

## **IMPACT OF STATE INTERVENTION ON THE ECONOMY: DOES AUSTERITY ENCOURAGE DEVELOPMENT OR LEAD TO POVERTY TRAP?**

**Klodian Muço** 

University "Eqrem Çabej" of Gjirokastra, Albania  
klodianmuco@hotmail.com

**Jonida Avdulaj**

University "Eqrem Çabej" of Gjirokastra, Albania  
jonidaqendro@hotmail.com

**Arjola Mitaj**

University "Eqrem Çabej" of Gjirokastra, Albania  
a\_mitaj@yahoo.com

### **Abstract**

*The problematic on the role of market and state intervention in the economy is an old issue that has enthused and still enthuses today. This also due to the fact that this argument is impossible to be analyzed scientifically, as there are many ideological positions which reach different conclusions. This phenomenon also occurs when the economic situation of Albania in recent years is analyzed. Considering this and the consequences of the current financial crisis in almost all the Balkan countries, the main objective of this paper would be the identification of problems of austerity and expansive policy issues, in order to guide the Albanian policy-makers toward an endogenous and sustainable development. The methodology used in this paper consists mainly in literature review and comparative and descriptive analysis based on the data provided for Albania and different countries of the Balkan region. Our main findings suggest that in time of crises the austerity policies do not give the expected results since in developing countries like Albania, they were associated with a significant fall in consumption and a deterioration of public accounts.*

**Keywords:** *Development, Austerity, Policy Maker, Public investment, Albania*

## INTRODUCTION

### Neoliberal versus Keynesian Policies

What can the government of a country do to get out of the economic crisis as soon as possible? Is one of the nowadays legitimate questions in the economic area but not only. To answer this question correctly, at first it should be understood which are the instruments to make possible the exit from the crisis and what should not be done?

It is understandable the fact that the government should do something to stimulate economic growth but often happens that these interventions have adverse effects with what was thought, thus leading the economy into a deeper depression than before the crisis. With the emergence of the crisis, many governments took a series of measures to afford it. We recall the case of Greece that will be analyzed later or fiscal reform undertaken by the Albanian government after requested the IMF assistance.

As it can be observed even today in Greece as well as in Albania, coercive measures have not yielded the expected effects. Based on this result, let's take a look at what the neo-liberal and Keynesian recipes advise to come out of the crisis: whether is it right to rely the economic growth on the public debt or not. When in 1936 came out the General Theory of Employment, Interest and Currency, economic science faced with a true revolution. This revolution was actually a political revolution as Keynes didn't want to revolutionize economic science but to justify and promote the necessary measures that a government could take in order to emerge from the crisis. Let us analyze where this theory consisted and what the state could do to emerge from the crisis according Keynes.

Keynes begins his reasoning rejecting the law of Say that deals with the phenomenon of economic crisis. Say emphasized that in a free market regime, long term economic crises are not possible as products are not paid in cash but in products. The offer is always able to create its own demand; each seller is also the buyer. To exit the crisis according Say, import restrictive measures are not necessary, it is only sufficient to increase production, which can also go for export. Say was convinced that the free market was able to achieve in equilibrium and in full employment by itself (Costa, 1977). According to Keynes this is not true if we take into consideration the law of value. If incomes correspond to the value of total production then there isn't any profit and no capitalist would produce if there is no profit. According to Keynes selling depends on the buying decisions, because buying is not always for granted, consumers decide to buy on the basis of incomes and on the propensity for consumption and saving. According to Keynes a part of the national income goes to consumption and the rest goes to savings.

Keynes rejects the law of Say, arguing that consumption or better consumption demand depends on supply. For this reason, economists and politicians should focus on demand.

Supply in turn depends on the propensity to consume and the decision to invest. Investments are public and private: the private ones depend on capitalist decisions based on the future benefit predictions. These investments of course depend on the basic interest rate but the latter is not always taken into account by everyone (Keynes, 1936). Investments according Keynes set in motion the multiplicative mechanism of income, thus the investment in a certain way finance additional revenues and investors' savings stemming from the investment itself.

So we have that  $C = cY$  where  $C + GI = Y$

It brings:  $cY + GI = Y$

Which indicate that  $GI = Y - cY$  and  $Y = GI / (1 - c) = GI/s$ .

This indicates that income growth  $\Delta Y = \Delta GI / (1 - cm)$  depends on increased investment and  $cm$  which is the marginal propensity to consume.

While investment multiplier is given by

$$K = 1/s = 1/(1-c).$$

Given that equity formula is:

$C = c + v + pv$ , then income can be expressed in accounting order with:  $Y = \Pi + W$ .

Where:

$\Pi = c + pv = \text{constant capital} + \text{plus value}$ ;  $W = v = \text{variable capital} = \text{wage}$  (here it is ignored and not included for simplicity capitalist consumption).

Assuming that capitalists decide for an extra investment,  $I = \Delta GI$  which will depend on production factors used in production and on the income to be distributed at the end of the production cycle in the form of gross benefits and wages.

From the above it is obtained

$$\Delta \Pi_1 + \Delta W_1 = I.$$

These benefits and salaries will be distributed in the first phase and will affect an increase in demand which will lead to a production expansion and consequently this will result in an increase in gross benefits  $\Pi_2$  and wages  $W_2$ .

So in a second time it can be written that:  $\Delta \Pi_2 + \Delta W_2 = \Delta C$  where  $C$  = the value of goods consumed.

If for a moment it is taken as a hypothesis the fact that capitalists do not consume the incomes but save them then, the consumed amount in the second stage will be equal to the amount of wages  $\Delta C = \Delta W$ .

If the 2 equations above, that of the first stage and second stage are summed it results:

$\Delta \Pi + \Delta W = I + \Delta W$ . Canceling from both sides  $\Delta W$  remains that  $\Delta \Pi = I$ . Therefore the value of gross profits stemming from investment is equal to Investment itself.

Shifting from monetary to real aspect it results that the demand for production I created the supply  $\Delta P$ . This report also shows the interconnection that exists between income expansion and autonomous component of demand that comes from investments. In short, are the investments that lead to increased revenues and the creation of new jobs and these investments stem, according Keynes, from marginal propensity to consume (Keynes, 1936). According to nowadays Keynesian economists, Krugman and Stiglitz, the current economic crisis is precisely a demand crisis that has damaged so the marginal propensity to consume. According Stiglitz, in such conditions the governments of countries in crisis together with the central banks of each country should undertake structural interventions on the demand side, thus in order to stimulate consumption and employment and not to intervene on the supply side, cutting the budget in order to obtain regular public accounts (Stiglitz, 2014).

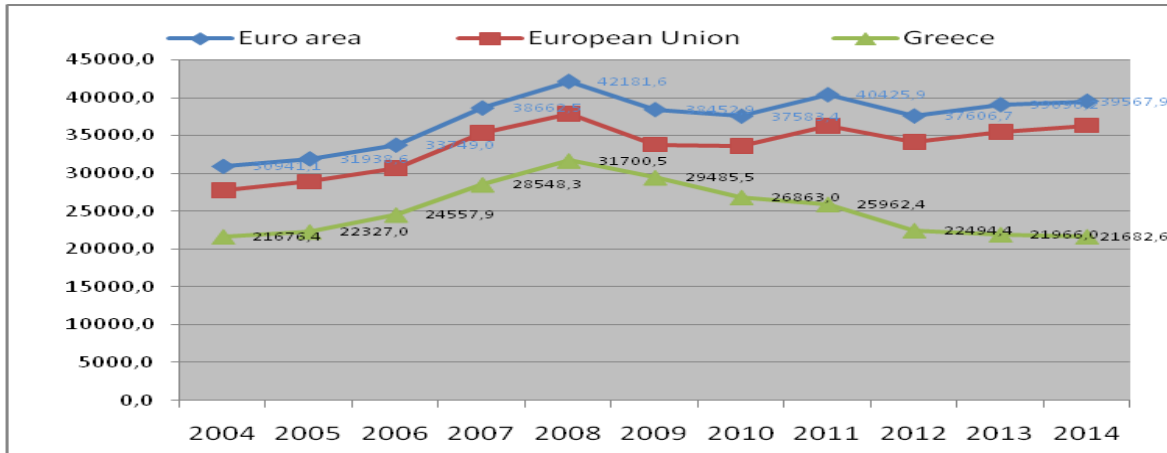
Keynes states: *"You can take water to horse but you cannot force him to drink it."* In other words, interest rates can continuously decrease, lowering the cost of money, but entrepreneurs in order to stimulate investment need above all to sell their products. Only increased demand will push them to invest and ask for credit on investments and new job creation, because even if the cost of money declines to zero entrepreneurs are not likely to invest if they don't predict to sell the production and to increase their profits. In terms of crisis according Keynes monetary policy is powerless; therefore it needs to be coordinated with the fiscal one, therefore it is necessary fiscal stimulus.

In other words, economic theory developed by J. M. Keynes was based on the concept of aggregate demand that consists on the amount of demand of citizens for consumption, investment demand by enterprises, the state sector demand that stems from public expenditure, interest rates and international market demand. Focusing on aggregate demand Keynes gave a clear theoretical basis for fighting two basic problems in the economies of '40s, unemployment and inflation. Keynes was based on the fact that unemployment was caused by the depression of aggregate demand; in such circumstances to stimulate aggregate demand according to him it was needed:

- Stimulation of consumption through direct tax cuts, providing opportunities for citizens to have more money to spend;
- Promoting investments through lowering the cost of money;
- Constructing public works such as roads and hospitals through public spending, engaging citizens in their construction, i.e. employment;
- Fulfilling domestic demand through production orientation and promoting exports through devaluation of money.

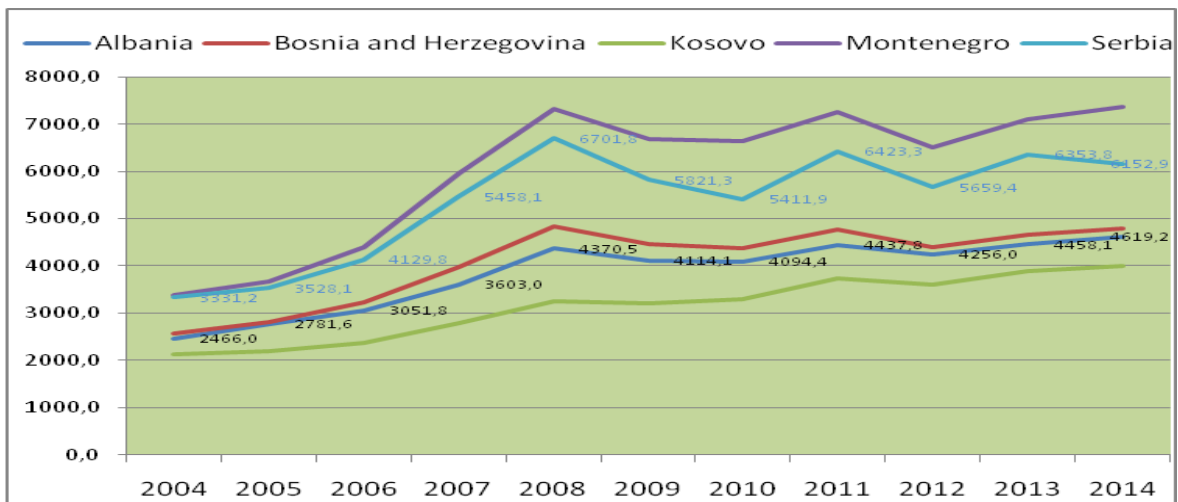
The crisis that we and many other countries in Europe are experiencing today is exactly an unemployment crisis associated with consumption and aggregate demand contraction as can be noted from the two charts below.

Figure 1: Household Final Consumption Expenditure in EU, EA and Greece



Source: World Bank, 2015

Figure 2: Household Final Consumption Expenditure in Balkans Countries



Source: World Bank, 2015

Considering the charts above and mentioned facts, it can be said that the success of Keynesian economists shows once again that Keynes was right and that the economy based on the concept of "laissez-faire" where Austrian economists such as Ludwig Von Mises and Friedrich Von Hayek and their pupils of "Chicago School" *in primis* Milton Friedman (neoliberal) are based, does not function.

The deepening of the current crisis according Keynesian economists is also thanks to neoliberals' policies supported by the WB and the IMF.

Although it must be said that the affirmation of neoliberal theories in the seventies and today supported by the aforementioned international bodies has come thanks to inefficiency Keynesian prescriptions in the period of the oil shock in 1973. Increasing price of oil by 400% in this period caused an increase of production costs for manufacturing enterprises which was shifted to the final consumer. Keynesian policies were failed in that period as long as inflation did not result from the uncontrolled growth of oil price, but came as a result of a political decision taken by OPEC countries.

Friedman stated that a country can come out of the crisis if alternative policies are implemented different from existing ones, keeping them underway until the moment when "politically impossible becomes politically inevitable" (Friedman, 2009; Hardy and Cooper, 2013). From this remark the Canadian journalist Naomi Klein created the basis from which was implemented "Shock therapy"- structural adjustment program initially experimented by Chicago economists chaired by Friedman, in Chile by Augusto Pinochet and later used in dozens of countries from WB and IMF.

According to this paradigm, in times of crisis the focus should not be on the demand side, but on the supply side and the approach in reality should move from macro to micro level. The state should be limited only in keeping public accounts under control and low interest rates to ensure stability.

The government should reduce taxes for companies enabling them make new investments and increase the products' quality, thus becoming more competitive. The enterprises of '73 to gain the competitiveness, afford the crisis and reduce the costs caused associated, reduce their fixed costs and shorten real wages or give up from environmental protection programs. Thanks to this thesis Friedman replaced Keynes and many countries of the world began to apply neoliberals program.

Taking into account neoliberal policies, IMF with WB assistance, in order to emerge from the crisis have as a priority the reduction of state intervention in the economy and keeping public accounts under control after the market according them regulates itself. For this reason they advise mass privatizations, public spending cuts, fiscal system facilitation and customs tariffs reduction (Muço, 2015). Structural programming will ensure a reduction in poverty, but what happens in reality? Public spending cut and their control often leads to tax increases and consequently to reduction of real wages, contraction of aggregate demand and employment. This is well demonstrated with the two countries taken into account in the following analyses, Greece and Albania.

## **POLICIES UNDERTAKEN ALONG ECONOMIC-POLITICAL TRANSITION IN ALBANIA**

Regarding on the opinions on economic policies, today there is a great debate in Europe between the right and left for economic stimulation of a country's economy. The left says "yes" it is needed; the right is completely against, because, according to them, economic stimulus impoverishes the economy of a country.

Often the right political party in Albania, different from the European one in the last mandates, has used economic incentive or as otherwise called the Keynesian policy, increasing thus public investment spending and partially the wages. These actions resulted to economic growth to some extent but, in turn, have led public debt at unaffordable levels. Unlike Keynes, Mosler and Galbraight who believe that a country should increase spending and investment, because in this way consumption will be stimulated, neo-liberal economists argue that, if a country is poor, borrowing money, won't make it richer. So, the solution for a country like that is: more commitment in the fight against tax evasion, corruption, formalization and orientation of the economy. A similar action is trying to do the actual government: to accept the advice of the IMF and austerity policies supported somewhat by orthodox economists (Alesina and Ardagna, 2009; Alesina and Giavazzi, 2012; Reinhart and Rogoff, 2010). We use the term somewhat because there are a few orthodox economists left that support austerity, even Blanchard and Leigh (2013) who work at IMF criticized it claiming that the IMF used a 0.5 multiplier while in reality it was 1.5. According them, this means that if austerity increases by 1% of GDP in the 2010-2011 crisis, GDP falls by more than 1% from the predicted level.

Regarding Albania, both the right and left governments historically has received funding from abroad, to increase public investment that, according them, would generate growth and increase consumption. But these investments did not generate sufficient incomes to justify the investment and their cost. For this reason, orthodox or neoliberal economists claim as the only solution, private investments, as very important to increase production and employment. In Albanian reality, private investments didn't give the expected results, as there was a lack of investment orientation.

According to World Economic Outlook data (2014) in 2003- 2013 decade, GDP has more than doubled going from 5,747 billion to 12,747 billion dollars. While unemployment has increased from 15% to 15.6% in 2013; so we have a GDP growth not accompanied with employment growth. While in 2003 - 2008 period it is noted that while the investments are doubled, the unemployment rate in this period has declined in 13.3%. In the following years, although there has been a continuous increase of public investments in infrastructure, it has stimulated the GDP growth but not employment.



Table 1: Gross and Per Capita Investment in Balkan Countries

Country	Albania		Greece		Macedonia		Montenegro		Serbia	
Year	G.I. in billion \$	P.I-C	G.I. in billion \$	P.I-C	G.I. in billion \$	P.I-C	G.I. in billion \$	P.I-C	G.I. in billion \$	P.I-C
2003	2.3	710	51	4623	0.91	437	0.26	424	2.8	374
2004	2.7	840	56	5075	1.2	575	0.34	553	6.7	898
2005	3	939	51	4619	1.3	622	0.4	649	6	806
2006	3.5	1101	65	5881	1.4	669	0.69	1118	7	944
2007	4.1	1295	82	7409	2	954	1.2	1942	11	1490
2008	4.7	1489	82	7399	2.6	1239	1.8	2908	14	1905
2009	4.4	1396	60	5406	2.4	1142	1.1	1777	7.3	997
2010	3.7	1175	52	4680	2.3	1094	0.94	1516	6.4	878
2011	4.3	1363	47	4227	2.7	1283	0.82	1320	8.8	1209
2012	3.9	1233	34	3056	2.8	1330	0.79	1272	8.2	1132

Source: Ivan Kushnir's Research Center, 2014

Focusing on investments after 2008 in all the Balkan countries it can be observed a contraction; all countries begin to feel the effects of the crisis.

During 2008-2010 the Albanian government in order to face the crisis significantly increased investments in infrastructure, to stimulate economic growth by spending about 10% of GDP. A pure Keynesian policy but that it can be said say that this has not proven to give its effects as GDP and consumption increase did not resulted in employment growth. The causes of the results of this policy are diverse but it is worthy to mention that infrastructure investments are associated with corruption, what many economists call hidden tax (Tanzi and Davoodi, 1998; Everhart and Sumlinski, 2001).

Keynes claimed that investments using public debt have sense only when the cost of debt is lower than the benefit of investment.

In June of 2013, the new government again requested IMF assistance which advice was to launch a new fiscal reform, reduce public debt and keep public accounts under control.

After the first six months of 2014 it was observed an increase of revenues by 12.5% compared to 2013, an increase of 13.2% social insurances and customs also had the same trend. But after this short period it seems that the increase of a share of taxes and restrictive policies are producing negative effects in Albania.

Average wage at the end of 2014 according BoA was 5.8% lower than a year ago while productivity fell by 9.5%. The fall of productivity is directly related with the real wage decline. Also it is well known that the price of a service or product is determined by demand and supply, so if the demand for employees will be lower, certainly the price of labor will fall. So the



decrease in employment has caused a reduction of wages and it is understandable that the decline of wages does not come only from the lack of demand, but also as a result of prices and taxes increase. According to official data of the Ministry of Labor and Social Affairs (2015) in the last two years it is estimated that about 91,000 new jobs have been created. But if we refer to INSTAT (2015), the unemployment of 15-64 age groups for male and female, from 16.4% in the second quarter of 2013 rose in 18% in the fourth quarter of 2014. From these data it can be concluded that the number of new jobs created is smaller compared to what are being shut down. The closure of jobs is somewhat verified by the latest data published by the General Directorate of Taxation (2015), where only in 2015 about 200 businesses in the construction sector bankrupted and the number of enterprises that are debtors to the tax administration reached to 16,037. Compared to a year ago, this number is increased by 3.5 times and by 15% only in this year.

There is also a lack of realization of the incomes plan of that causes later problems in budget planning.

Fiscal policy is causing the same damage on the other side, that of expenses. In the first half of 2015, public investments were the lowest in the last 8 years, excluding last year. Also, although the government pledged that through the undertaken reforms thanks to the suggestions of IMF, public debt at the end of 2016 would decrease to 68.9%, while in reality in the document published by the Council of Ministers for the strategic development this prediction is corrected to 71.3%. Even the indicator of economic growth is corrected in deterioration for 2016 from 4% forecasted, to 3.4%.

In times of crisis when public sector is discouraged regarding investments government must stimulate consumption through investment expenses that have a chain effect on the economy through fiscal multiplier; i.e. in the construction sector this multiplier ranges from 1.3 to 1.8. The market may not always be considered the best mechanism for the distribution of incomes and in times of crisis the principle of "laissez-faire" where neoliberals are based does not give the expected effects, especially in countries with a mature economy like Albania or Greece. Skidelsky in the introduction of his book in 2010 writes that Keynes has returned in vogue intending that if governments want to emerge from the crisis should implement stimulus measures to support the economy (Skidelsky, 2010).

## **AUSTERITY POLICIES IN GREECE AND THEIR EFFECTS**

A major part of economists believe that the development of a country depends on innovation and entrepreneurship (Romer, 1993; Nelson, 1993; Bell and Pavia, 1997; Stiglitz, 1996; Hoff and Stiglitz, 2001; Scott and Garofoli, 2007). All economists in question say that in order to have

economic development a country should ensure employment. The latter comes from the demand, the demand depends on consumption and investment and these often are stimulated through public spending. Mazzucato in his last book, "*Lo Stato Innovatore*" argues that private sector avoid risky areas, which do not have a secure investment return or when the return results only in the long term. The private enter into the market only when the state through investments and its direct interventions enables the sector to return to profitable one and the profit is achieved even in the short term.

According Mazzucato 75% of innovation in pharmaceutical molecules derives from public funding and is returned later to profit treasures for big pharma. Again, thanks to public investments in US defense made possible the creation of CPU, GPS, touch screen, SIRI etc. The government also intervened in the issue phase for some products, which according Neoliberal or Orthodox economists should be banned. It was precisely the state that has created the market for certain products and furthermore has been a venture capitalist in companies like Google and Intel (Mazzucato, 2014).

While in Greece Troika (EB, CEB, and IMF), convinced that had all the necessary know-how to manage the crisis and to issue Greece out of the crisis, presented her plan of salvation, offering 110 billion Euros, asking at the same time to undertake a series of reforms, such as cuts in administration, salary and pension, public investment cuts etc. According to a report of the European Parliament, thanks to the program of aid and the measures that Troika forced Greece to undertake, in 2012 it should have reached a certain economic growth, its unemployment should have declined to 14.8%, while public debt at 149%.

While the results were quite the opposite of the Troika forecasts. According to Eurostat data of February 2015, the unemployment rate in Greece was the highest in all of Europe; it reached over 25%, and the public debt / GDP ratio at 172%. Even this report is a negative record that Greece holds which it is far "away" from other countries.

Although there was made a drastic reduction of public expenditures in the period 2014-2015; they declined to 9.6 billion from 13.5 billion during 2009-2012; the deficit / GDP ratio went from 3% that was the target value to 12%. While from 2008 to 2014, GDP of Greece fall by 25% and continues to decline even nowadays. In the period of the Great Depression, the United States even though suffered a similar decline, after 4 years, the economy began to recover, while Greece as mentioned above, even today, after more than 6 years has a low probability to recover. This decline is also coupled with a contraction of bank deposits, which have decreased from 250 billion in the middle of 2010 to 138 billion dollars at the beginning of 2015.

According to Nobel Prize winner in economics, Paul Krugman, the Greek economy has also fallen as a result of *austerity* measures that have severely reduced fiscal revenues. This

decline is certainly not the main problem that led the country into crisis; however, it is a factor that has not contributed emerge it out of the crisis. It is worth mentioning the fact that keeping a strong currency like euro, for a country in crisis has not a positive influence. The currency should be depreciated a little bit as to help exports and facilitate tourism. The latter together with the services sector are considered as the primary sectors of the Greek economy, where only in the last two years have "cost" the country an income drop of 15%.

Given the situation of Greece and the effects of austerity policies, in Greece and other countries where they have been applied, the economist of Boston, James Galbraith, called Troika hypocritical and not coherent, while the other Nobel winner Joseph Stiglitz went even further arguing that it would be better for Greece to get out of the euro zone considering the current conditions than to continue in this endless misery. Even the other Nobel laureate Phelps, concludes that austerity was one of the factors that led Greece to the current difficult situation, thus according his opinion the premise of saving seems to be wrong.

Varoufakis, who except from being the Greek Finance Minister, is also a very good economist, considering the effects caused by austerity claimed that for emerging Greece out of the crisis and to return the debt the austerity measures are useless and aggravate the situation and make the citizens suffer even more. It is needed at all costs to have economic growth; it is the only way to pay the debt. So austerity has more contributed to the deterioration of the situation and not to its improvement.

## **HOW TO GET OUT OF THE CRISIS AND THE FIGHT AGAINST POVERTY ACCORDING HYMAN MINSKY**

According to neoliberal mainstream, inflation is a monetary phenomenon (Brunner, 1970; Currie, 1982; Friedman, 1970; Tobin, 1972; Currie, 1982). According to this affirmation a better macroeconomic management requires a strict control of the monetary supply in the market more than the rate of consumption (demand) that stays in the second plan, in shadow. In such conditions in macroeconomic level it is needed a redistribution of general resources from consumption to private investments, more specifically from public to private investments. Minsky argued this choice would lead to an increase of assets value and would also generate assets inflation or in simple terms a speculative bubble. According to Minsky to get out of the crisis consumers do not need social assistance but instead of this, the government should intervene directly in the employment offer. This policy by Minsky is a conservative policy of a dysfunctional existing system that is hampered by structural limitations in a capitalism based on speculation that provokes a surplus of speculative investments and financial instability. If this policy is impossible, according Minsky another way is that of changing the system, so that employment

could be generated through state intervention in the control of investment and production. Although in appearance this looks like socialism, Minsky in reality adored capitalism and wanted to escape itself by proposing a new model of capitalism based on employment. To achieve full employment and economic development, resource management should come from a public-private partnership. In order for capitalism to be successful is necessary that institutions integrate private employment through a limited labor offer (Pennacchi of Bellofiore, 2014). Supporting families through social assistance and transfers is a vicious circle because it does not stimulate consumption sufficiently and investments are probably to be speculated. So a planned capitalism where the state rather than insuring social assistance and transfers should hire the unemployed in appropriate projects, in order that they contribute for the society rather than giving assistance without doing anything. If capital is free it is not well invested as has happened in Albania where there are found endless restaurants and gas stations. In this way it does not generate revenues and employment for everyone based on domestic consumption while respecting the environment we live in. This, according Minsky, is nothing than a public impetus to stimulate domestic consumption and demand together with supply, for promoting collective consumption (Minsky, 1965). Also, the support and distribution of income, not only fights poverty according Minsky, but it makes possible the modification of property distribution providing even more jobs than the available work force. A full employment generates good salaries and also according Minsky it is simple for a well paid employee to buy a house using loan or to buy necessary and luxury services, so a good job generates job.

According him there are not only investments that create development, since they often finish being speculated and create financial instability; job creation is the one that brings development (Minsky, 1975).

Bauman (2013) along with Minsky-n (1975) stated that the replacement of labor with technology is significantly shortening work places, for these reason governments should implement active labor-oriented policies to ensure development and social welfare for all.

To summarize Minsky claimed that capitalism changed the way since in '71, market liberalization from one side by removing customs barriers and financial flows on the other side caused a rapid increase of competition in all OSCE countries, brought an increase of pressure on employees, thus causing wage deflation and less warranty. This is because entrepreneurs seek at any cost the increase of financial capital accumulation and the decline of industrial benefit as was conceived before '71. This wage deflation causes a further decline of profits from the standpoint of sales and forces even more the enterprises to get loans for new investments, in order to survive pushing the economy in a vicious circle (Minsky, 1975).

## CONCLUSIONS

From the analysis of the literature and basic data on consumption and macroeconomic indicators of countries involved, it appears that in times of crisis there is a significant fall in consumption and a deterioration of public accounts.

According to neoliberal economists and international institutions like the IMF and the WB, to get out of the crisis is primary lowering state intervention in the economy and having under control public accounts as the market goes to equilibrium by itself. For this reason they advise mass privatizations, public spending cuts, fiscal system facilitation and customs duties reduction.

Structural programming according neoliberal and these institutions will surely reduce the poverty. But in reality is often noted that to keep accounts under control is not always translated into economic development. Also a huge public debt is not always translated into economic situation worsening of individuals, and the best example of this phenomenon is Japan.

It seems that the economic crisis has caused a contraction of aggregate demand and an increase in unemployment and uncertainty of the future of the citizens. According to Keynesians unemployment is caused by the depression of aggregate demand. In such conditions to stimulate aggregate demand there is a need to: stimulate consumption, encourage public and private investment, fulfill domestic demand through production orientation and to promote exports through money depreciation.

Given the situation of our country and a part of European Union countries it can concluded that structural reforms proposed by the Troika, on the supply side did not had positive effects, on the contrary, they have worsened the situation.

From our analysis it results that in the actual crisis structural reforms are needed on the demand side to stimulate consumption and investment. Only in this way a country can have economic growth and get out from the crisis.

Regarding Albania's economic transition one can note that although all governments have had a neoliberal tendency, applying economic stimulus, this has not led to desired effects since there was an unfair distribution of income and investment disorientation. Fiscal policies and private investment private have not given the expected results, leading to negative effects, like an excessive growth of public debt beyond the limit of 60% defined by Maastricht and an abuse of private investment as may be the case where gas stations constructions often do not provide any economic benefit.

According Minsky, who was among those few economists who had predicted the crisis argued that to come out of the crisis, the government must make direct interventions in labor supply because it is exactly the labor, especially the secure one that stimulates consumption

and supports aggregate demand generating economic growth and social welfare for individuals. In order for capitalism to be successful is necessary that institutions integrate private employment through a limited labor offer.

Considering the Albanian reality, to come out of the crisis the country has urgent need for fiscal stimulus to boost private investment and above all to orient them in the production of those products that satisfy and stimulate domestic demand.

There is also an increasing necessary for public investment to support aggregate demand.

Certainly taking in consideration the current conditions of our country, with a decrease of fiscal revenues and increase of public debt this seems to some extent impossible, given that the informal economy in Albania goes over 40%, and over 300 concessions given to privates most of the cases contribute little or zero to the state budget.

A war against informality and against concessions can generate enough revenues as to leading public accounts under control, how to increase public investment and above all to stimulate consumption through a reduction of fiscal pressure.

## REFERENCES

- Alesina, A. F., & Ardagna, S. (2009). Large Changes in Fiscal Policy: Taxes versus Spending, NBER Working Paper No. 15438 Issued in October 2009
- Blanchard, O., & Leigh, D. (2013) Growth Forecast Errors and Fiscal Multipliers, IMP Working Paper, WP/13/1, [January 2013]
- Carabelli, A., & De Vecchi, N. (2001). Hayek and Keynes: from a common critique of economic method to different theories of expectations. *Review of Political Economy*, 13(3), 269-285.
- Costa, G. (1977). Ricardo, Keynes, la causalità e la legge di Say. *Studi economici*, 32(2), 3-56.
- Everhart, S. & S., Sumlinski, M. A. (2001), Trends in Private Investment Developing Countries: Statistics for 1970-2000 and the Impact on Private investment of Corruption and the Quality of Public Investment, World Bank, [01.01.2001]
- Friedman, M. (2009). Capitalism and freedom. University of Chicago press.
- Hayek F.A. von (1990). Denationalisation of Money – The Argument Refined: An Analysis of the Theory and Practice of Concurrent Currencies, 3rd edition. London: Institute of Economic Affairs.
- Hoff, K., & Stiglitz, J. (2001). Modern economic theory and development. *Frontiers of development economics: The future in perspective*, 389.
- Keynes, J. M. (2013). Teoria generale dell'occupazione, dell'interesse e della moneta. Utet Libri.
- Krugman, P. (2012). European crisis realities. The Conscience of a Liberal.
- Mazzucato, M. (2014). Lo stato innovatore. Laterza, Roma-Bari.
- Minsky, H. P. (2015). Can “it” happen again? Essays on instability and finance. Routledge.
- Muco, K. (2015). L'analisi del modello di sviluppo albanese nel periodo post-comunismo: il cambiamento economico e la specializzazione, tesi di dottorato, Università degli studi d'Insubria, Facoltà di economia, Corso di laurea in economia, 2014-2015, rel. G. Garofoli

Muco, K. (2014). Efektet e krizës financiare dhe dalja prej saj, SHQIP, [20/07/2014]

Muco, K. (2015). Një mundësi për të dalë nga kriza, SHQIP, [16/01/2015]

Muco, K. (2015). Pse ka të drejtë Cipras dhe ç'mund të mësojmë prej tij, SHQIP, 1[2/02/2015]

Pennacchi, L., & Bellofiore, R. (2014). Combattere la povertà: lavoro non assistenza. Ediesse.

Skidelsky, R. (2010). Keynes: the return of the master. Public Affairs