

Economic Policy During The Great Deperession and The Crisis After 2008

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Abstract. The economic crisis that hit the global economy since 2008 year was without precedent in the post- war economic history and it can be compared only with the Great Depression in 1929- 1933. The crisis started in the USA real estate market, and from there spread to the EU and other regions of the world. This article compares the economic policy during Great Depression in 1929- 1933 and current economic crisis. The purpose of this study is the analysis of the causes of today's economic crisis and that of Great Depression to determine high performance policy to overcoming crisis. To develop effective methods to combat the crisis and prevent breakdowns of Great Depression changes must cover not only to elaborate better economic policy of the states, but also a mechanism for international cooperation. The article tries to find an answer to the fundamental question, what changes should make the countries to overcome the present crisis and prevent their occurrence in the future. The analysis covered countries deeply affected by the economic crisis (USA, euro area countries). Permanent answer to the crisis can be only economically transformation of states and to formulate proper policies mix that would be able to prevent a decline in production and an increase in unemployment..

Keywords. Economic crisis, Economic transformation, Economic policy, Budget deficit, Banking reforms, Great Depression.

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1. Introduction

In accordance with the logic of economic cycles economic crises are property of free market economy. However, the financial crisis that hit the global economy since 2008 year was without precedent in the post- war economic history it can be compared only with the Great Depression in 1930s. The crisis started in the USA real estate market, and from there spread to the euro zone and other regions of the world. The crisis has been accompanied by a considerable correction in the magnitude of global imbalances. Although its size and extent were exceptional in many regions, the contemporary crisis has many features in common with Great Depression in 1929 - 1933. The crisis was preceded by 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. As a result of crisis the interbank market virtually closed and risk premiums on interbank loans soared. In these circumstances confidence collapsed and investors massively liquidated their position at stock markets. Concerns over the solvency of many financial institutions also emerged.

Transmission of financial distress to the real economy evolved at record speed in 2008. In countries affected by the crisis, dropped production, investment and trade,

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increased unemployment (crisis created 80 million extra unemployed people worldwide). Decrease in revenue and an increase in government spending has increased dramatically the level of budget deficit in many countries. To finance growing deficits, the level of public debt has reached such a level that threatened the solvency of some countries. Increased risk and reduced debt rating in effect raised its interest rates. Many countries facing the problem of debt servicing have asked for financial assistance to international institutions...

Therefore, the main objective of this elaboration is to investigate the causes of the contemporary crisis and seek the best policy for its overcoming. The author compares the current crisis to earlier crisis, especially the Great Depression in the 1929- 1933s. Compare especially the causes and course of the crisis in the USA and the EU most affected countries (Greece, Portugal, Spain, and Ireland). This analyses serve to elaborate the methods of applied in those countries in order to overcome the crisis. 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.

In order to prevent crisis all countries invoked to economic policy intervention tools. Turning to the recession of today 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 not been allowed to fail by direct recapitalisation or partial nationalisation. The State policy of social welfare and the structure of the European economy is a bit different in Europe than in the USA, hence in the UE countries it is harder to overcome the economic crisis. In addition to this they have created a monetary union on terms different than in the USA, in the absence of a common fiscal policy and lower mobility of the workforce. Unlike the experience during the Great Depression the countries have not also resorted to protectionism at the scale of the 1930. A main difference in the economic landscape between the 1930s and the present crisis is the close cooperation between the countries.

2. Characteristics of the economic crisis

Although we do not have the same economic crisis and there are different types, crisis may also have some common features. The last crisis, which started in 2008, was both the financial crisis while banking and that turned into the deepest economic crisis since the Great Depression in the years 1928-1933. Economic crisis is defined as a violent contraction in economic activity. If any compatibility between economists which is crisis, there is no compatibility between them as to what crisis calls and what measures one need to undertake to overcome economic crisis. For some, the crisis is the expression of the collapse of the markets and his self-regulatory mechanism for other crisis is the result of market constraints and its self-regulating role. What causes a perpetuating sequences of recessions and expansion in the economy? Must what goes up always come down? Understanding the sources of economic crisis is very difficult. Every new episode of business cycle is different from its predecessor. As a man has in life for better, worse as well as the economy goes through periods of growth and its downside or even crisis.

In a market economy as a result of free competition mechanism are fluctuations, which are understood to be repeated in a specific rhythm of more or less regularly changes the basic macroeconomics data. In the long run one can find repeated from time longer or shorter swings in economic activity, which is called the business cycle. Economic history shows that in a market economy such as macro-economic size, consumption, investment, employment national income

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does not grow evenly. Any long term growth is accompanied by repeated fluctuations in economic activity. Hence the business cycle is an irregular and nonrepeating up- and down movement of business activity that takes place around a generally rising trend (Parkin, 1996)

A situation in which the economy of a country experience a sudden downturn brought by a banking, debt or financial crisis is defined as economic crisis. An 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 for defining recession as "two down consecutive quarters of GDP" On the other hand depression is a sustained and long-term downturn in economic activity. A depression is a more severe downturn than a 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 (The Economist, 2008). It is worth to add that contemporary economic costs of crisis are getting bigger: P. Honohan estimated the average cost of crisis at the drop of GDP to 15.5% (National Institute Economic Review, 2013).

The degree of change of individual elements of 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 the money supply, inflation, tax and budgetary policies, industrial policy, trade and capital liberalization, population movement, etc. These factors influence both domestically and internationally. Crises may affect the whole economy or individual sectors, emerging crises in one sector may be transmitted then on the whole economy. In the global economy are crises with ease by the institutions that make up the global financial system. As far as the last decade of the 20th century the names of the era of currency crises, the first decade of the 21st century is the era of banking crises, the current decade is debt crises and financial crisis.

The last financial crisis turned out to be so deep, that he was going to be shown on the real economy and caused the economic crisis. An increasing share of capital turnover and multinational globalization trends and vulnerability to the potential economies open increased whereas liberalization shocks. These crises are cumulative, and so for example the euro zone crisis is both a banking crisis, financial and debts crises, as well as in the economic crisis, not only in individual countries but of the entire euro zone. The current financial and debts crises became even more widely crisis global economy but not only crisis ineuro area or in the USA. The specificity of the current crises due to its causes related to the effects of globalization, liberalization and deregulation of the 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, banking crisis can rapidly degenerate in economic crises. Strong economic links between the countries of the make it possible fast transferring the crises to other countries. Although the current crisis erupted in the USA in 2008, but quickly spread to Europe, as well as to Asian countries, South America, Australia and New Zealand.

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; large number of bankruptcies including sovereign debt defaults. In a market economy based on making millions of independent economic decision there may be situations of production potential mismatch to the volume of demand. In the Great Depression cycle reverse an

economic situation took place through inflation. Economic recovery lead to overheating of the economy, increase capacity utilization, there were bottlenecks, faster demand growth than the production affect price increases. Inflation rate growth entail higher interest rates, which decreased investments and consumption and lead to a recession. On the course of the current cycle of influence new factors: declining importance of inflation and the growing role of portfolio and speculative capital. Reversing the situation is not as it used to be inflation, but situation at the stock exchange. The change takes place under the influence of the prices of the assets, because they decide on capital flows and speculative asset price bubbles from cracking. In the classic cycle of the collapse came after a period of boom, the use of full capacity and low unemployment, now bursting of speculative asset price bubbles may occur regardless of the degree of production capacity utilization and the level of unemployment (Szymański, 2009).

The current crisis started on the real estate market in the USA and the bankruptcy of a major bank like Lehman Brothers become panicked entailing sharp selling of shares on the home market. Boost in uncertainty causes that banks refused lending to the country firms, investments and sale of businesses falling, there were an increasing number of bankruptcies of companies on an internal market and crisis began. It should be underlined that 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 is taking place in conditions of globalization, where access to the demand for global market undermines the fundamental role of the domestic market in the activation of enterprises. Decrease in domestic demand does not necessarily create a crisis where companies can sell goods in the global marketplace. Competitiveness and the quality of the resources, the level of infrastructure, investment in scientific research work, human capital, so supply side factors have decided about the demand for products produced by the companies of the country in the global marketplace.

Most of the theories indicates volatility in investment as the most important cause of the cyclical nature of economic growth. The classic explanation of economic cycle do not take into account developed and linked stock markets in the contemporary economies and technological revolution. Currently indicates the need for modification of the classical theory of the cycle and 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. In terms of global capital migration occurred at the same time distracting fluctuations in the financial market situation of countries in their sphere of real, hence the economic collapse may occur at different levels of production and unemployment (Szymański, 2009). Therefore the main cause of today's crises are speculative bubbles in the stock market, real estate market, or currency rates, more than overproduction resulting from overinvestment. Business tendency survey and its collapse in the operative part, depends to a large extent on the behavior of capital, its response to interest rates, exchange rates, short-term profits.

2.1. Causes of Great Depression and crises after 2008.

The evolution of the world economy has changed the nature of crises and the causes of the 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 there by growing inflation and interest rates, began to strongly increase credit expansion. Low interest rates encourage the purchase of shares and real estate's 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 the use of the so-called financial leverage. Deregulation of the financial market has mainly 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. 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 pressures of globalization and international capital for tax reduction brought the countries importing capital budget deficits financed by a growing public debt.

The evolution of the world economy has changed the nature of crises and the causes of the current economic problems. On the one hand financial liberalization and deregulation of financial markets and on the other hand 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 (Szymański, 2009). 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 corporation, competing with network 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. Furthermore globalization has weakened the ability of coordination international, so that the objectives of the microeconomic enterprises and the financial sector and the objectives of ensuring macroeconomic balance of economy by the states. The current crisis is also a crisis of liquidity as banks and other institutions on refused further financing of loans and investments in debt securities due to the high risk. An important cause of the current crisis is the development of the derivatives market that allows the use of the so-called financial leverage. As a result of the lack of confidence in the financial institutions crisis appeared on the interbank market, on the real estate market, the foreign exchange market, on the money market.

Economic crises are especially the consequence of an 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 raise 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. Currency crises often occur at the same time as the financial sector crisis. Modern currency crises often occur at the same time as the banking crisis, it is even said that they can be combined with the occurrence of the 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 will incur losses of losers. Banks may also have difficulty with liquidity due to mismatched lending foreign investments 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 entire credibility crisis of the banking system. Driving stability of the financial sector as a whole they it, hence some authors require currency crises with improper monitoring of financial

institutions and the lack of effective banking supervision (Chinn, 2000; Radelet & Sachs, 1998).

When in the USA broke the so-called Internet bubble the FED lowered the interest rates from 6.5% to 1% between 2001 and 2004, the wave of easy money has helped banks overcome its negative effects, but has contributed to speculation on real estate market. The credit boom in the USA and Europe has enabled banks to clients not known to banks borrowing to purchase real estate. With large borrowing, real estate operators see their wealth soar as the prices of buildings and land rise. According to assessment done 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 Krugman, 2008, p. 152. This meant that in order to repay the mortgage loans were at least at the same level of house prices would have to be keeping at the level of speculative. As the booms rolls on real estate's operators try to borrow more to increase their leverage, but when the bubble burst the most highly leverage are first to fall. Anyone who bought a house in a period of boom lost at the beginning of the crisis at least 20% of the investment from 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 as then as the effect of the following banking panic due to the inability to return of 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 crisis, it can be extended to all financial markets: the stock market (strong declines), the price of raw materials (strong declines), the currency markets (decreases of rates and weak currency exchange rates strong), and money market (strong boost in interest rates on the interbank lending market). Crisis on the markets of expenses by moving early or later for the real economy causing a drop in investment and consumer demand. The problems of the banking sector may be caused by problems with the liquidity of companies and objective lack of international acceptance. In normal times the difference between the rates on three-month loans on the interbank market and the interest rate the Central Bank dates back to 20-30 basis points when, in October 2008 the difference reached basis points (Szablewski, 2009). Financial crises are also related to the activities of foreign investors on local currency markets and securities. Incomplete information about local markets, government purchases, and the implied warranties of speculative short-term capital flow uncontrollably, making them vulnerable to excessive risk of sudden changes in.

Deep financial crisis may prompt the governments of the review of fiscal policies. Deregulation of the financial market has created additional opportunities for funding through to obtain the insufficiently understood instruments, and the different types of risk they have not created sufficiently evaluated. Derivatives with a tool of insurance risks have become 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 financial weapons of mass destruction, which was carrying the danger of this invisible to potential criminal action (Roubini & Mihim, 2011). During the crisis, governments often resorted to currency devaluations, because currency crises are usually preceded by the poor state of public finances and the negative information on the State of the balance of payments (Corsetti & Mackowiak, 2006). Governments cannot defend well before the change of exchange rates as stable courses are often turn out to be the anchor of anti-inflation policy.

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Therefore crisis on the financial markets may be the result of erroneous decisions previously taken not only by states, but also bad investments made by other participants in the market. On investment decisions can influence it "behavior of the gregarious", when investors invest to a lesser extent on the basis of scientific knowledge, but on the basis of the observation of the behavior of competitors who have the greatest prestige and the biggest means for and processing of the data. If most investors buy or sell assets (currency) imitating the purchases and sales of big investors, then the market may appear an imbalance which will lead eventually to panic and crisis and as a result, the inefficient allocation of funds and the collapse of courses. Then the problems in financial sector may arise from 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, what causes sudden escape of capital, the decline currency rate, loss of reserves, the decline in investment and production (Radelet & Sachs, 1998).

In the time of Great Depression J.M. Keynes believed that in a market economy crises were crises of 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 than from the potential (Keynes, 2003). When one ends the investment, should be replaced by another, but when there will be another that will replace it, may begin shrinking the economy. If entrepreneurs are investing more or less than the public is able to save, it's the economy needs to adjust, and mainly depends mainly on the situation of boom or crisis. Investment expenditure are crucial for the economic downturn, in accordance with the concept of the multiplier increases to a multiple increase in national income. The size of the global investment, however, is unstable in a market economy, they may be temporarily less than 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 if all savings are used for investments, but excessive 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 (Keynes, 2003). The collapse follows because all of a sudden there are doubts as to whether the expected revenue from new investments is reachable and if the tendency for consumption and investment do not present a sufficiently great demand effective, the actual level of production will be lower than production potential (Keynes, 2003).

The monetarist theory of business cycle regards fluctuations in the money stock as the main source of economic cycle. When the money growth rate increases quickly and consistently, it could even bring a speculative price increases on the stock market and wages increases in the economy. A slowdown in the money growth rates decreases aggregate demand that brings about decrease of 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 consequences of outside force but once is going and money growth slowdown the economy cycles with recession followed expansion. In turn, real cycle theory assumes that the pace of technical progress subject to a large irregular fluctuations and shocks on the supply side caused by changes in production and employment. Technological progress increases demand and production, productivity, affect the price structure, resulting in the increase of income, on the other hand, and the productivity shocks, the decline in innovation, state regulation bring the storm to economic growth and destroy the structure of

the economy. The irregular character of technological change is believed to be the root cause of the recovery and the recession. Overall the 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. Not everyone authors blames either the demand side or the supply side economy exclusively: the various theories indicate on various supply and demand cause of economic crisis.

Due to its depth of the current economic crisis is often compared with the crisis years, 1928-1933-35. The production in the United States decreased to 58.5% of the 1929 level and unemployment has risen to a level of 25% of the labor force. In the USA the level of investments decreased by as much as 94% of 15 billion in 1929 for \$ 886 million in 1932 (Heibroner & Warszawa, 1993). The production in the United States decreased and unemployment had risen to a level as did in Greece and Spain today. Both crisis were connected with high running investor confidence and overoptimistic risk taking. The crisis and so decreasing the demand brought in the 1930's and now run the risk of a deflationary process. The crisis of the thirties was accompanied by deep deflation (price drop by up to 40%), and, in the case of the current crisis occurred deflationary pressures. Deflation is a threat very serious, because it runs as a mechanism for reducing the spiral of demand: when prices are falling, the demand is postponed. In both crisis insolvency of banks entailed completely lifelessness of interbank money market. The crisis also brings decrease wages and excessive bonuses paid during the economic boom, which reduces the so- luxury consumption. In 2007 the company Goldman Sachs paid its management employees 18 billiondol. premium: 623 million down on one head. Lehman Brothers one year before crisis paid their employees 9.5 billiondollars awards (Mitraszewska, "Gazeta Wyborcza", 2009).

There are clear similarities between the 1929-33 and 2008-2013 crisis in terms of initial conditions and geographical origin. Crisis in 1930-ties and present crisis 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 before the current crisis, banks have stepped up their action to increase the loans that created the credit boom in the real estate market. As the banks provide free hand loans the purchase of shares resulting in a boom in the stock market. Both crisis were connected with high running investor confidence and overoptimistic risk taking. If, however, during the Great Depression was not the globalization of the economy, is 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. With the current level of capital markets and financial links and much more serious cause cracking' effects than before.

The current crisis was triggered in the United States by bankruptcy of Bank Lehman's Brothers and the loss of the solvency of some American largest banks. When Lehman's Brothers Bank fell collapse on the real estate market in 2008, oil prices were at the astronomical level. Although the bankruptcy of Lehman Brothers contributed to the contamination of the world financial system crisis, deserve it was not the only catalyst for this process. Established by the government agencies 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, have now a significant fall in tax receipts, deepening financial difficulties some States such as California. At the same time fell more than 200 parabens specialized at a mortgage credit, independent investment banks have been subjected to State control, financial

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guarantees were extended to long with a value of 360 billion dollars. Because the companies do not have access to cheap credit, all credit lines granted from General Motors to financial companies like GE Capital. (Roubini & Mihim, 2011).

Taking low-cost housing loans was also the FED's policy, which in two years has lowered interest rates from 6.5% to 1%. The lender providing the loan took into account mainly its security, rather than the financial situation of the borrower. As a consequence, a typical behavior of Americans was living on credit, so increased demand for houses, real estate prices soared in the speculative. When the demand for housing has declined, and there has been an increase in borrowers' insolvency and declines in property prices and the subprime bonds were securities, real estate financing institutions without scarcity means to regulate their own commitments. Because banks and other financial institutions around the world have taken part in the subprime loans refinance treating this as an investment, secularization of mortgages spread to the global economy.

Therefore 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, their reaction was to limit credit to entrepreneur. In the era of globalization, financial institutions also carried its activities with the United States and Europe to regions where a minimum of regulations and restrictions. On the ground lay macroeconomic unequilibrium in the US and other economies, excessive running up debts and consumer countries, structural weakness, bad investments. The crisis sparks excessive loans granted by the banks with a high risk of payment of persons with small possibilities of their return (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 off as at a loans about one-third of its assets.

It should be underline that in contemporary economy there is no complete rationality behavior nor its main actors, nor in financial markets. Managers of banks assume that, in the case of financial difficulties will be are thus helped by Central Bank intervention A. Haldane Chief Economist of the Central Bank of the United Kingdom asserts, that State aid to banks encourages them to take risks. In financial sector there is the 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 seek managers capable of enchantment investors focusing short term increases in stock prices, while economic development has to be the most in the long run inventions. The need to ensure an immediate financial success led the company to look for managers (wizards) and the vast range of income: while in 1970 average living head of the largest USA corporations were 28 times higher than the average earnings of employees, it is now 400 more. (Polityka, 2015). 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 Steersor Lehman's Brothers pay bonuses in increasing amounts, which accounted for 60% of the total paid wages there. Bonuses were level 10-ten times or twelve times larger than the basic salary. In 2005 these banks paid a total of 25 billion. US dol. premium themselves, then in 2006 to 36 billion, and a year later-38 billion dol.

The main differences between the current crisis and the Great Crisis of the 1930s resulted from that: currency the United States and European countries were based on gold; trade links and equity were not so 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, increased monopolization processes in the economy, create new agreements between undertakings, Member States protect their markets by imposed trade restrictions. The recession of the 1930-ties were characterized by strong and persistent decrease in the overall price level. The Great Depression deepened dramatically due to massive failures of banks and inadequate policy responses. Central bank were not taking sufficient expansionary measures in due time. The cause of such a deep crisis in the years 1929-1933 in the United States were also FED errors that apply the restrictive monetary policy and raised interest rates in three stages from 3.5% to 5.%. Moreover, President Hoover instead increase spending policy to went out from depression he tried to restore a balanced budget through cuts in expenditure, in effects in the USA the level of investments decreased. Governments were persistent in their restrictive fiscal stance, reluctant to expand expenditure.

Before the crisis in the period 2004-2006 in the United States also raised the interest rate for federal funds from 1% to 5.25%, but it had only incidentally influenced on long-term interest rates and mortgage interest rates and was then significantly reduced both consumers and financial sectors went into debt and used financial leverage to increased investment. A 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 the international investors was the largest extent dependent on global markets: foreign investors were estimated from 40% to 50% of the buyers of USA securities (Roubini, Mihim & Warszawa 2011). 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 system, interbank no bank would not lend money unless the high percentage. Several major financial institutions have not been allowed to fail by means of direct recapitalization or partial nationalization. The difficulty for State financial aids to banks was opposed to banks, which only lost their liquidity (the good ones) from those that have become insolvent (the bad). As a result, the aid was for the entire sector and guarantees deposits covered all banking institutions. The scale and speed of the 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 back then for balance, the present recessions similarly, as the crisis of the thirties is reminiscent of a herd of wild horses: just frightened that something one, 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 Bernanke stated that: "we could prevent the crisis, if we skillfully have used regulations" (Roubini & Mihim, 2011). The primary differences between today's crises of the thirties 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 caused in large measure flawed economic policies and incorrect use of intervention tools. Countries affected by the crisis were totally unprepared in terms of theoretical to fight the crisis and they do not know too much what tools to use.

2.3. Economic policies to overcome the Great Depression and the crisis after 2008

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In the years 1970s-2007 in the world there are 394 financial crises, including 124, 207 and currency crises 63 down grading (Gruszczyński, 2013). The starting point for an effective fight against crisis is proper and thorough diagnosis of its causes. Governments have elaborated over the years, more or less effective tools of intervention in the economy. Measures to be taken in order to fight against the crisis is divided into direct and indirect, fiscal and financial. They may be short and long-term. The financing of measures are essential part of any economic policy aimed at countering the crisis could lead to a significant temporary deterioration of the economic situation of the member states. Costs of intervention are rising especially when public money is being used to restore liquidity to the financial sector, the protection of deposits and bank nationalization of private operators.

The first very important means of combating the crisis is the policy of the budget deficit. If the crisis is the result of a shortage of demand in the economy, the government should increase spending or reduce the 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 in Great Depression wisely was to lead an attack on two fronts: to expand investment and consumption grow at the same time (Keynes, 2003). 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 relative to those with the highest savings. It is worth noting that during the Great Depression there was not thought about lowering taxes, but of restoring budgetary balance, which further deepening the crisis.

The best methods of ensuring closer to full employment may be public investments which do not exclude any kind of compromises cooperation of public authorities with a private initiative. Financing public investment should not rather be done by increasing taxes, but by public debt. The crisis will last until, it shall not increase again consumer spending and investment, must take a certain amount of time before it starts to improve marginal efficiency of capital, unless governments quickly initiate public investment and increase employment. The task of state intervention is not replacing the market, but the regulation of the business cycle and cyclical tuning. The society is richer, this must be a bigger investment, to overcome the crisis and to employ the majority of the citizens (Keynes, 2003).

The second as an important means of combating the crisis is monetary policy of the Central Bank. If excessive credit action and inappropriate monetary policy is a common cause of crises confronting the crisis, however, it may not rely on the restriction of the money supply and the increase of interest rates, which is the ant inflation policy. If the economy is the decline in investment and consumption, the Central Bank should keep interest rates low, which is to lead a policy of easy money (quantitative easing). The lack of liquidity of the banks should also be supplemented by easy credit the Central Bank. If the Government would go to debts and the bonds do not find buyers among private investors can be purchased by the Central Bank due to increase the emission of money. One of the worst consequences of the crisis is deflation, which encourages consumers to refrain from buying in anticipation of a further decline in prices. Moreover, undertakings shall refrain at the time of investment not believing in their profitability until prices stop falling. Because during deflation increases the real value of debt, all trying to pay it back as soon as possible and forced a long, in more borrowers repaid your debts, the more like are indebted (the paradox of debt). When the

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deflation spiral become higher, Central Banks have no other exit and must lead to reflation, that is, loosen monetary policy and a return of inflation.

Although in the time the crisis the banks should reduce the interest rate in relation to the marginal efficiency of capital, to the point where it will be 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 same reduction in interest rates might not be enough to boost production. According to the Keynes 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 on cheap credit. A significant reduction in interest rates might not be sufficient stimulus to the growth of investment, as claimed by P. Samuelson: you can bring a horse to the source, but you can't force it to drink. If today's economy want to overcome this crisis the governments and central banks should work toward reviving demand, is supply-side economics argues that state intervention distorts the natural play of the free market. The supply side economics assert that mechanisms for self-regulation alone does solve the problem of balance and overcoming the crisis should be associated with a reduction in government intervention, to restore budgetary equilibrium and to reduce inflation. Neokeynesian maintain that prices and wages are sticky in the economy, while the 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 and crisis actions should be aimed at getting savings by reducing the role of the State in the economy. Joining tax cuts with a reduction in expenditure is mainly to spur investment, an increase in investment and production would bring later-in accordance with the Laffer Curve-increased budget revenue.

In its 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: a reduction in taxes, an increase in budgetary expenditure, reduction in the interest rate, the reduction of the minimum reserves, currency devaluation. Supply side policies offer an alternative that seek to shift the aggregate supply curve. The most familiar are the tax cut, liberalization of economic sectors, financing projects leading to an increase in productivity, research, subsidies for higher education. Somehow a reduction in the interest rate, the increase in budget expenditure may work in the short term, other as investment in research and development of education may act manner 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, in the length of the depth of the crisis can be pursued in the short or long term.

If the crisis is the result of unequilibrium in internal and external balance resulting from excessive debt or budgetary deficit the policy against crisis can rely on restoring balance by reducing public debt and the budget deficit. The high indebted countries paradoxically introduced savings programs may in terms of expenditure and increase taxes (austerity programs). Re-balancing the internal balance, cost reduction and internal devaluation, improve competitiveness and lead to the external balance. Austerity programs through a further reduction of costs and demand can bring countries introducing them deep depression in the short term. However in the long run the crisis is also an opportunity to carry out structural reforms in economy and the creation a healthier financial market. Under the influence of crises countries it affected carry out rich restructuring of its economy. This applies to both the real economy as well as its financial and capital market. That similar crises do not happening and avoid new speculative banks in

the future must be reformed rules on the financing of the financial markets and banks.

Therefore there are three main policy approaches in the fight against the crisis. The first policy assumes that the best solution to the problem are cutting expenses and the introduction of fiscal discipline. If the cause of crises is excessive debt and expansive fiscal policy, Governments in the fight against the crisis should restore budgetary balance and reduce the level of public debt. The austerity program containing a number of savings obtained largely through cuts in public spending that lead cost reduction and to improve competitiveness. The second method to fight against the crisis lies in the transitional period, an increase in the budget deficit and further indebtedness. Coming out here with the assumption that the decline in demand and investment need to be supplemented by additional public expenditure, and getting a balance in public finances are postponed until post crisis period. Changes in the fiscal policy is as usual accompanied by Central Bank low interest rates, increased money supply, increases the liquidity of the banking sector, that is designed to increase investment, increase demand, boosting production. The third policy is to fight against crisis from the supply side, and so removing all the obstacles that inhibit the growth of production and investment. Action aimed mainly at structural reforms of the public sector, financial and capital market and tax policy. Reforms should also include action to foster innovation, increase competition, the development of human capital. At the same time calls for a deep institutional changes like privatization and placing greater supervision of the financial sector.

During the actual crisis the US has become a leader in the implementation of the aid package for the economy. American Recovery and Investments plans (787 billion dollars) include all aspects of fiscal policy: tax breaks, public expenditure on goods, services and transfer payments, investments. The original plan was redemption bad credit mortgage, but 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. Plan by Paulson (Troubled Assets Relief Program) was bought and harmful assets of banks, and then their direct financial support to a total of 700 billion dollars. In addition, with the approval of the US Congress the economy has been stimulated through a reduction in taxes for individuals and companies to 275 billion dollars. Another 550 billion dollars accounted for an increased expenditure of the Federal Government, of which 40 billion dollars was allocated for the construction of roads and bridges, and public transportation, 50 billion dollars 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 to zero didn't translate immediately to increase the liquidity of the banking system as a whole. Banks with money from the Central Banks, did not want to lend them due to the high risk, and at the height of the spread between three-month Treasury bill interest rate and three months loans on the interbank market was in the USA as much as 465 points. Therefore, in order to increase the liquidity FED used unconventional methods: 1. easing credit policy-quantitative easing 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 the FED; 4. Convert illiquid assets into safe and liquid state securities; insurance of bank deposits (Roubini & Mihim, 2011). Federal Reserve system assisted by every bank that had trouble with liquidity on the whole months: help received two giant investment banks: Goldman Sachs and Morgan Stanley in Exchange for permission to convert into bank holding companies and more widespread supervision, 17 billion dollars government

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assistance have been threatened by bankruptcy, and even companies: two of the three largest car companies USA: General Motors and Chrysler. The total value of this plan amounted to 837 billion dollars, which represented 7% of the GDP of the USA.

The European Central Bank financed also commercial and investment banks in the form of “quantitative easing” with loans at a low 1.0% , and next to 0 % , and 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 that increases their excess reserves. The ECB didn't acting such efficiently like for example the FED-lender of last resort in its own banking systems. The Maastricht Treaty forbids the ECB from buying bonds on the primary market. The limited effects of intervention on financial market speak for application the other methods to resolve the crisis in euro area and large scale the ECB intervention on the secondary market. In September 2012 ECB has decided about purchasing bonds in potentially” unlimited quantities “with a maturity of up to three years, if a euro – government first formally request for aid from the bailout fund. The program named:” Outright Monetary Transaction was directed to highly indebted under the conditions that they abide to reform their economy and public debt. Since then, the ECB continues its gigantic purchase program and assets during the year and a half issued into the European economy 1.5 trillion euro.

Comparisons between present global crisis and the Great Depression of the 1930s reveals a number of key lessons about the best methods how to combat the economic crisis. After the collapse of any economy follow as usual revival, but the first condition for getting out of the crisis is to maintain its financial system to avoid financial meltdown and to restore the health of the banking sector. The model for such intervention was Sweden policy against crisis at the beginning of 1990s, when the Government found out bad assets and focus them into a single fund and helped the banking sector capital for the sum of 25% of GD. The record of the Great Depression had also shown that in the 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 the supervision and it is recommendable stricter control for the banking sector, for example in the USA and to go back to the law Glass and Steagall from 1933 that separate commercial banks from investment. This separation would close links between one and the other banks and limit the ability to borrow money for investment banks exposed to greater risk than insured commercial banks. A national supervision of banks has proved to be insufficient also in the EU, where the big cross-border banks subject to supervision of a member country in which the headquarters was registered and during the crisis stood on the verge of bankruptcy. State costs for rescue the banks were so big that brought about the financial insolvency of countries. As a result of the crisis in the euro area has developed rules that move banking supervision on the biggest banks to the ECB, which will, inter alia, be responsible for helping to save the banks from insolvency.

A lesson from the Great Depression is that, governments and Central Bank policy must absolutely maintain aggregate demand to avoid deflation. The collapse of the free market system in 1929- 1933 was due to the fact of 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 in overcoming the current crisis it is important to support aggregate demand by expansionary monetary and fiscal policies. The role of monetary policy is to provide necessary liquidity by lowering interest rates. Fiscal policy and budgetary spending should also act to increase global demand. Taking into account the experience of the Great Depression and the current crises it seems that effective anti-crisis policy should take into account the following elements:

1. Maintain free trade and avoid protectionism. The Great Depression started recurrence of a series protectionism measures. The world average own tariffs for 35 countries rose from 8% in 1920 ties to almost 25% in 1934 (European Economy, 2009/7). In the USA the tariffs were raised from 37 % to 48 % ([Chang, 2014](#)). Growth of protectionism has brought the crisis on rollover trading partners and 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 no also manipulation of currency markets on a large scale in order to pass the crisis on business partners (beggar my neighbor policy). 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. 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. In the current crisis the most negative impacts of capital movements occurred not in the countries at the origin of the crisis, 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 to combat its effects. In the US and Europe made use as powerful fiscal and monetary instruments, but to stimulate the world economy appropriate steps should be taken in other global economy centers as China, India, Japan, In the USA there area already a sign out of the crisis, once the recovery from the present crisis sets in, international capital flows is likely to expand.

3. If during the period of the Great Depression central banks limited their passive issuance, it is this time have used the 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; by providing loans, debt purchase outright on the open market; insurance bank deposits. For example, insurance of bank deposits was raised in Ireland up to 100 000 euro, and then covered by the guarantees all deposits in the six largest banks, in the USA up to 250 000 dollars, in the United Kingdom to 50,000 pounds. In many countries banks are emitted at risk assets and place them in a "bad Bank" in this way, the "good banks" in which the only remaining good assets can continue to lead the provision of credit.

4. As far as during the Great Depression were needed some intervention measures taken at the level of the individual states that, in the case of the current crisis one need some crisis management and coordination activities between different states. The current crisis is the expression of the failure with the operation within the framework of the global economy, where there are no coordination institutions against and struggling with the negative consequences of economic crisis. Due to the increase of mutual economic relations the world economy needs now 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 exit from the crisis. Public policy to exit timely from crisis is crucial. Fiscal and monetary policy intervention stop too early before the underlying recovery sets in would create a risk to extend the crisis for next years. On the other hand to late exit and prolonged states any crisis intervention would lead to inefficient allocation of resources and inflationary pressures.

2.4. Economic Policies to overcome crisis in euro area

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

2.4.1. Fiscal consolidation.

The governments are taking steps to restore the long term sustainability of public finances. The debts problems in Greece, Spain, Portugal, Italy and Ireland are stock problems: unsustainably high and rising levels of debt to GDP. Low interest rates in the euro area have led to a "malinvestment" a disastrous bubble in the property market in the private sector and the 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 cut spending worsened economic situation in the short run. However, in the long term the euro area member countries must lower the level of budget deficit and public debt levels to recover the confidence of the financial markets. Lower level of the budget deficit and debt will enable member countries to debt financing at lower interest rates, easier financing of private investment and return to the path of economic growth. Thanks to the consolidation of the public finance for example Ireland and Spain recovered the confidence of capital markets and interest rates on their debt approached pre-crisis levels.

2.4.2. Structural reforms

Low competitiveness of some euro area countries: Greece, Portugal, and Spain and Ireland economies is a structural problem, which produce low economic growth in these countries and tradeoff between internal and external balance. In effect euro one-size-for-each (one-size-fits-all) led to an enormous imbalance in current turnover between partner countries. Before 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 these countries to overcome crisis are supply – side reforms that boost productivity, investments, output and employment. Their economic policy should include: privatization, labor market flexibility, deregulating professions. Governments in Greece, Spain, Portugal and Ireland should reform labor market to improve its activation for the unemployment. Efforts are also on going to encourage more competition in sheltered sectors, such as the legal professions, thus bringing down costs and improve 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 on an export-driven path to recovery. For example, Ireland attractiveness as a globalized economy with a highly – open labor market means that this country has already emerged from the crisis as a mature, high productivity contributor to international trade.

2.4.3. Banking sector reforms.

Society in Greece, Cyprus, Spain, Ireland and Portugal must deal now with the consequences of the imprudent and high risk lending practices. Many of the regulatory provision which were designed to protect the stability were either removed or relaxed in 1990-ties. Banks in these countries had 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 a negative real interest rate, greatly contributing to the banking crisis. Moreover, the sharp declines in property have exposed banks reckless lending practices and funding models across the banking systems. These debts can be never paid off, so the debts must be restructured. The example of Spain, Greece, Cyprus, Ireland and Portugal showed that banks were prone to periods of instability in large and expensive consequences to the wider economy. First and foremost the capitalization of the domestic banks in Greece, Cyprus Spain, Portugal and Ireland should be completed. It is also recommended bank mergers and deleveraging of bank balance sheet. 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 have been destroyed, then to avoid future crisis the financial regulation must be putting 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 of rules to evaluating risk management systems ([Rodrick, 2013](#)).

Although fiscal austerity reduces debt, structural policy 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, produce net effect in declining GDP, which makes debt/GDP worse. As far as austerity program gives already positive macroeconomic results in Ireland, Portugal and Spain, it ended in defeat in Greece, which might even leave the euro zone. What euro area countries really need is a long-term transformation to improve the competitiveness of their economies. The economic growth in the euro area countries should be animated by increasing the production of the products the most technologically advanced. To do this it is necessary to increase expenditure on scientific and technological work-research and education reform. Public investment should compensate decline in demand in the construction industry and be directed to the development of infrastructure and sustainable energy. The labor market should be liberalized to bring down labor costs. To sum up the economic policy in the euro area countries to overcome crisis should include such actions as: -national budget consolidation; -reducing of public debts; - structural reforms; - privatization; - growth of investment and productivity; - restoring competitiveness; - boost growth of export; - reform of labor market and decrease labor cost; - to avoid price deflation; -

decrease of unemployment; - bank restructuring; - reform of bank regulation; - reform of bank supervision and resolution.

3. Conclusion

The economic crisis that hit the global economy since 2008 year was without precedent in the post-war economic history. There are clear similarities between the 1929-33 and 2008-2013 crisis in terms of initial conditions and geographical origin. Crisis in 1930-ties and present crisis 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. Both crisis were connected with high running investor confidence and overoptimistic risk taking. The crisis of the thirties was accompanied by deep deflation, and, in the case of the current crisis occurred deflationary pressures. In both crisis insolvency of banks entailed completely lifelessness of interbank money market. If, however, during the Great Depression was not the globalization of the economy, is 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. With the current level of capital markets and financial links and much more serious cause cracking' effects than before

The main differences between the economic policies during the current crisis and the Great Crisis of the 1930s resulted from that: currency the United States and European countries were based on gold; trade links and equity were not so 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. In addition, during the Great Depression, increased monopolization processes in the economy, create new agreements between undertakings, Member States protect their markets by imposed trade restrictions. The recession of the 1930-ties were characterized by strong and persistent decrease in the overall price level. The Great Depression deepened dramatically due to massive failures of banks and inadequate policy responses. It is believed that the Great Depression caused in large measure flawed economic policies and incorrect use of intervention tools. Countries affected by the crisis were totally unprepared in terms of theoretical to fight the crisis and they do not know too much what tools to use. In the fight against the crisis after 2008, the governments have used all possible tools, as were available, as monetary as fiscal. They started from the traditional instruments of monetary policy (quantitative easing) and fiscal policies, ranging from an increase in the budget deficit and public debt, and ending with to stop cuts rates. When these measures proved insufficient returned to direct intervention by taking over financial institutions, shares in enterprises, included guarantee of deposits, securities, tanneries which intend to provide credit, etc. In order to stimulate aggregate demand the rate of growth of the monetary stock has been stepped, budgetary spending temporary increased.

After crises always introduces new regulations and reform of financial systems, what is needed after 2008 is the sufficient liquid reserves keeping in the banks, shareholders should have a real impact on the control of the institutions belonging to them, the same supervision as banks should be covered by the institutions of the Para banks, the remuneration system should promote managers behaviors that associate their activities with the long term effects of financial institutions, some of the derivatives should be definitely limited in the market like CDS, others give up absolute control of the regulators. In addition, banks should first collect the relevant reserves in the event of panic, government bonds the most

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indebted countries should be partly covered by reserves and the reserves shall consist of the assets of the high quality.

Rise in multinational economic and financial interdependence beyond the control of the economic policies of individual Member States, undermines the confidence in the national anti-crisis policy. Because countries are strongly linked economically, effective anti-crisis policy imposes the need for it in a coordinated manner. Especially a crisis of such magnitude as euro area crisis calls for taking common active measures to overcome it. The processes of overcoming the crisis in the euro area require common action in member states. The first goal of economic policy is to carry out a far-reaching economic transformation in the countries affected by the heaviest economic crisis in euro area. The present economic recovery in euro area would remain fragile as imbalances continue to be worked out, so structural policies in the member countries should be carried out consistently, and if it is to be effective it must be long-lasting and deep. What should be done in euro area to overcome crisis now are supply – side reforms that boost productivity, investments, output and employment. The first task is to reduce the budget deficit and public debt in order to be able to return to the financial market. Successful policies reforms are not only about increasing taxes and the budget in balance, short term austerity programs, but above all about the deep structural reforms in order to change the economic structure towards the production of more technologically advanced products, labor market flexibility, deregulating professions, cut the public sector, streamlining administration, simplifying the procedures to create new business, expanding credits especially for SME, more investments in education and health sectors, reduction of unemployment

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