What type of European Economic Policy is necessary for stopping the crisis.

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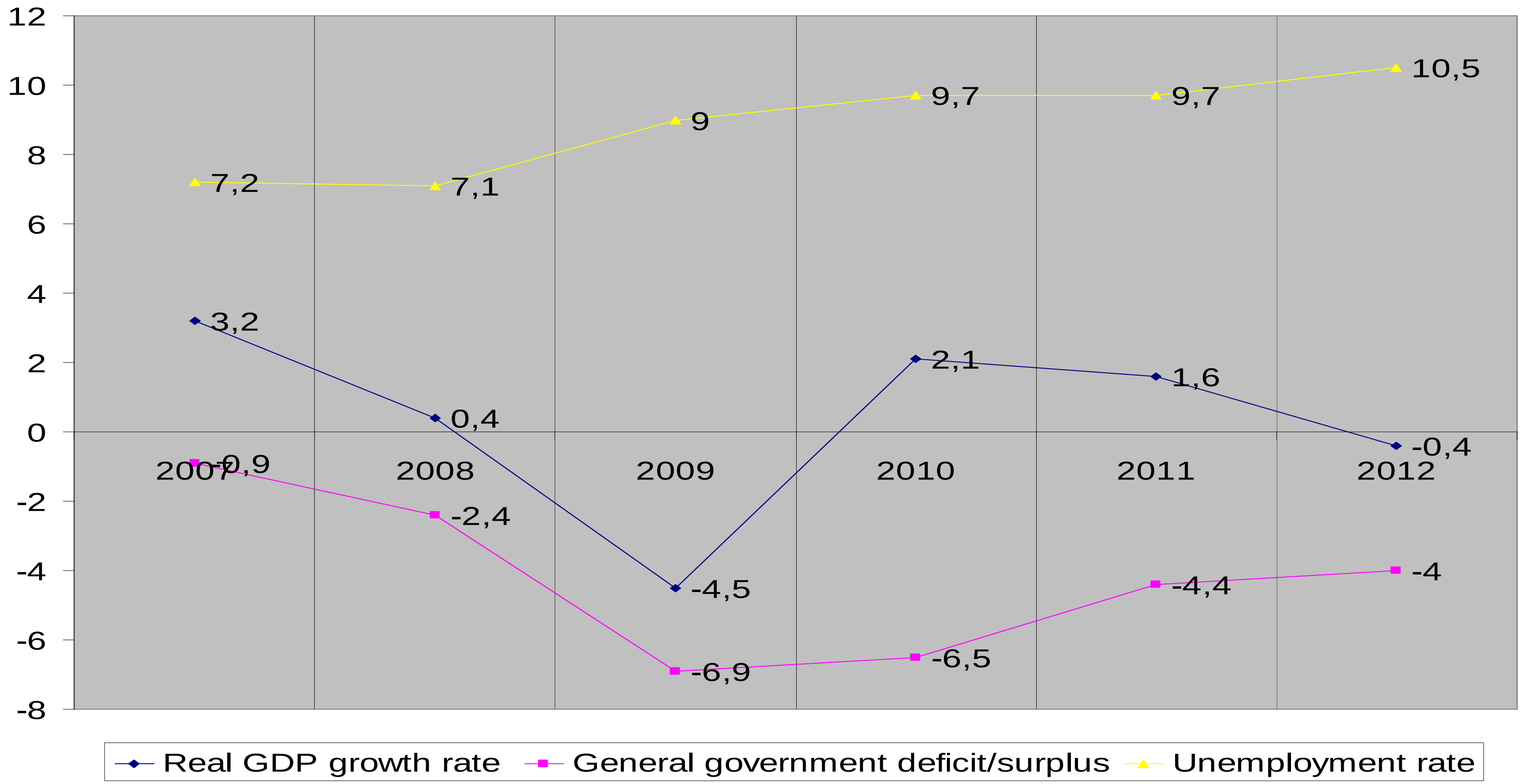
Introduction

- **After six years from the outburst of the crisis it is clear that during the mentioned period symptoms and localizations of biggest increasing the crisis changed; however, in the scale of the entire Europe we still deal with the maintenance, or even deepening symptoms of the economic crisis.**
- **This is caused by**
- **- the erratic diagnosis of reasons of the current crisis,**

- **doctrinal limitations accepted in the selection of instruments and their range in the fight with the crisis.**

- **The main error in the diagnosis was the assumption that its major source was the careless investing by the financial and bank sector, in place of excessive accumulation placed in financial instruments and insufficient increase of final (domestic) demand[1]**
- **The main error in the selection of instruments of economic policy was: focusing first on rescuing the private bank sector and later on maintaining the balance of the public finance sector.**
- ______________________________________
- **[1]See: Jan Toporowski, Why the world economy needs a financial crush, and Janusz J. Tomidajewicz, Does the Current Financial Crisis Mean the Crisis of Liberal Capitalisme ?**

Generaly indicators of crisis



The course and stages of the crisis :

- **Stage I : Financial crisis (2008 – 2009) :**
  - **Breakdown on the real estate and capital markets**
  - **Threat to the solvency and the stability of banks and financial institutions.**
  - **Spreading of difficulties on the whole of financial markets and on financially related countries.**

The anticrisis policy in the first stage of the crisis

- Public support aimed mainly at the financial sector (circa 70% of the entire support) granted in form of recapitalising and public warranties
- Reinforcement of the trust for the financial sector (warranties on bank deposits)
- Suggestions for implementing banking supervision reforms (Basel III), which lead among other to hampering the access to credits and financial services

Stage II : Crisis in the real sphere (2009 – 2010) :

- **Limitations of the financing in the real sphere**
- **Decrease of the level of investment, consumption and production**
- **Bankruptcies of enterprises of the real sphere**
- **Rise in unemployment**
- **Increase of marginalization and precariat**

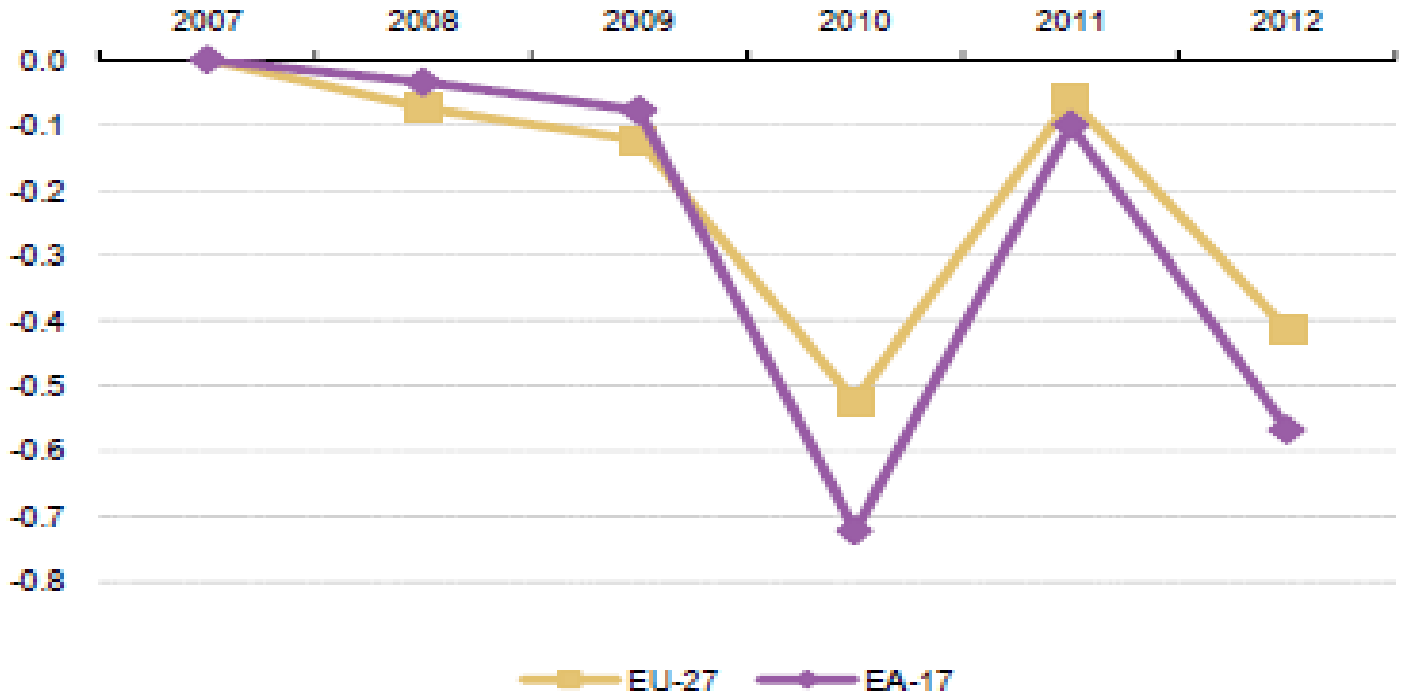
The anticrisis policy in the second stage of the crisis:

- **Reductions in interest rates**
- **Limited public saupport for chosen enterprises of the real economy sector – the most threatened with the bankruptcy,**
- **Support for the small and medium business in the range of possibility of access to credits and financial assets**
- **Support for programs agains the unemployement**

Stage III : Crisis of the public finance sector (2009 – 2012)

- Rise of the deficit and debts of the public finance
- Fall in the ranking of indebdet states and increase of costs of debt service
- Decrease of the domestic demand

Net impacts of interventions on 2007-2012 deficit



- **Source: Eurostat, supplementary tables for the financial crisis , in : Support for financial institutions increases government deficits in 2012, Eurostat - Statistics in focus 10/2013**

The anticrisis policy in the third stage of the crisis:

- **Savings in the area of public expenditures : especially reduction of spendings on social and public services**
- **Limited growth of taxes - in particular indirect taxes**

Stage IV ? – The return of the crisis to the real sphere (2011 - ?)

- **Decrease of the domestic demand**
- **Fall of the level of production and investment , probably hampered by the growth of export**
- **Reduction of the general level of economic activity**
- **Further growth of the level of unemployement, social exclusion and precariat**

Consequences and mistakes of the anticrisis policy

- The support of the financial sector protects the assembled exaggerated accumulation in the financial sector
- Poor protection of the final demand causes threat for the functioning of the real sphere
- Strict policy against budget deficits reduces possibilities of running an active crisis policy
- Insuficient mechanisms of protecting countries from consequences of risisng debts
- Lack of actions for stopping mechanisms of reviving the exaggerated accumulation

Directions of economic policy necessary for stopping the crisis

- **Elimination of exaggerated accumulation**
- **Increase of the domestic demand**
- **Expansive fiscal and monetary policy**
- **Reduction of the development of the market of indirect financial instruments**

Instruments of elimination of the exaggerated accumulation:

- **Taxing the highest incomes**
- **Stopping the creation of artificial incomes in financial markets – tax on financial transactions (Tobin tax) and bank tax**
- **Taxing high deposits**
- **cancelling the debt** **(see: François Chesnais, *Les dettes illégitimes. Quand les banques font main basse sur les politiques publiques*,** Paris, Raisons d'agir, 2011**)**

Increase of the domestic demand :

- At least maintaining the range and accessibility of social services
- Reinforcement of the protection of groups on the verge of the poverty
- Increasing funds for the fight against the unemployment
- Support for the production and investment in the real economy

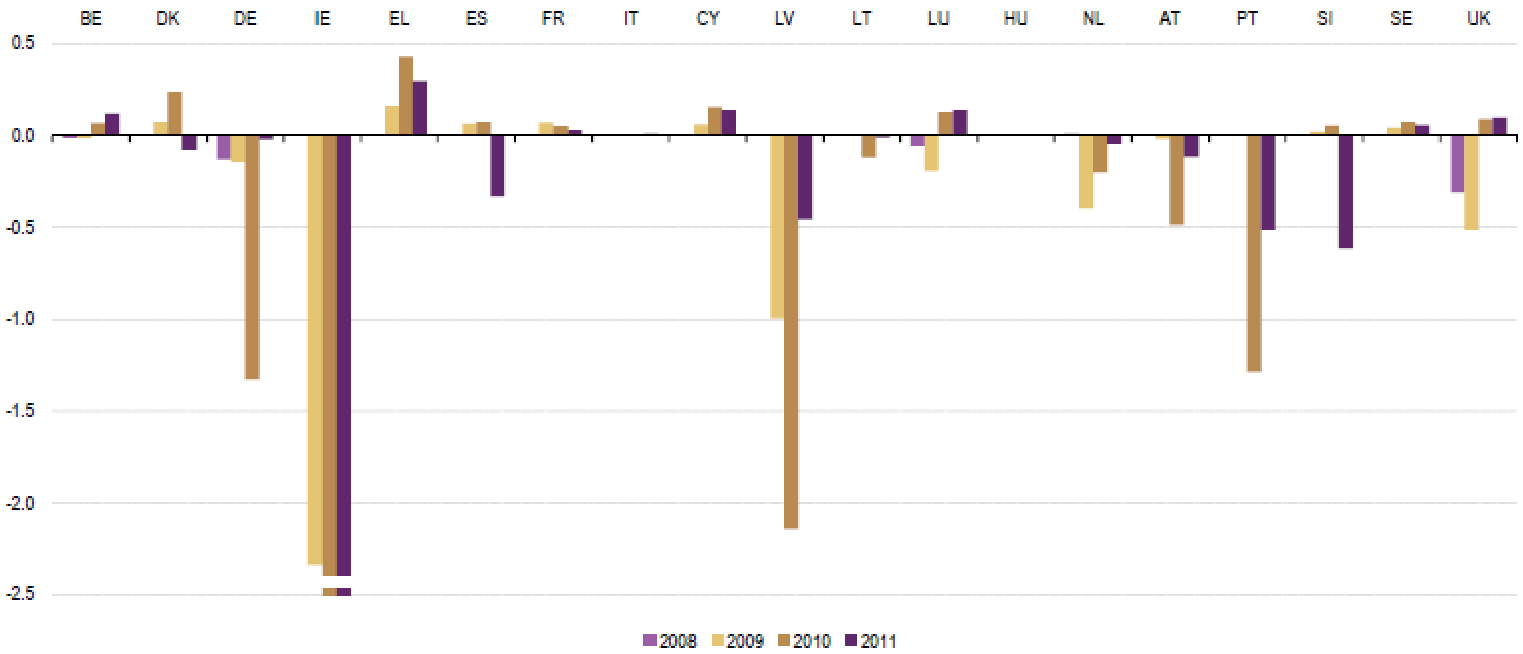
Expansive fiscal and monetary policy

- **Flexible approach to the problem of the budget deficit and public debt**
- **Cancelation of a part of the public debt**
- **Maintaining a low level of interest rates**
- **Financing budget deficits by ECB**
- **Obliging banks to keep reserves in treasury bonds**

Reduction of the development of the market of indirect financial instruments:

- **Implementation of strickt financial supervisions regulations (like Basel III) in the bank system**
- **Introduction of regulations for the functioning and priciples of the financial supervision in the Equity Funds sector**
- **Introduction of mechanisms of an international supervision of the functioning and security of capital markets**
- **Reinforcement of the functioning of the European financial supervision system**

Thank you for attention



Source: Eurostat, supplementary tables for the financial crisis