envisaged either a bail out financed solely by other US states or an exit from the monetary union. An analysis of the institutional manner in which the US deals with the crisis reveals federal country wide prudential rules for banks and Federal Reserve System as a lender of last resort. The central budget in the USA also helps states through automatic stabilizers when the economic crisis begins[44].

The EU moved towards the EMU without giving it the possibility to bail out public debts of partner countries and make transfers between them because of the prohibition of the Maastricht Treaty and limited size of its budget. Therefore

[43] D. Mac Dougall, *Rapport du groupe de reflexion sur le role des finances publiques dans l'integration europeenne*, Bruxelles 1977.

[44] C. Allegre, *Peut-on Encore Sauver l'Europe*, Plon 2011, p. 153.

it seems desirable for the monetary union in the euro area to be accompanied by a tight coordination of the fiscal policies of its member states. The fear of the loss of sovereignty with regard to coordination method comes from mingling two crucial aspects of a fiscal policy: structural and stabilization. Structural tax policy is mainly microeconomic and can be decided upon at the national level. However, the income stabilization policy can be accomplished effectively at the supranational level. A need for the coordination of budgetary policy in EMU arises from growing economic integration and the likely spillover effects, when budgetary policies in one member state may have impact on the economies of other partner countries.

The theory of fiscal federalism points out that fiscal responsibility can be divided between the EU and the member states in the same way as they are divided between national states and their regions. There are two main economic arguments for fiscal federalism: 1. spillover effects (negative externalities) if actions undertaken in one country, for example austerity policy, lead to inefficient outcomes in the partner country; 2. increasing returns to scale when, for example, an anti-cyclical policy is more efficient when carried out on a large scale[45]. In the economic crisis some countries — members of the single market must assume the role of an engine of economic growth. The decrease in demand in one group of partners may be recompensed by public spending in other countries. More public spending in one or few countries may have a positive impact through the growth of import from partners carrying out the policy of stabilization of their public finances.

Thus far we do not know precisely what the economic benefits and costs of closer economic union and coordinated economic policies are. Coordination commits partners to agreement on the actions needed in order to accomplish a coherent policy for the euro area. The basis for the coordination comes from the fact that in the euro area under the Maastricht Treaty (given the openness of the European economies) no member country alone has an incentive to expand demand issuing fiscal policy. Because a large part of the benefits of increased growth and employment would accrue to its neighbors and most costs of a deterioration of balance of payment would fall on the country itself, a country withstands to assume a role of a locomotive of economic growth. So if every country decides on its fiscal policy independently, taking into account only its own interest, euro area fiscal policy would be on average deflationary. Today fiscal discipline and more belt-tightening in Greece, Spain, Portugal, Ireland and other partner countries increases the likelihood that the EU as a result of the euro crisis could face slow economic growth. Coordinated expansion by all member countries of the euro area would therefore have a much bigger positive impact on growth and employment.

[45] R. Baldwin, Ch. Wyplosz, *The Economics of European Integration*, London 2006, pp. 410–411.

WSPÓŁCZESNY KRYZYS GOSPODARCZY I METODY JEGO PRZEZWYCIĘŻANIA

Streszczenie

Kryzys gospodarczy, który dotknął gospodarkę światową w 2008 roku, okazał się najgłębszą recesją w powojennej historii gospodarczej. Rozpoczął się od kryzysu na rynku nieruchomości w USA, przeniósł do sektora finansowego i realnej gospodarki, następnie rozprzestrzenił się w niespotykanym dotąd tempie do innych regionów świata. Kryzysem zostały dotknięte kraje europejskie, szczególnie strefa euro i jej peryferyjni członkowie (Portugalia, Irlandia, Grecja, Hiszpania). Celem tego artykułu jest analiza przyczyn obecnego kryzysu gospodarczego i określenie najlepszych metod jego przezwyciężenia. Źródła obecnego kryzysu są wielorakie: polityka banków i instytucji finansowych nastawiona na krótkookresowe zyski, spekulacyjny wzrost cen nieruchomości, nadmierna akcja kredytowa, niskie stopy procentowe, brak odpowiedniego nadzoru bankowego, wprowadzenie różnorodnych papierów pochodnych. Kryzysowi służyła nierównowaga wewnętrzna i nierozważna polityka państw, które finansowały deficyty budżetowe nadmiernym długiem publicznym. Kryzys był też wynikiem naruszenia równowagi zewnętrznej, gromadzenia ogromnych nadwyżek handlowych przez jedne kraje (Chiny) i deficytów w obrotach innych krajów (USA, kraje UE). Szybkie połączenia komunikacyjne i informacyjne, przepływy krótkoterminowego spekulacyjnego kapitału, finansowanie długu w USA i krajach EU kapitałem krajów słabiej rozwiniętych zwielokrotniły transmisję recesji i pogłębiły nierównowagę globalną i finansową.

Obecny kryzys jest w wielu aspektach podobny do wielkiego kryzysu z lat 1929–1933, kryzys wywołały USA, oddziałując recesyjnie na gospodarkę światową, oba kryzysy były też poprzedzone długim okresem dobrej koniunktury, której towarzyszyły ekspansja monetarna i akcja kredytowa, nastąpił wzrost cen wielu aktywów. Zarówno obecny kryzys, jak i ten z lat 1929–1933 poprzedzały wzrost cen nieruchomości i akcji, spekulacja i skłonność do podejmowania nierozważnych inwestycji. W przypadku obecnego kryzysu ma miejsce presja deflacyjna, zaś kryzysowi z lat trzydziestych towarzyszyła głęboka deflacja, w obu przypadkach występowała groźba upadłości wielu instytucji finansowych i banków oraz brak płynności na rynku międzybankowym.

Tym, co odróżnia obecny kryzys od wielkiego kryzysu, jest polityka ekonomiczna rządów, które są dzisiaj bardziej skłonne do interwencji na rzecz gospodarki niż w latach 1929–1933. W walce z kryzysem po 2008 roku rządy wykorzystywały wszystkie dostępne narzędzia, zarówno pieniężne, jak i fiskalne. Zaczęły od tradycyjnych instrumentów, począwszy od wzrostu deficytu budżetowego i długu publicznego, redukcji stóp procentowych, nawet poniżej zera. Gdy w niektórych krajach środki te okazały się niewystarczające, rządy podjęły się bezpośredniej interwencji przez przejęcie instytucji finansowych, udziałów przedsiębiorstw, gwarancji dla depozytów bankowych, inwestycji dla podniesienia konkurencyjności gospodarki. Wprowadzono nowe regulacje dla systemów finansowych, gwarancji depozytów i nadzoru bankowego. Współczesne interwencje, zwłaszcza tzw. propodażowe (finansowanie badań naukowych, rozwój infrastruktury) są wynikiem nowego podejścia do aktywnej polityki państwa i rozwoju teorii ekonomii, w sumie uchroniły gospodarki przed tak głębokim załamaniem, jak w latach trzydziestych, kiedy w okresie recesji wzrosła protekcja rynków narodowych, pozwolono na upadek wielu firm i banków, a rządy walczyły z kryzysem przez podniesienie podatków i ograniczoną podaż pieniądza.

Ponieważ obecny kryzys ma charakter globalny, metody walki z nim muszą zawierać instrumenty nie tylko narodowej polityki gospodarczej, lecz także wypracowanie odpowiedniego mechanizmu współpracy międzynarodowej. Strefa euro to typowy przykład recesji międzynarodowej, która okazała się nie tylko załamaniem gospodarek państw członkowskich (Grecja, Irlandia, Hiszpania i Portugalia), lecz także kryzysem mechanizmu integracji. Z jednej strony kraje strefy euro muszą zatem przywrócić równowagę fiskalną, zredukować poziom długu, przeprowadzić odpowiednie zmiany strukturalne dla wzrostu inwestycji i produkcji. Najlepszą strategią ich wyjścia

z kryzysu jest poprawa konkurencyjności, elastyczności rynków i wzrost eksportu. Z drugiej strony reforma musi obejmować także instytucje UE, chodzi tutaj zwłaszcza o wprowadzenie właściwej koordynacji między scentralizowaną polityką monetarną EBC i zdecentralizowaną polityką fiskalną krajów członkowskich. Elementem wyjścia z kryzysu musi być zwiększony nadzór nad bankami działającymi transnarodowo, a więc unia bankowa, ponadto odpowiednia koordynacja polityki ekonomicznej. USA wychodzą z kryzysu szybciej niż kraje strefy euro dzięki skoordynowanej polityce fiskalnej i monetarnej, strefie euro brakuje zaś mechanizmu zapewniającego optymalny poziom wydatków budżetowych w całej strefie. Budżetowi UE brakuje środków do funkcjonowania tzw. mechanizmu autonomicznych stabilizatorów. Ze względu na negatywne efekty zewnętrzne dla krajów członkowskich obecny kryzys może więc doprowadzić do reformy instytucji UE: unia monetarna nie może funkcjonować bez unii bankowej, ta zaś w długim okresie wymaga wypracowania optymalnej koordynacji polityki monetarnej i fiskalnej.