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CIRCULARITY OF ECONOMIC THEORIES

CIRKULARNOST EKONOMSKIH TEORIJA

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Abstract
The paper analyzes the development of economic theory in a crisis period. Emphasis is placed on two crises: the Great Depression and the Global Economic Crisis. The paper aims to test the assumption of the circularity of economic theories through an analysis of the global crises as periods of transformation within the overall economic environment. The paper describes in some detail the Keynesian model originating after the period of the Great Depression. The second part of the paper explains the trends in the development of economic theory between the two crisis periods, as well as the theoretical context in which the Global Economic Crisis started. The research shows that during periods of global economic fluctuations and disturbances the leading theoretical framework for economic policy and changes in the economic paradigm are questioned. Inadequate government intervention in the period of the Great Depression, especially in the United States, was an important lesson for economic policy makers during the Global Crisis. In the world's economies affected by the crisis, anti-cyclical monetary and fiscal policies of the Keynesian type were implemented. After years of domination by the new liberal ideology in economic policy, there has been a sudden reaffirmation of the Keynesian approach.

Sažetak
U radu se analizira razvoj ekonomskih teorija u periodu krize. Akcenat je stavljen na dvije krize: veliku depresiju i savremenu globalnu ekonomsku krizu. Cilj rada je da se, analizom globalnih kriza, kao perioda transformacije ukupnog privrednog ambijenta, testira pretpostavka o cirkularnosti ekonomskih teorija. U radu je detaljnije objašnjen model kejznijanske doktrine koji je nastao nakon perioda velike depresije. U drugom dijelu su objašnjeni trendovi razvoja ekonomske teorije između dva krizna perioda, kao i teorijski kontekst u kojem se razvijala savremena globalna ekonomska kriza.
Istraživanjem je utvrđeno da u periodima globalnih ekonomskih fluktuacija i poremećaja dolazi do preispitivanja vodećeg teorijskog okvira u ekonomskoj politici i promjene ekonomske paradigme. Neadekvatna državna intervencija u periodu velike depresije, posebno u SAD, bila je važna pouka za nosioce ekonomskih politika u savremenoj krizi. U svjetskim privredama koje su pogođene krizom, sporovedene su anticiklične mjere monetarne i fiskalne politike kejnzijanskog tipa. Nakon dugogodišnje dominacije nove liberalne doktrine u ekonomskoj politici, došlo je do nagle reafirmacije kejnzijanske koncepcije.

Introduction

Economic crises are the biggest threat to stable economic growth and development. They are an integral part of the economic cycle, which is unpredictable, asymmetric and irregular. In an environment of constant change, companies make decisions, set up expectations and plan from a long-term perspective. The moment a crisis hits, everyone is put to a test. It is a fundamental challenge of survival. The market becomes a stage for very complex interdependent relationships between households, businesses and governments.

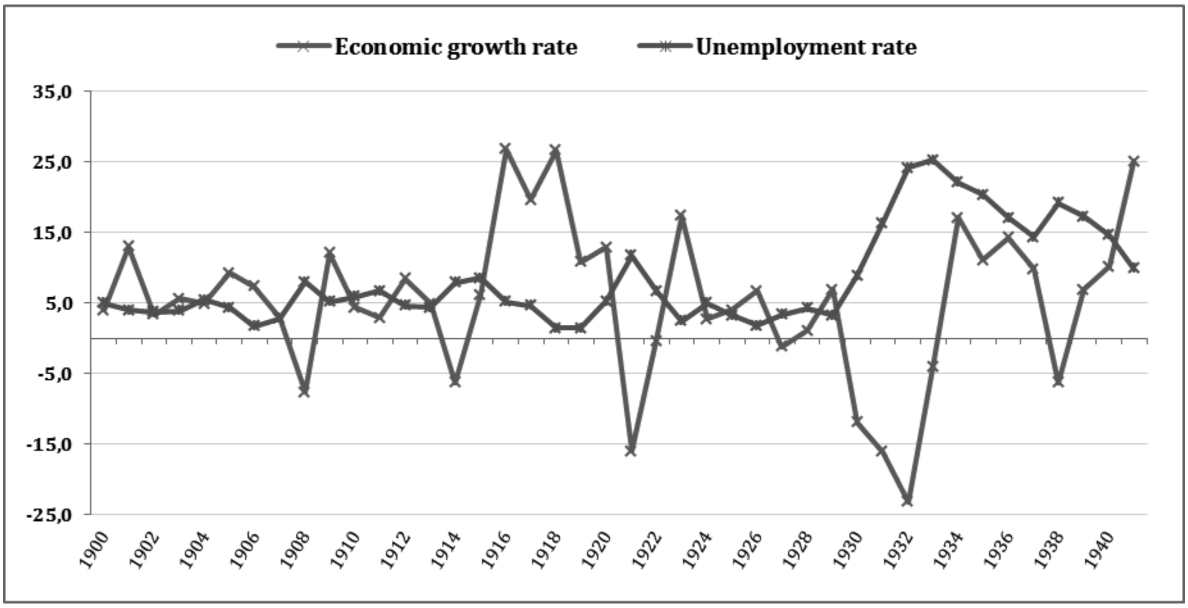
Every decision made increases in importance, responsibility and character. And each and every one of them tries to answer the essential question: How can we survive the crisis? Recommendations are offered by economic theory. The crisis is a stumbling block for the adopted intellectual framework, but also a chance for the (r)evolution of new concepts and ideas. While in practice it seems devastating and with real consequences, in theory the crisis serves as inspiration and a valuable experiment against which to test the validity of economic analysis and research. This is confirmed by a very prolific period for the development of economic theory after the Great Depression of the 1930s. Economic science experienced huge progress during the crisis time. Macroeconomics was born. *The Great Depression* of the 1930s stands as a remarkable example of creative destruction in economic theory. *The neoclassical doctrine* embodied in the then current philosophy of *laissez faire* dictated the pace and intensity of economic policy on the eve of and during the Great Depression. The supporters of *the neoclassical theory* suggested that the US government should not intervene until every fourth worker had lost their job. Such advice on a passive economic policy was the result of the belief that the market was a self-regulating mechanism. However, as time went on and the crisis developed the contours of a major depression, doubts arose about the liberal concept of voluntary unemployment and Say's Law.

This excessive faith in the power of the market rendered the state interventionism of the early 1930s inadequate. The choice of passive monetary and fiscal policies was inappropriate. Before the crisis, the FED had created a procyclical policy and allowed the growth of the money supply by 61% over 8 years. The increase in interest rates came late and did not affect the speculators, but rather investors in the property sector. When the crisis hit, the policy of low interest rates did not yield results because deflation was significant and chronic. Open market operations were not implemented widely until 1932, which was too late and insufficient to solve the serious problem of the banking crises. The belief in the real bills doctrine was a stumbling block for the monetary policy. /**1**/ The FED allowed over 9,000 banks to declare bankruptcy. On the other hand, the fiscal policy was burdened by the political motive of balancing the budget. The insufficient growth in public consumption and investment, as well as an overly optimistic reliance on the agreement to freeze wages and social responsibility in the private sector, contributed to a rapid increase in unemployment and a decline in production. *The Global Economic Crisis* which began at the end of the past decade created new fields of action for seemingly forgotten economic theories. Thus, in recent times in many economies the question is raised: Is Keynes "dead"? Is the hypothesis of the self-regulation of the market confirmed? Is state interventionism still undesirable, or has it become a necessity because of the greedy gamblers in the financial markets that have long marginalized the role of the state in economic life? Two of the greatest global economic crises in modern history – *the Great Depression* (1929) and *the Global Economic Crisis* (2008) – represent experiments of a sort for economic theory, analysis and policy. Therefore, the rest of the paper will focus on the development and the circularity of economic theories in the two crisis periods. We will first discuss the creation of macroeconomic theories after the Great Depression with an emphasis on the fundamental disputes and points of contact between the theoretical extremes. After that, the macroeconomic debate will be placed in the context of today's global economic crisis, in order to examine the validity of the hypothesis of the circularity of economic theories.

1. Crisis as an inspiration for the development of economic theory - the case of the Great Depression

The emergence of a new economic school – Keynesianism - created a rather complex economic environment at the beginning of the fourth decade of the twentieth century. The capitalist world entered an until then unprecedented economic depression. If the data on the growth of the nominal GDP and the unemployment rate in the United States, then the world's leading economy, are taken as a valid sample and analyzed, it becomes clear that the crisis seriously shook the non-interventionist concept of *laissez faire*. The rate of economic growth, after a period of rapid expansion, reached almost -25% in 1932. Only a year later, the unemployment rate reached a peak of 25%.

Diagram 1: The economic growth rate and the unemployment rate in the United States (1900-1941)

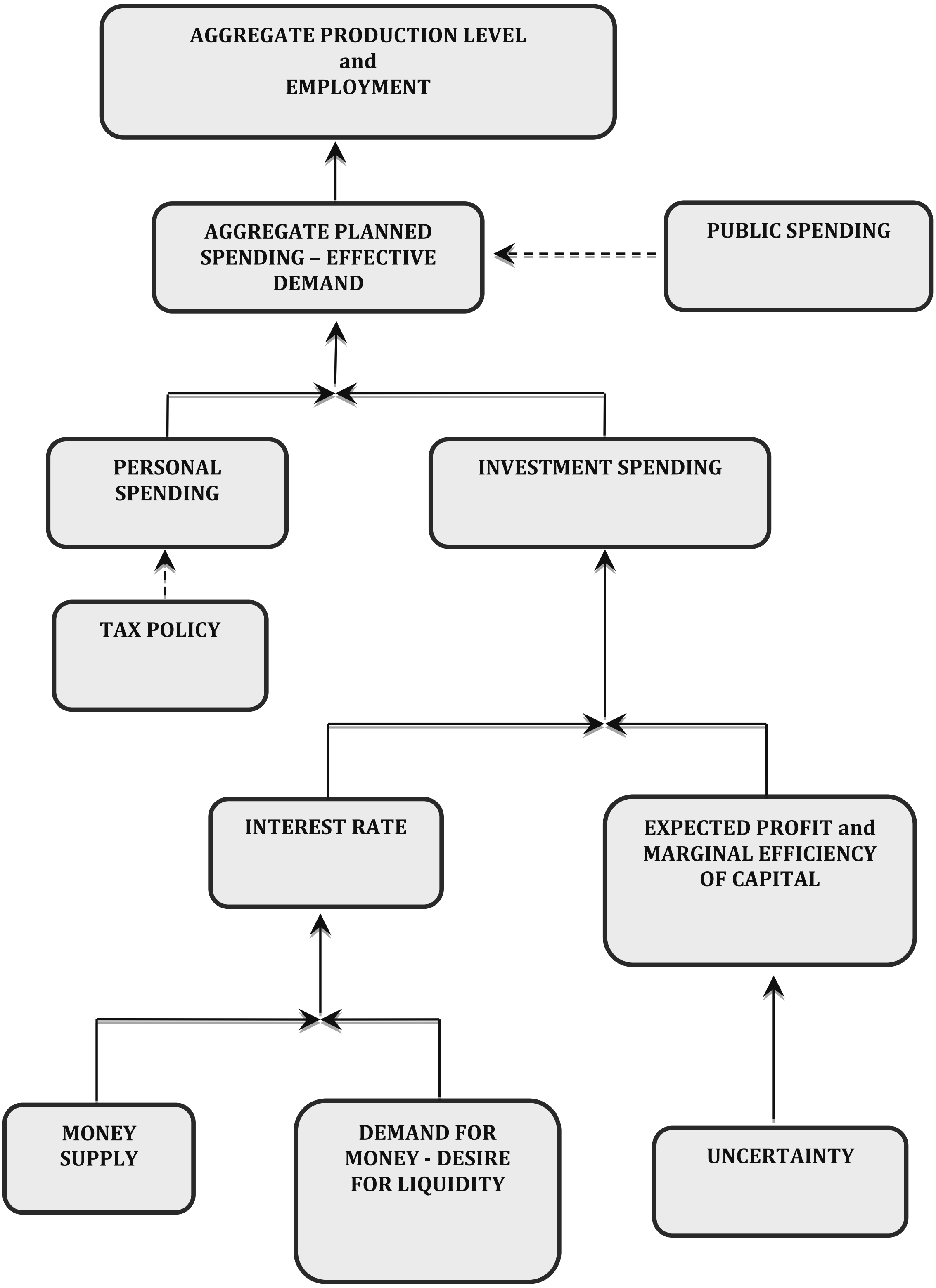


Reference: Gordon, R. J., *Macroeconomics*, 10th edition, Pearson, Boston, 2006, p. 600.

The globalization of the economic disturbances generated in the US economy, and even the political events in the years between the two World Wars accelerated the development of economic ideas in order to offer coherent answers and solutions to the emerging economic problems. The English economist John Maynard Keynes (1883-1946) is credited with the development in economic thought in this period. Even before the Great Depression and prior to writing *The General Theory of Employment, Interest and Money*, Keynes criticized the *laissez faire* concept and the principles of (neo)classical economics. In *The End of Laissez-faire* (1926) he advocated for the state regulation of economic processes and a change to the existing classical paradigm./**2**/ Keynes notes that experience and practice show that public and private interests will not always coincide. The assertion that self-interest is always enlightened is incorrect. There is no invisible hand that would manage to tempt personal interest to achieve the social optimum. Keynes said that it was precisely the Great Depression that served as evidence of the groundlessness of the neoclassical concept of *voluntary unemployment*. He writes: " It is not very plausible to assert that unemployment in the United States in 1932 was due either to labour obstinately refusing to accept a reduction of money-wages or to its obstinately demanding a real wage beyond what the productivity of the economic machine was capable of furnishing" /**3**/ This unemployment rate, according to Keynes, can only be explained by *involuntary unemployment*, as a permanent feature of the capitalist system. Therefore, an active economic policy of the state is needed in the pursuit of full employment. Contrary to the tenets of classical economics, according to which supply creates its own demand, Keynes lays the foundation of a different concept – effective demand is the factor which determines the size of the supply. Two determinants have a dominant influence on effective demand: *consumption* and *investment*. Defining the model (see *Figure 1*) of dependent and independent variables, and a number of determinants which condition changes to them, Keynes makes specific recommendations on how to reduce unemployment and eventually achieve full employment. Unemployment was the biggest economic problem that made the world economy in the 1930s unstable. Its consequence was deflation, the nightmare faced by entrepreneurs, primarily due to wage costs which are directly related to sales revenue. It was precisely their fear of losses that caused the reduction in production and subsequent decline in employment. In such a situation, when household consumption and private investment, as the main factors of effective demand, are not sufficient to achieve full employment, the government can and must increase employment by an expansion of public spending. It is necessary to use the instruments of economic policy that would, through the investment multiplier effect, stimulate economic activity, eliminate deflationary expectations and reduce uncertainty.

In this sense, monetary and credit policy must be expansive. The most important instrument of monetary-credit policy, according to Keynesians, is the interest rate. It must be kept at a low level in order to encourage investment. On the other hand, an expansionary fiscal policy, in addition to reducing taxes, involves the launching of public investment and public works, with the aim of increasing employment and national income. A frequent question on public investment may be formulated as follows: "What will you do, when you have built all the houses and roads and town halls and electric grids and water supplies and so forth which the stationary population of the future can be expected to require?"./**4**/ Responding to this, Keynes said that the same question could be asked about private investment and the expansion of industry because it is easier to imagine the saturation of demand for new factories and plants than it is for public goods. Therefore, the state must exert its influence, which does not exclude a series of compromises and cooperation with the private sector. Nevertheless, taking ownership over the means of production is not the crucial thing that the state must do. Keynes writes: "It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated — and, in my opinion, inevitably associated — with present-day capitalistic individualism."/**5**/ In this sense, Keynesian critique of classical theory is also focused on logical errors and the oversight associsated with certain assumptions, which together resulted in it not being able to respond to the problems of the Great Depression.

Figure 1: Keynesian determination of production and employment



Source: Snowdon, B.; Vane, H. R., *Modern Macroeconomics*, Edward Elgar, London, 2005, p. 64.

Therefore, the Keynesian explanation of the Great Depression suggests a model for state intervention. The central position in the model is taken by the concept of aggregate demand management. It is important both in the period of depression, when the aggregate demand is too low, and in a period of expansion, when excessive aggregate demand exerts pressure on inflation. In the first phase, it is necessary to stimulate demand by expansionary policies, while in the second phase, it is necessary to "discipline" it through restrictive policies. Given that the market is not a perfect mechanism of self-regulation, it is the responsibility of government to use its power in the field of anti-cyclical economic policies so as to improve the macroeconomic performance of the economy. The shortest path to this goal in the period of crisis is to increase aggregate demand. Due to market imperfections in the stage of adaptation, state interventionism is unavoidable. It seems that in his argument Keynes tried to point out a "third way" , criticizing both liberal conservatism and socialism. The system of *laissez faire* ensures economic freedoms, but what are economic freedoms without prosperity, resources and income? Central planning and socialism guarantee full employment and secure income, but what is full employment without individual freedoms? Keynes's concept encompassed a new dimension, that of full employment and individual freedoms existing simultaneously /**6**/. The very idea of a third way, free from theoretical extremes, embodied in the Keynesian concept, underwent a revolution in economic theory in the first half of the last century. The new ideas were getting more and more followers, and after World War II the theory of Keynesian interventionism entered the political practice of Anglo-Saxon capitalism. Thus, the first sentence of *The White Paper of Employment Policy* (1944) in Great Britain states the following: "Government accept[s] as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war. "/**7**/ Two years later, the US *Employment Act* stresses the responsibility of the Federal Government to "to promote maximum employment, production, and purchasing power." /**8**/

Creating an anti-cyclical economic policy and a broader (macroeconomic) view of the economic life of capitalist economies is the result of innovations in economic theory during the Great Depression. The depression was a fundamental change in the socio-economic context, which called for new and different solutions. The change in the current economic paradigm highlighted the growing importance of discretion in relation to fixed rules in economic policy, which ultimately meant the affirmation of Keynesian interventionism versus the liberal idea of non- interventionism and a passive economic policy.

2. Economic theory and the contemporary global economic crisis

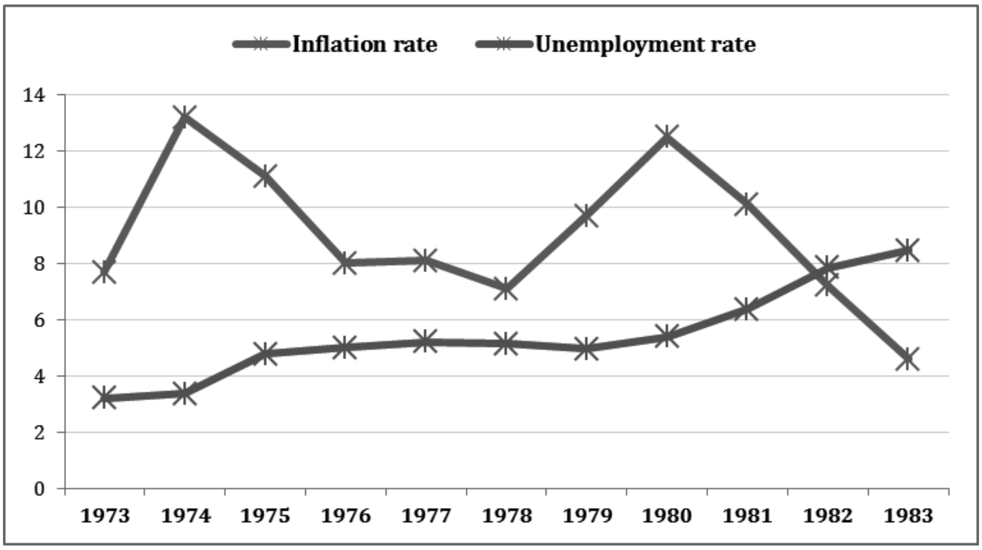
The global economic crisis represents the greatest challenge for modern economic policy. The sophisticated and complex financial infrastructure in the United States, which was inaugurated as a strategic factor for economic growth, became the weakest link in the system during the crisis. Many macroeconomists have questioned the justification of any further affirmation of such an economic model. Should it be changed and to what extent? What does economic theory say? Is the crisis of the global capitalist economy at the same time a crisis of economic theory? These dilemmas are the subject of contemporary intellectual debate.

2.1. The causes of the global economic crisis - the neoliberal context

The global economic crisis came about as a result of interconnected adverse economic circumstances. To understand the theoretical and economic context in which it developed, one should at least for a moment pay attention to the period of transformation in leading economic theory in the economic policies of the traditional capitalist economies. In fact, after 1973, serious economic problems arose, which marked the end of the Keynesian golden age. As illustrated in *Diagram 2*, the new economic contraction was accompanied by rising unemployment and an above-average inflation rate. The unemployment rate in 1982 in the UK reached 11.1% and in the United States 9.7%. Already in 1974, all G7 countries, except Germany, recorded double-digit inflation rates. Of course, the inflation growth occured because of the oil crisis, that is the oil supply decrease on the world market (the OPEC cartel - Organization of Petroleum

Exporting Countries - operation). Within a very short period in the fall of 1973, the price of crude oil quadrupled. The second oil shock occurred in 1979, which is indicated by a dramatic increase in the inflation rate as shown in the diagram.

Diagram 2: Inflation and unemployment in the G7 economies (1973–1983)



Source: OECD, http://stats.oecd.org/ (pristup – 30. 11. 2013) (inflation); Gordon, R. J., Macroeconomics, op. cit., p. 601–607 (unemployment).

The economic problems inherent in the capitalist system in the 1970s could not be solved within the prevailing Keynesian model. The problem was that Keynesian theory, or the original Phillips curve as its basic analytical instrument, did not provide for the possibility of stagflation, the simultaneous increase in unemployment and inflation with stagnant production. The powerlessness of the Keynesian theory and the pursuit of the reaffirmation of neoclassical ideas led to the abandoning of the Keynesian approach in the economic policies of the leading capitalist economies in the late 1970s.

The new classical doctrines (monetarism, rational expectations theory and the economics of supply), shared, among others, an important factor of cohesion – the promotion of market mechanisms with a commitment to civil non-interventionism. The theory of efficient financial markets and the new classical macro-concept replaced the Keynesian vision of economic policy. The existing system of strong financial regulation, developed after the period of Great Depression, was reconstructed in the process of *radical deregulation*, which opened the space for the transition into a globally integrated neoliberal capitalism.

The new financial architecture meant a rapid development in financial innovation, which, thanks to the newly established practice of securitization, became both increasingly complex and opaque, and thus in a period of crisis, making it both dangerous and lacking in liquidity. On the other hand, the system was based on light touch regulation of commercial banks, even more lenient regulation of investment banks and a very limited, almost non-existent regulation of the shadow banking system./**9**/ With a view to further deregulating the financial system in the late 1990s, the strict regulations implemented by adopting the Glass-Steagal Act of 1933 were formally repealed. By the adoption of the Financial Services Modernization Act of 1999 the barriers between commercial banking and operations with securities were eliminated. The provisions of the Glass-Steagal Act, which forbid the use of deposits for the purpose of trading securities become redundant. This made it possible to create a very intricate system of relations between entities in the financial market. The extent of this interdependence and the activity of the entities were beyond the reach of the state control. The assumption of self-regulation of the market was revived.

2.2. Overcoming the crisis - Keynesian solutions

The first half of the twentieth century brought a deep economic crisis to the capitalist world. The reaction of the state, primarily in the United States, was not adequate. The undecided and not credible measures of the monetary and fiscal authorities contributed to the development of economic depression. The moment when it became apparent that the market failed to solve the problem, the conditions were created for the development of measures of state interventionism. The Roosevelt administration operated through instinct and improvisation, with more and more frequent instructions from the concept that would later be named Keynesianism.

Unlike Roosevelt, the leaders of the world's economies in the global economic crisis had at their disposal sophisticated mechanisms of action and intervention. Certain differences in the way the instruments of fiscal and monetary policy were used were certainly present, but their character was undoubtedly Keynesian and anti-cyclical.

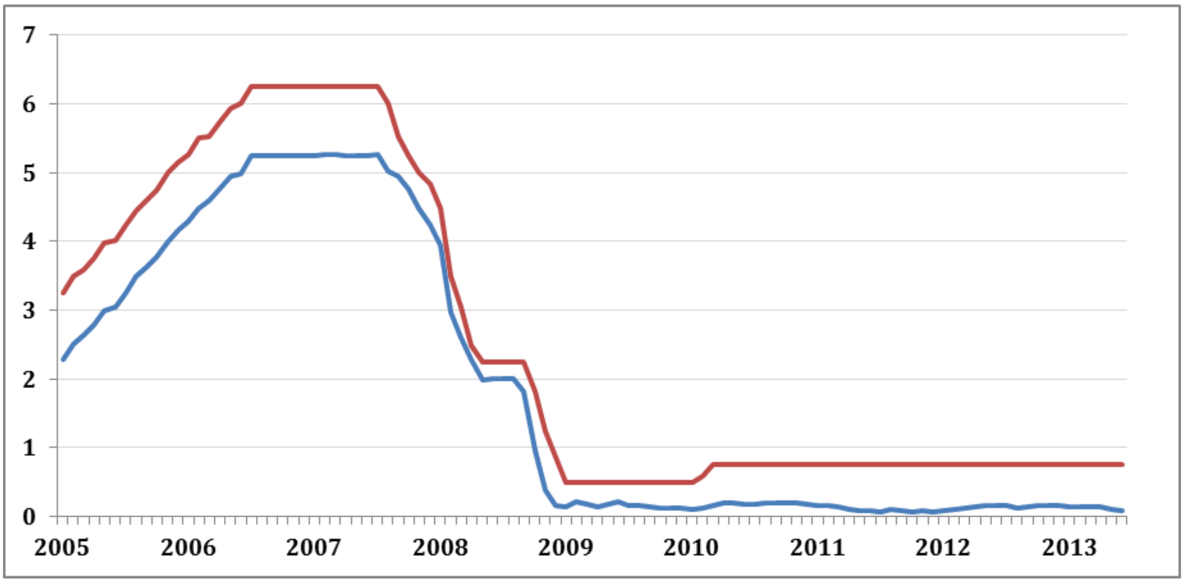
The modern anti-crisis policy in the major economies was carefully coordinated and synchronized. The G20 political forum was in charge of the coordination of anti-crisis policies. At the first G20 summit in Washington in November 2008, a coordinated implementation of expansionary fiscal policy measures (to stimulate domestic demand) and an expansionary monetary policy (in order to stabilize the financial system and ensure the necessary liquidity) was agreed. All the major international financial institutions (the IMF, the World Bank and other multilateral development banks) were recognized as key mechanisms of global interventionism, which required financial support from the G20 countries. An important conclusion of the first summit was the agreement that no country should use any kind of protectionist measures over the next 12 months. This certainly points to the fact that one of the key lessons of the Great Depression was learned – national economies do not benefit from increasing tariffs during a global crisis and it can only result in a decline in world trade.

After the global intervention, the next level was national. The analysis of the anti-crisis policy measures of the US, the EU, China, Japan and other developed economic centers leads to the conclusion that the period of global economic crisis saw a reaffirmation of Keynesian economics.

- Monetary policy

When it comes to monetary policy, all the Central Banks acted quickly and anti-cyclically. This is best illustrated by the rapid decrease in the Federal funds rate and the discount rate in the United States (Diagram 3). After a series of reductions, the FED reduced the target rates of federal funds to 3% by February 2008. By May, the rate was 2%, and in December 2008 it reached a record low of 0–0.25%. This record low value remained so for a long time, while the discount rate, after the period of crisis, frequently deviates from the federal funds rate.

Diagram 3: Federal funds rate (blue) and the Discount rate (Red) of the FED



Source: Federal Reserve System, www.federalreserve.gov (Access – 01. 08. 2013).

In the EU, China and Japan a similar policy was effected to that in the US, and the alarm for the intervention of the Central Banks was the bankruptcy of the US financial giant – Lehman Brothers – in September 2008. The European Central Bank responded by reducing key interest rates in order to preempt the problem of the insolvency of financial institutions. In January 2009, after four sessions of reduction, the key interest rates had the same value as in June 2003.

By the end of 2008, the Central Bank of China reduced its one-year interest rates on loans to financial institutions from 4.68% to 3.33% and the discount rate from 4.32% to 1.80%. The rate on required reserves was also reduced from 1.89% to 1.62% and the rate on the excess reserves of depository institutions from 0.99% to 0.72%. In late December 2008, the mandatory level of required reserves was reduced once again./**10**/

As in other developed economies, the Central Bank of Japan decided to rapidly reduce its interest rates. Thus, the *targeted overnight rates* decreased from 0.5% to 0.3% at the end of October 2008, and to 0.1% two months later. At the same time, the *basic interest rate for loans* was reduced from 0.5% to 0.3%.

These conventional monetary policy measures, which entailed a reduction of the key interest rates, were not sufficient to provide the necessary liquidity within the financial system. That is why all the Central Banks in the observed economies started implementing unconventional monetary policy measures. In the case of the US, the FED effected the policies of quantitative and qualitative easing. The former meant increasing the assets of the Central Bank, and the later changing its composition in favor of risky securities. Thus, the total value of the FED's assets increased from 894 billion dollars at the end of 2007 to 2,237 billion in december 2009./**11**/

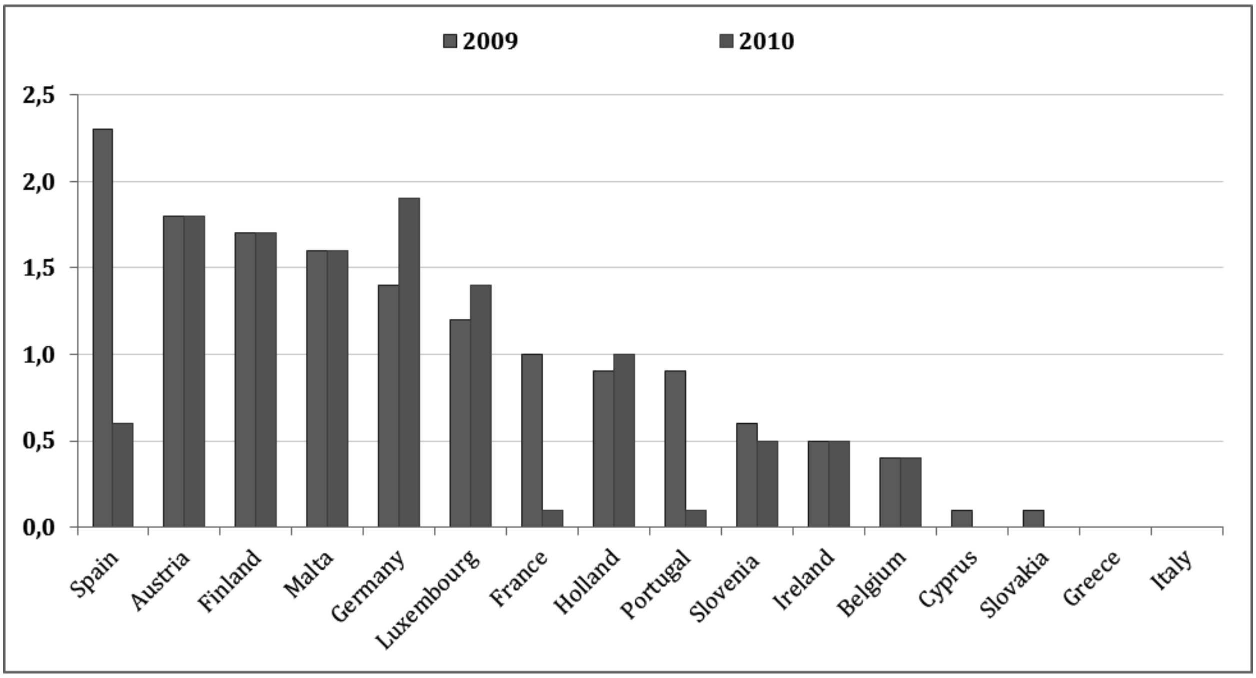
The monetary authorities in Europe did not implement such aggressive policies. The Bank of England opted for the policy of quantitative easing, while the ECB also chose quantitative easing. At the end of 2008, the Bank of Japan launched a credit easing policy. As the interest rate on overnight loans without collateral was already at the level of 0.1%, its further reduction was almost impossible. Thus, the bank decided to fully expand and increase its purchases of government bonds. In addition, the number of securities that the Central Bank accepted as collateral increased./**12**/

- Fiscal policy

The global economic crisis confirmed the relative weakness of anti-crisis monetary policy. In fact, the crisis demanded a very strong and comprehensive response from fiscal policy makers. This is entirely consistent with Keynesian theory, which emphasizes the primacy of fiscal over monetary policy.

As early as the end of 2008, many world economies began to implement huge fiscal stimuli that were intended to increase employment, disposable income and aggregate demand. The similarity in the implementation of fiscal policy was apparent. Of course, this was entirely dependent on the current fiscal position. Those economies that had effected a more responsible budgetary policy before the crisis (including low public debt and budget deficit) had more space to create aggressive expansionary measures. This is confirmed by the following diagram illustrating the share of fiscal stimuli as a percentage of GDP in the Eurozone countries.

Diagram 4: The extent of fiscal stimulus in the Eurozone (% of GDP)



Source: European Central Bank, *Euro Area Fiscal Policies and the Crisis*, ECB, Occasional Paper Series, No. 109, Frankfurt, 2010, p. 25.

The fiscal stimulus in the Eurozone was implemented within four general categories: public investment, support to households, the economy and the labor market. Half of the stimulus was intended for households through the implementation of various programs and measures such as the reduction of direct taxes, the value added tax (VAT) and social security contributions and the financial support to socially vulnerable groups. Approximately 28% of the total fiscal package in the Eurozone was allocated for public investment, especially in "green" industries and energy efficiency projects. More than half of the countries implemented significant measures to support business, such as reducing tax rates and social security contributions, as well as accelerating the process of refunding VAT. The remaining 5% of the stimulus was targeted towards an active labor market policy, which was initially supported by only a few governments of the Eurozone. The US Treasury implemented three fiscal stimuli totaling $ 1655 billion. The strongest expansionary fiscal measures were effected through the application of the third stimulus (the American Recovery and Reinvestment Act – ARRA) adopted in February 2009. Of the total of nearly $ 800 billion, 290.7 billion was allocated for tax relief, 255.6 billion for education, infrastructure projects and transport and 251.3 billion for health care, unemployment insurance and so on. China also implemented a comprehensive fiscal stimulus. On 5 November 2008, Chinese authorities adopted the initial stimulus amounting to 4 trillion yuan (586.68 billion US dollars), ie. 12.5% of the national GDP. If we analyze the structure of the expansionary fiscal policy, it becomes immediately clear that public works were the most important element of China's stimulus. /**13**/ In 2009 almost every sector of the economy (industry, agricultural production, trade, the automotive industry and others) was allocated from 10% to 40% more than in the previous year.

The analysis of the anti-crisis policy of the world's most important economies during this crisis points to the fact that the Anglo-Saxon model of neoliberal capitalism was considerably shaken. The crisis saw a sudden reaffirmation of Keynesian theory and anti-cyclical economic policy. The reaction of the monetary and fiscal policy makers shows that discretion had an advantage over fixed rules. Additionally, while it was clear that the Central Banks did not have a strong enough capacity to mitigate the negative trends, it was necessary that the fiscal authorities took on a prime role in formulating economic policy.

2.3 The new economic model - back to the old ways.

When analyzing the different interpretations of the global economic crisis, it becomes clear that systematic differences among economic theorists and macroeconomists still exist. A crisis, therefore, is not a good time for consensus. The gap between theories deepens, and everybody looks for errors in someone else's backyard. Within the new socio-economic realities each doctrine tries to find some space for itself to justify its own principles. While some seek the problem in the state, others are looking for it in the market. Additionally, potential solutions and recommendations vary greatly. Those advocating liberal ideas still believe in the power of the market, while others request effective intervention on the part of the state administration. It seems that almost no one had such an important role in the various explications of the global economic crisis as Alan Greenspan, Chair of the US Federal Reserve from 1987 to 2006. Critics of the long-term management of the American Central Bank were satisfied with Greenspan's statement before Congress in October 2008 when he admitted an "error in the model" the financial system was based on. "I made a mistake in presuming that the self-interests of organisations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms," /**14**/, said Greenspan.

Greenspan's successor Ben Bernanke thinks that the FED played a key role in securing the necessary liquidity in order to stop panic in the financial markets. However, he points out that the crisis has left its mark on the reputation of economics as a science, and above all, economic engineering and management. With this in mind, it is not necessary to fundamentally rethink economics or finance. The crisis should direct research focus towards financial instability and its implications for the real economy. The standard macroeconomic models did not predict the crisis, because they were created for a different economic context, says Bernanke./**15**/

On the other hand, two authors of a Keynesian orientation, Paul Krugman and Joseph Stiglitz, criticized the pre-crisis model and gave suggestions for creating a new paradigm. Krugman attributed the general failure of economists to explain the pre-crisis period to a blind belief in the efficient market theory and the theory of real business cycles. Some economists' comments suggest that they were ignoring almost 80 years of macroeconomic analysis, as well as the Keynesian model of aggregate demand and multipliers. Krugman concludes that we have entered a dark age of macroeconomics, in which a large proportion of the profession have lost all the previously acquired knowledge, and that the solution to the problem may lie within the understanding of a sociologist, not an economist./**16**/

Stiglitz points out that regulatory reform is the matter of the greatest importance./**17**/ In addition, it is necessary to implement a series of micro and macro-interventions with a view to the long-term stabilization of the economy. He emphasizes that it is sufficient to draw on the intellectual framework and recommendations of Keynesian economics, with a mandatory increase in the anti-crisis fiscal stimulus which in the case of the crisis, was not enough for the realization of the objectives set./**18**/ More recently, Stiglitz has been trying to illuminate the cost of widespread inequality in the distribution of income, a problem which gained new dimensions during the crisis.

Finally, one must take into account the impression that a certain level of understanding among theorists still exists. It can be claimed, almost undoubtedly, that the greatest number of researchers, regardless of their theoretical background, find the solution to the crisis in changes to financial regulation. Regulatory authorities have failed. The government intervention implemented in the United States has been widely criticised. Pro-liberal economists believe that intervention will not solve the key problems, while Pro-Keynesians require economic policy makers to align anti-crisis measures with the Keynesian policies. There are still no clear indications that a new macroeconomic paradigm might be created any time soon. Anyway, reintroducing conservatism into economic policy, after the first signs of recovery, is certainly a dangerous strategy.

CONCLUSION

The Great Depression of the 1930s and the global economic crisis at the end of the last decade came as a recognition of a kind of certain assumptions about the circularity of economic theory. A crisis represents a transformation of the economic context. As such, it comes as the best test for the leading economic theory of the day. The Great Depression was an insurmountable obstacle to the neoliberal concept of *laissez faire*. On the other hand, the crisis contributed to the development of the Keynesian theory that affirms a completely different approach to economic policy. A coherent and intellectually strong doctrine of state interventionism was created. The new Keynesian theory had long had a decisive influence on making economic policies of the leading capitalist countries. It had been so until the mid-1970s, when a sudden crisis accelerated the reversal in the prevailing ideology of economic policy. The new liberal schools took over primacy and created the conditions for establishing an integrated global neoliberal capitalism.

However, when the modern economic crisis became global, doubts about the liberal concept transformed again into a renewed need for state intervention. There was a sudden reaffirmation of the Keynesian doctrine, as evidenced by measures of anti-cyclical monetary and fiscal policies in the world's leading economies. Keynesianism is back in a big way. The real question is: Is the return of Keynesianism a temporary need or a strategic imperative in any modern economy? Taking into account the current debate surrounding macroeconomics, there is no doubt that in order to succeed, the new macroeconomic paradigm or economic model of today must guarantee a more subtle control of the market by the state, especially when it comes to the regulation of the financial system.

Notes

/1/ Meltzer, A. H., *A History of the Federal Reserve*, Volume 1: 1913–1951, University of Chicago Press, Chicago, p. 301, 2004.

/2/ Keynes, J. M., The End of Laissez-faire (1926), *Essays in Persuasion*, The Macmillan Press Ltd, London, pp. 186-213, 1972.

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