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Research Article

Economic Policy after Global Finance Crisis

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Abstract: The objective of this study is to discuss the economic policy problems after 2008 global finance crisis in OECD (Organization for Economic Co-operation and Development) countries and provide suggestions for solutions. Even when the global finance crisis and effects this crisis has bring out are put aside, many countries have come across conjuncture problems that affect financial markets and get formed based on these markets. This problem seems to keep economists busy for long. Despite it has been four years since the global finance crisis the problems that the crisis gave way to could still not be solved and they have been pretended to be put aside and forgotten.

Keywords: Cyclical tax competition, economic policy, financial crisis

INTRODUCTION

The focal point of economic policy discussions is constituted by the global finance crisis which emerged in 2008 and its effects. With the emergence of global finance crisis authorized economic policy actors and financial policy observers all around the world have prepared emergency aid packages and the duration of the aid packages have encompassed a long period, as well.

The world shaking financial crisis in 2008 has been explained by speculative loan, and financing of these loans. When we consider the facts which have been written and explained, the market illusion in credit market and housing market have caused the crisis. If financial bubble in housing market caused this crisis, a stable economic growth required to invigorate the economy. Thus, if someone is to be condemned, macroeconomic structure has caused this crisis or, in other words, the crisis is the result of the macroeconomic policy applications.

In the presence of a global monetary expansion, both monetary policy and fiscal policy coordination between OECD Countries are important. Due to the speculative capital inflow, devaluation of national currencies is inevitable with the expansion.

Prior to financial crisis significant achievements have been attained in growth and inflation rates in Turkish economy. Behind this success the financial crisis experienced in 2001 and economic reform packages applied after the crisis have great importance. With the reform package applied in Turkish economy the cooperation with European countries and economic integration process could get strengthened. Despite this development there are solution waiting structural problems in Turkey (for example tax reform, banking reform etc.) which wait for solution in economic and financial structure in integrating with global world. Emergence of financial crisis, its effect and measures used to solve the crisis have obstructed the solution of problems or global environment for the solution of these problems has changed.

Including international monetary and foreign currency policy, financial regulations, public finance, borrowing and restrictions in global trade as well the cards regarding the inter-regional competition had to be put on to the table again. The way out from this situation caused by the uncertainties in this field is dependent on to the solution of the structural problems. Solution for structural problems in economic policies of OECD countries (Organization for Economic Co-operation and Development) in which Turkey is also included have been concentrating on the fields below:

- Financial and Monetary Policy
- Borrowing and Work Market
- Economic Structure and Conjuncture
- Tax competition between countries

In economy discussions many times economic growth and conjuncture concepts are used synonymously (Brügelman, 2010). However, they are two different concepts from each other. Basically growth expresses expansion of production potential in the long run. While production is dependent on size and quality of the production factors it is also dependent on framework conditions of supply policies. Investment conditions and environment of enterprises, size and quality of human capital as well as investment policies of the public sector would affect the growth rates in production in the long run.

Conjuncture state shows the occupancy, i.e., capacity utilization rate of production. The real production and capacity utilization rate can change within a very short term as it had been observed during the 2008 global financial crisis. At the core of this change lies demand fluctuations. It is natural to intervene with the large demand break-ups through public policy channels. By creating demand itself, the state would want to rebalance the private demand amount which fell down due to the breaking up in the total demand. And sometimes economic policy can cause a conflict of interest between public policy and economic policy targets.

When analyzed from the perspective of cyclical programs impact implemented in OECD Countries in 2008, it is revealed that automatic stabilizers come to play more effective roles. It turns out to be that passive fiscal policy assumes more effectiveness. Yet fiscal policy plays a companion role to the monetary policy. The value of acceleration rate is generally seen in expansionary fiscal policy framework. Besides debt ratios have increased and economic growth has been adversely influenced. Due to this fact, tax competition among countries has been effective in the distribution of new investments to the other countries.

The aim of this study is to explain the economic problems of the OECD Countries after the financial crisis.

In addition to monetary policy, it is essential to apply fiscal policy, but fiscal policy is not a clear tool when and how to implement.

In the forthcoming sections, international tax competition, sustainable financial policy, effect of conjunctural programs will be analyzed and elucidated.

MATERIALS AND METHODS

The effects of global finance and economic crisis that emerged in the world have caused the governments of OECD countries and Central Banks to move fast in the Fall of 2008. While Central Banks of these countries were applying expansionist monetary policies on the one hand, on the other hand many countries have tried to provide support through financial policy as an additional measure. While large amount of loan guarantee promises were being made to financial institutions by the governments, in some special situations debts of lender institutions have been assumed by public sector and concessions have been made in financial aid and tax policies. With the establishment of economic stability in conjuncture curve in the recent months, financial policy has been placed at the focal point of economies. The fact that in addition to monetary policy financial policy can also provide contribution to establishment of conjunctural stability is now accepted by all economists. However, no agreement has been reached as to what the steps to be taken should be in this field.

Various empirical analyses have been showing that in order to keep the economic policy effect persistent it is mandatory to have such criteria as the economic measures to be applied should be applied by determining targets, appropriate time should be watched, they should encompass a temporary time period and public budget should have financing capacity. Conjuncture programs are being used to rebalance the temporary demand recesses or gaps. In the formation of these programs three main factors draw the attentions (Elmendorf and Furman, 2008; Brügelman, 2010):

- Conjuncture programs should be enacted on time (Timeliness)
- Conjuncture programs should be equipped appropriate to the target (targeted)
- In conjuncture programs effect of financial policy should not be subject to time limitation, because with this strategy creating a burden on public budget will have been prevented (Temporary)

When to apply the conjuncture program, i.e., its timing is important because in case of a delay effect of financial policy will coincide with revival period of conjuncture curve and while it should essentially prevent contracting of conjuncture earlier it will further trigger the recovery in the economy. And this will mean mixing up of conjuncture curves into each other in the economy and economic growth will be damaged by that.

Conjuncture program must balance the private demand fluctuations to the extent possible. The greatest reason preventing this target is the changing expectations in the policy. If social and political opinions are integrated into the program the conjunctural stability will have remained in the background.

Thirdly conjuncture programs are dependent on deficit spending and therefore conjuncture programs do not allow the long term application possibility without limiting public’s freedom of movement in the future periods.

In essence when one looks at the core of the matter application of conjuncture programs requires small but effective state mechanism that can make quick decisions.

How to overcome finance crises in an economy is seen in the research conducted by IMF (International Monetary Fund) about 2001 and 2008 crises. Countries like Turkey, Mexico, Sweden, and North Korea have experienced short term crises but within 2 years they were able to solve the problems created by the crisis and catch the long term economic development trend. On the other hand crises have continued long years in the countries like Thailand and Japan.

Figure 1 consists of measures related to conjuncture programs that OECD countries have applied. The average conjuncture program of OECD countries is 3% of GDP (Gross Domestic Product). In general decreases in tax rates and public spending has

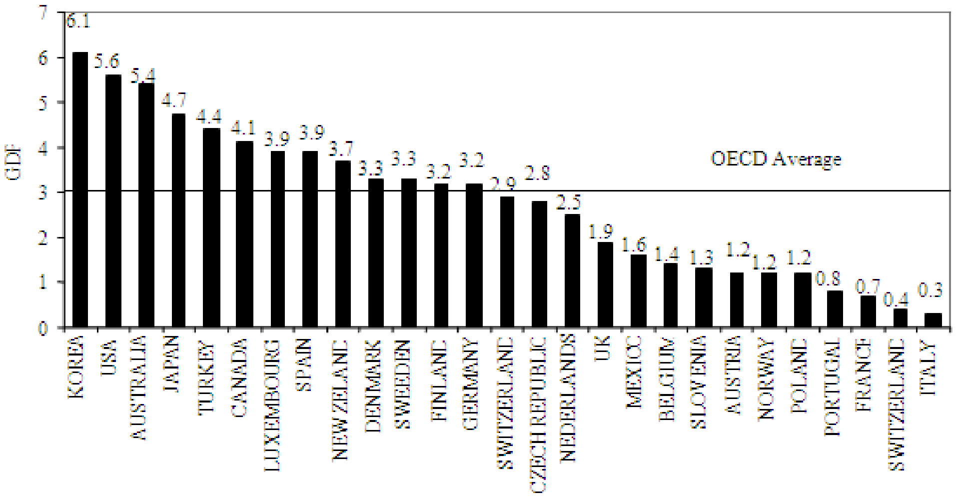

Fig. 1: Conjuncture programs of OECD countries (2008-2010)
Schaltegger, Christoph A./Weder, Martin, challenges the finance policy, in: Baltensperger, Ernst/Niepelt, Dirk/Zurich, Boris (Hrg), economic policies 20 after the crisis, proceedings of the conference held on 19th and Gerzensee November 2009, Bern 2010

been balancing each other. Spending of 15 countries relative to GDP has remained above the 3% OECD average and spending of remaining 13 countries relative to GDP has remained under OECD value.

Effect of automatic stabilizers stems from structure of transfer system and it is dependent on other institutional rules like unemployment benefits, stepped increase in the tax system or decreasing of debt ratios.

The figures in 2009 in OECD countries have been showing that effect of automatic stabilizers in the crisis period as large as expenditures in conjuncture programs. Almost half of the measures in the conjuncture package have been originating from tax rate reductions. Spending decreasing measures are however, constituted mostly by infrastructure investments and social spending deductions.

According to OECD values multiplier effect of additional public spending has been calculated to be equal to 1 and effect of decrease in the tax rate has been calculated as 0.5. When the 2008 global crisis is taken into account in both cases a smaller multiplier effect has been calculated. And the main reason for this is the continuing uncertainty situation in the economy and high borrowing rates of countries. Therefore, enterprise owners have been acting reluctantly in investment making and households do not choose to increase savings in the crisis environment (Schaltegger and Weder, 2010).

In the economics literature there is no consensus on whether the borrowing is good or not. However, in modern economies thinking of a finance system that cannot sustain its function is impossible. If public revenues are intermittent the public spending that is used by private individuals and enterprises will facilitate optimal distribution of consumption and investment spending in time.

If we do not take into account the conjuncture stages, in the absence of public borrowing and by carefully arranging tax revenues each year it is possible to attain budget equilibrium. On the other hand issuing government bonds has been creating formation of a finance policy and it serves to the establishment of stable framework conditions in the economy (Hagemann, 2012).

There is no difference between meeting public spending by borrowing or by tax revenues. From the point of economics public spending is impartial and it does not create development effect. Economic units should be conscious about early or late payment of public borrowings. An increase in the tax rates in the future will increase saving volume and it will allow re-borrowing possibility. However, in developing economies increase rates in additional borrowing that is caused by high rate of public spending have brought along additional burden and they have affected the economic development in negative way. Although making increase in public spending is very easy, decreasing the public spending or an increase in the tax rates cannot be attained that easily from the political point of view. Inability to establish control over public spending and coalition governments' not adhering to public discipline have been causing increasing of public debt stock and servicing these debts is becoming a problem.

Economists know that effect of public spending which is financed through borrowing on conjuncture is very weak. And the reason for this is that households know that they will get into difficulty when the debts are paid back someday in the future. This means that whether or not public spending has problems is dependent on size of the borrowing rate and if it is suitable for its use purpose. Therefore, putting a limit to financial policy is quite difficult because psychological conditions and social and economic characteristics of countries are different from each other.

Within the financial policy the most important subject matter that relates to borrowing problem is tax policy because tax policy is considered the most important instrument in decreasing the accumulated debts of countries.

RESULTS AND DISCUSSION

With the increasing trend of globalization in the world settlement competition of multinational companies in countries has increased and degree of freedom in application of tax policy has been restricted. This situation is valid for multinational firms, very well educated personnel and wealthy private individuals. Direct foreign investments have a very high elasticity.

According to OECD forecasts one unit additional tax load leads to 3, 7% less use of foreign capital. The tax competition formed in the last 20 years has affected preferences of international enterprises significantly.

Since 1980 in OECD countries tax dependent enterprise profits of public sector have decreased from average of 48 to 26%. The band width between the lowest tax rate and the highest tax rate has remained constant. In 1990s among the OECD countries the country that has the lowest tax rate has been Switzerland. However, after this date many countries have lowered their tax rates more than Switzerland (Schaltegger and Weder, 2010). In 2003 Ireland ranks first in OECD with the lowest tax rate of 12.5%. Some of the Eastern European countries, near east and Caribbean countries have significantly lowered their tax rates. Despite all these developments since 1980 revenues obtained from enterprises has significantly increased. Although enterprise revenues' rate to GDP has increased from 2.3 to 3.9% between 1980-2006 the increase rate in total tax revenues has increased from 7.6 to 10.7%. As it can be understood from this point very low tax rates can be compensated with larger tax base (Schaltegger and Weder, 2010).

Eliminating the barriers in front of capital mobility on the one hand and technological advancements on the other hand (for example electronic fund transfer) have caused the international capital mobility to increase. In the globalized world in order to attract mobile enterprises to it many countries have been drawn into tax competition. In literature two opinions come to fore regarding lowering of tax rates:

The first one is many countries' lowering their tax rates and gaining cost advantage and their efforts to attract mobile enterprises in various countries to themselves. By this way countries have been targeting to increase employment levels in their economies and realize technology transfer. Within this framework, the objective of tax harmonization between countries is being abandoned, countries can go into a fast competition among themselves through tax advantages and tax rates can recess towards minimum levels. The advantages provided to international mobile enterprises are not only limited to tax rates, together with increasing tax competition it has been giving way to concessions in social deductions and subsidy policies. When looked at from this angle the winning side is the consumers but all the countries are damaged from this tax competition (Wildasin, 1988; Oates and Schwab, 1988).

Another opinion is the thought that competition in tax rates that reached as far as Tiebout in 1956 will enhance welfare levels of countries (Tiebout, 1956). Studies of new economy policy followers have been claiming that increasing of tax competition between countries towards mobile enterprises will increase welfare levels of countries, too because tax competition restricts movement environments of national actors within the bureaucracy. In case of public budget's having deficit and inefficient realization of public activities international tax competition will have disciplining effect on public decision making bodies.

Despite the countries' tax competition related discussions that cannot be explained fully in detail OECD and European Commission have announced negative opinion because of the reason that settlement preference competition of mobile enterprises will do harm to countries (OECD, 2008).

Another factor that is used in eliminating public deficits is conjuncture programs that the governments have prepared, as well.

Effect of conjuncture programs in economy is dependent on multiplier effect of financial policy. And this is related to what the effect of a change in public finance equilibrium that is politically decided on GDP (Gross Domestic Product)

Here the question that should be asked is if public deficits are financed through borrowing and economic growth is wanted to be increased by 1% thanks to conjuncture program, what will be the increase rate in GDP? Here GDP growth rates and Public borrowing are wanted to be brought together and associated. Theoretically, value of multiplier effect can be equal to 1, greater than one or less than one. However it should not be forgotten that value of multiplier effect will change depending on time scale. As well as both average and cumulative values can change in the period, such factors as magnitude of multiplier effect and conjuncture stability have importance. In general emerging outcomes are dependent on model application. The most important parameter in the model is marginal consumption trend of private household, which means that the additional income that emerge thanks to conjuncture program should not lead to increase in saving but it should increase demand amount. Another effect is blocking of private economic activities by the effect that emerge through interest rate or foreign exchange rate mechanism, which means emergence of various "crowding out" effect.

The research done by Romer and Bernstein has put forth that if United States of America had not applied conjuncture program in the first four months of 2010 the GDP in US economy would have been more than 7% (Romer and Bernstein, 2009; Brügelman, 2010). As an opponent opinion to this development is Cogan *et al*. (2010) researches. In this research it has been envisaged that in the same period in case of applying conjuncture program in the US economy the GDP would increase by 0, 65% (Cogan *et al*., 2010). An agreed upon outcome is that multiplier effect in public spending is approximately 1 and value of multiplier effect of a decrease in public revenues is stated to be ½ (Brügelman, 2010).

An increase in public spending in the form of short term advance service buying is generally considered more effective than tax reductions. In the mid to long term effect of additional public spending is weakening.

Magnitude of multiplier effect can be changing in conjuncture program towards both revenue and expenditures and besides it can show difference with respect to tax types and spending ways.

The result that comes out of all these explanations is that if objective is to become successful in conjuncture program reason of recession in economy must be demand driven. In other words, reason of economic recession must be stemming from demand shocks. Expansionist financial policy's ability to have positive effect on conjuncture is dependent on not increasing of public debt through public spending. If public debt is increasing, financial policy should not be expected to have positive effect on conjuncture.

Empirical studies conducted have shown that conjuncture programs towards financial policy add negative value to the economy.

In his research conducted in 88 countries between 1960-2004 Badinger (2008) has found that expansionist financial policy did not have positive effect on conjuncture and it only served to the interests of parties sharing the power politically in formation of conditions to partially take advantage of.

In his study between 1994-2006 conducted covering 19 countries Cimadomo (2008) has put forth that while financial policy should give way to anti-conjuncture results, some conjuncture directional results have been reached (Cimadomo, 2008; Brügelman, 2010).

Research conducted by International Monetary Fund in the past periods covering various countries has shown that automatic stabilizers are more effective than conjuncture programs.

When one looks at the subject matter from another angle, when the magnitude and effect of 2008 global finance crisis are taken into account it has been determined that monetary policy has a limited effect. Therefore International Monetary Fund has defended that putting into use of conjuncture programs is mandatory (Spilimbergo, 2008).

It seems that a consensus has been reached among economists and finance professionals regarding application of conjuncture policy. If conjuncture programs are going to be applied then a short period of time should be determined, the negative effect on public debt balance should not be excessive and public budget equilibrium should be restored within a very short period of time.

If conjuncture programs do more harm than good, in recession or recovery periods of economy conjuncture programs are needed (Mooij and Keen, 2012). Normal economic measures of public sector will be able to be adequate to achieve economic stability. This impact mechanism generally functions through automatic stabilizers. These are as follows:

- When the extremely fallen tax revenues in recession periods are taken into account, the more tax system has increasing rate tax structure, the more tax revenues will be influential against conjuncture change.
- Public spending increasing in recession period is automatically transferred to consumption of private household and leads to decreasing to private spending.
- Public sector's normal expenditures are independent of conjuncture development. Activities like domestic and foreign security, education and health expenditures are within this group.

When looked at in general automatic stabilizers are more influential in continental Europe than in the United States of America. Depending on conjuncture development 1% decrease in GDP causes 0.5% public deficit in Euro-zone countries and this deficit is one third of this rate in the States (Brügelman, 2010).

Having low level of income on the one hand and expenditures in increasing rates on the other hand have created large deficits in public budget. In 2010 public debt burden in OECD countries is 6.3% of GDP (Gross Domestic Product). In 2011 this rate has decreased to only 6%. The UK, Ireland and the US have been having budget deficits around 10% of their GDPs. According to Maastricht criteria in European Union member countries rate of budget deficit to GDP will not exceed 3%. Presently 20 of 27 countries have already exceeded this limit. Only Finland, Luxembourg and Southern Cyprus are out of this situation.

Budget deficits of countries have been increasing their borrowing rates. From 2007 to 2010 borrowing

Table 1: Budget deficits' rates to GDP in selected countries

	Borrowing, % GDP 2007	Borrowing, % GDP 2010	Borrowing, % GDP 2020 forecast
Spain	42	68	93
Ireland	28	81	118
Germany	65	82	97
Uk	47	83	124
Portugal	71	91	132
United States	62	92	133
France	70	92	114
Greece	104	123	171
Italy	112	127	131
Japan	167	197	246
Russia	7	10	0
Mexico	21	24	13
Indonesia	35	33	13
South Africa	29	39	34
China	45	46	34
Turkey	42	55	74
Brazil	73	62	49
Poland	52	63	77
India	62	69	52

Becker, Sebestian, /Deubner, Günter, Staatsverschuldung in 2020, Deutsche Bank Research, 24 Marz 2010

Table 2: Effect of debts on public budget debt interest payments in percentages within the total public revenues

Country	2000 (%)	2007 (%)	2010 (%)	2015 (%)
Greece	16	12	17	34
Japan	8	9	14	22
Portugal	9	7	9	21
Italy	15	11	13	21
Spain	10	4	7	18
USA	9	8	13	18
Ireland	6	3	6	16
Great Britain	6	6	9	16
Germany	7	6	7	10
Switzerland	6	4	4	4
Average	9	7	10	17

Schaltegger, Christoph A./Weder, Martin, Herausforderungen der Finanspolitik, in: Baltensperger, Ernst/Niepelt, Dirk/Zürcher, Boris (Hrg), Wirtschaftspolitik Nach der Krise, Tagungsband zur Gerzensee-Konferenz vom 19. und 20. November 2009, Bern 2010

rates in all OECD countries have increased by 20% and reached 76% of GDP. In this time period nominal debts in Ireland and Iceland have increased by 50%.

OECD countries have differing borrowing rates among themselves, as well (OECD, 2012; Schaltegger and Weder, 2010).

While Spain's budget deficit's rate to GDP was 42% in 2007 this rate has climbed to 68% in 2010 and it is forecasted to be 93% in 2020. While Turkey's debts rate to GDP was 42% in 2007 with 55% it has remained under OECD average in 1010 and according to Deutsche Bank research it is forecasted to go up to 74% in 2020. In the European Union France, Greece and Italy are the leading countries among the ones exceeding 60% of debt to GDP ratio. While France's budget deficit rate to GDP was 705 in 2007 this rate has increased to 92% in 2010 and it is forecasted to go up to 114% in 2020. Likewise, for the same time periods Greece's budget deficit rate to GDP has increased from 104 to 123% and it is forecasted to be going up to 171% in 2020. While Italy's budget deficit rate to GDP was 112% in 2007, due to global finance crisis it has increased to 127% in 2010 and it is forecasted to keep on increasing and to reach 131% in 2020. Japan's budget deficit rate to GDP in 2007 was 167% and it has increased to 197% in 2010 and forecasted to reach 246% under uncertainty (Table 1).

Increasing borrowing rates in many of the OECD countries constitute significant portion of public budget. And increasing of the duties assigned to the state has been restricting the financing possibilities of public budget.

Table 2 shows how much of the public revenues are paid by debts. Public revenues' share in total debt payment will increase from 7 to 17% by 2015. Within the total public revenues debt payments are forecasted to increase from 16% in year 2000 to 34% in 2015, in Japan from 8 to 22%, in Portugal and Italy from 9-15% to 24% and in many of the other OECD countries from 6-7% to 18%.

The increase in total debt rates has been growing the debt interest service and confidence of investors and people in public is shaken. Consequently, if rate of total debt burden to GDP in OECD countries gets worsened by 1% this situation is reflected on long term interest rates as 10% increase. When coupled with the uncertainty about how public sector will pay its debts increasing interest rates will bring along decrease in investments and lowering of growth rate. In Euro-zone long term interest rates are artificially kept low through expansionist monetary and financial policies (Palley, 2011).

Despite the crisis environment many countries have increased tax rates. The upper bracket of income tax has been increased from 41 to 46% and tax rates in the UK have been envisaged to be increased from 40 to 50%. In Spain a decision has been taken to increase the value added tax from 16 to 18%. When assessed as a whole, per capita tax increase will go up by 400 Euros (Schaltegger and Weder, 2010)

Even though financial policies are wanted to be given priority in OECD countries restricting the public expenditures has not been that possible up to now because many of the public expenditures fields have been determined by law. Therefore limiting public sector expenditures in the short run does not seem that possible. Social security expenditures can be given as example. On the other hand restricting public expenditures also seem difficult from political point of view because different party groups cannot agree on which public expenditures will be restricted. All the parties are in agreement regarding the necessity of saving but there is ongoing debate about in which areas saving should be made and all parties have been laying the debt burden on each other. And this situation brings along a deadlock.

As a result, in many of the OECD countries a financial policy that really supports the monetary policy is not being implemented. In the analysis made by Deutsche Bank it has been put forth that in the long run in many of the OECD countries public debt rates will not go down and they will gradually increase (Becker and Deubner, 2010).

CONCLUSION

It would be appropriate to define the economic policy applied in OECD countries since 1990s as monetarist policy (Köhrsen, 2011).
When looked at from this perspective:

- Inflation has been considered a monetary phenomenon and price stability has been thought as a duty of Central Bank.
- In order not to fall into timing mistakes economic policy practitioners have been given clear behavior rules.
- Unemployment in the market is accepted to be supply sided.
- The financial policy to be applied from the perspective of growth and employment has been accepted to be within a sub group of Central Bank monetary policy stability target.

The European Stability and Growth Pact formed within the European Union has complied with abovementioned economic targets. However, in the academic circles in the United States of America return from new monetarist economy is being discussed for long. Each theoretician has been marching to a different tune and among the economic targets zero deficit in public budget, a rigid price stability policy and measured wage increases have been coming to fore.

In the UK the European Stability and Growth Pact is being criticized to be ghost remains leftover from monetarist economy.

In the United States of America appointment of N. Gregory Mankiw, who is the chief actor of New Keynesian Economy, as the leading advisor in economy is perceived to be a return to Keynes again and people have been asking "In the 21st century, will new Keynesians substitute new monetarists?" For long times New Keynesian theory and policy have been criticized by Post Keynesians because they took Walras' market order model as reference. Here the important question is within a more intervening economic policy framework whether or not New Keynesian stream will eliminate the unemployment, a stagnant growth and inflation threats (Köhrsen, 2011). Or else the questions emerge: Will a new bridge between post and new Keynesian be built in time and a new theory similar to new monetarist stream is put forth?

RECOMMENDATIONS

After the 2008 economic and financial crisis the economic policy has been drawn into a deadlock. Within the framework of existing economic policy there is no consensus regarding how monetary and financial policies will be commonly applied in international arena. Contrarily, after the global financial crisis economic problems have been shown as if they were solved, problems were covered and economic policy has been put into an expectation. In case economic problems cannot be solved crisis expectations can go into an increasing trend.

The conjunctural programs that are applied in OECD countries have large effect as an economic stabilizer. These programs have been as much effective yet not that costly as the expenditure of fiscal policy programs. The effect of tax cuts has been great in all OECD countries' economic recovery. On the other hand, the results of these programs have increased the public debt ratio in many OECD countries.

Global financial crisis has made its mark on public sector. Financing of high expenditures through increasing revenues does not only have conjunctural but also structural characteristics. In many of the OECD countries increasing debts will create a burden on public budget and this situation will deteriorate for a long period. Debt choices in economic policies of these countries will always occupy the first places. Therefore, in order to get out of debt problem it would be wise to put into use not only the monetary policy but also the financial policy. Currently, industrial countries must place public budget stability into the focal point of conjunctural policy.

Continuing uncertainty and indecisiveness in policy making and the economy make preparation of alternative solution scenarios mandatory. Otherwise monetary and financial policies will be able to prepare a new crisis again in the coming periods.

Due to international tax competition, solving debt problems by increasing tax rates does not seem possible. On the other hand restricting public expenditures is being precluded by the excuse of social state principle and oppositions from political interest groups. There has been no consensus among countries regarding to what extent, in which conditions and when to apply financial policy and each country has been trying to give a direction to its economy policy by acting alone.

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