

**Kamila Dyla, Klaudia Ślęzak**  
**Wydział Prawa i Administracji**  
**Uniwersytet Opolski**

**Rationalism in action as basis for the fight against the crisis.**

**Introduction.**

Gargantuan problems of the European Union called the crisis of the Eurozone are published as unthinking, novelty, manipulating stunned public. Hardly anyone inform itself of the prophetic scenarios of the current show, which was previously shown, among others, the already cited Milton Friedman and Joseph Stiglitz.

In trite assumptions, entering to the euro zone had to be linked to the *economic convergence criteria*, and the entrance to the *political decision-making center of the Union*. The influence on decision-making processes of European Union is model ensure that these activities take place in accordance with the principles of democracy, which in reality are constantly broken, by people standing in the spotlight of the pyramid of nonsense.

As for the euro zone Milton Friedman responded as follows - *from a purely theoretical point of view, it is extremely difficult to assume that it will be a stable system in the long term, further continuing - As we know, different countries in the euro area are not a natural commercial zone for the single currency. It does not represent an optimum currency area. In the Eurozone, there is a very low international mobility of labor. There are very complex systems of regulation. These countries need therefore mechanism adjusted to adjust to asymmetric shocks - so far this mechanism was floating exchange rates. Now, has been deprived of this mechanism.*<sup>1</sup>

On one hand, a deep Eurozone crisis revealed the weakness and impotence of European class, as we have seen in published by the European Central Bank decision in September 2012 by creation of money into countries debt, which emit one paper (bond) and substituted it by the second paper (euro). On the other hand, it showed disparities between countries. Note that a variety of European countries is their advantage, because each of them influenced in different ways. That what is the natural wealth of the continent cannot be questioned and brought to a common pattern.

In the 50's Walter Hellstein in so-called bicycle theory, stressed that it is necessary to go forward, because otherwise we'll fall. Maybe supplementing this theory is to say that riding a bike of European integration, not only we want to move forward, to save our self from falling down; now we

---

<sup>1</sup> See the phrase, M. Friedman, Canada and Flexible Exchange Rates, Questions and Answers, form the session of conferention currency floating exchange rates, 2000.

need a good, wide road, we want to know what is the purpose of the trip. For the *conscious, political founding of Europe again* - J. Fischer.<sup>2</sup>

### **Democracy in the country in which was established.**

The EU acting in the present chaos pushes into the further plan the actual situation of Greece and its citizens, who, as part of protests come out to the streets burning the European flag. We cannot surprise them. This economic situation in which this country found is the result of seven-year-old, continuous injection of euros by the European Union. And when the currency begins to lose its value, we can only observe the future economic collapse. Note that the democracy is scorned in the country from which it is derived. This is not Greece who decide how to proceed to get out of this as soon as possible, but the Big Three which means - an official of the European Commission, the European Central Bank and the International Monetary Fund! - what is commonly called the economic governance. The Greek economy has decreased overall, from 2008 to 2012 by about 25%. Let us not be deprived of the experience from the past decades, there are still ways to publish insolvency of the country so as not to fall. The Greeks have to debate about withdrawal from the euro zone and return to the drachma, it would be a huge blow because their currency is about 60% weaker on the foreign market than it is now, but it is necessary according to the authors. Let's recall the situation of Argentina from 20 years ago, which was linked with the U.S. dollar which puts it in an equally bad situation. On the day before the Argentines in 2001 broke the link to the dollar, up to 80% of them wanted at all the costs to keep the currency for fear of devaluation, now Argentina is in great condition.

### **Economy.**

Today's we can see something namely three Dominants, controlling decision-making processes of the Union, who bring on behalf of UE the same regulations and restrictions. It's just that this is one of them, i.e. Germany has the greatest impact on exports, reducing the competitiveness of other economies. However, in cases where the competitiveness of particular economy was beginning to rise argued it, that it's caused by application of the illegal financial dumping.<sup>3</sup> In Europe, we had to deal with different economic development of each country. These countries have totally different internal mechanisms. Institutions of Greece, Belgium and France, which have debt in the form of 200% or even 250% of GDP,<sup>4</sup> are no longer able to function normally, and yet apply to them a policy aimed at further destruction. In addition, these countries are overprotective, and rather than strictly limit spending's, they are making society lazy by social grants.

---

<sup>2</sup> W. Bartoszewski, *Przyszły kształt Unii Europejskiej. Polski punkt widzenia (II)*, www.wladyslawbartoszewski.eu, - 13 April 2013 r.

<sup>3</sup> See <http://blog.parkiet.com/cholewinski/2012/11/06/unia-bankowa-nie-dziekuje-my-juz-mamy/>

<sup>4</sup> Morgan Stanley, reported in 2009 that there's „no historical precedent” for an economy that exceeds a 250% debt-toGDP ratio without experiencing some sort of financial crisis or high inflation.

## Banking Sector.

In 2008, went bankrupt three largest Icelandic banks: Kaupthing, Glytnir and Landesbank. Although they had assets ten times greater than Iceland's GDP, the government has not made desperate attempts to rescue them. Iceland does not have to increase its debt, by letting fall their banks. It's freed up in this way from any liability for incurred by financial institutions, debts.

When the Icelandic government resigns from the very beginning of subjects rescue, whose further existence is a misunderstanding, in Europe most indebted countries - Greece and Ireland - spent on saving banks 28 and 80 billion euro. Rescuing the banks at all costs is significant for the Eurozone countries. Caricatural structure of the European banking system is reflected, among others, in the size of bank assets, which often exceed the GDP of the country. Consequently, there are strong relationships between the banking sector and governments of particular countries. Toxicity of interdependences lies in the fact, that on the one hand, banks relied heavily on each other real sector, becoming too big to fail, but on the other hand by investing in worthless bonds of insolvent countries, have risked the loss of liquidity. In this case, while the weakness of European financial markets, troubled banks are very strongly felt by the individual economies.

The reduction in bank lending, increased capital requirements<sup>5</sup> in relation to the level of bank assets, maintaining high liquidity or creating an additional security buffer<sup>6</sup> for use in times of recession, are basic goals that should guide politicians in an efforts to heal the banking system. However, in the political debate in first place are the arguments that the full implementation of the Basel regulations will reduce economic growth. There is no doubt that Basel III imposes significant restrictions on banks while at the same time improving the costs, but their aim is mainly the banking sector security. In order to maximize profits, bankers have forgotten that the bank, as a rule, is not-for-profit institution. Unfortunately, European politicians, aware of the costs of implementing of the Basel provisions drop put part or, mitigate the solutions adopted by the Committee. They are looking for alternatives to avoid making unpopular decisions. One of them is the idea, inspiring many questions - namely Banking Union project presented by the European Commission in 2012.

Generally speaking, the proposal provides for coverage of major European banks, by supervision of the European Central Bank. Doubts arise during assessing the rationality and effectiveness of the project. Unification of the management of banks across the EU does not really matter where we are now faced with extensive regulations, MiFID and CRD. Also, the centralization of supervision is not a good idea. It is not possible that the ECB could be effective in solving problems in particular countries. From the perspective of European supervisor invisible will be abuses which could potentially make a regional financial institutions.

---

<sup>5</sup> At the level of at least 4.5% in relation to its assets, *Basel Committee on Banking Supervision reforms - Basel III*, <http://www.bis.org/bcbs/basel3/b3summarytable.pdf>.

<sup>6</sup> At the level of 2.5% of assets, and counter-cyclical capital buffer ranging from 0 to 2.5 % assets, depending on the situation in the economy, created in order to prevent speculative bubbles and deflections on the market; *Basel Committee on Banking Supervision reforms - Basel III, op. cit.*

In addition, the ECB, as the central bank has guaranteed the independence of monetary policy issues. Entrusting him another important role of the supervisor of the entire European banking system will equipped it with a range of competences, which in practice cannot be controlled. The combination of two fundamental roles - the central bank and the financial supervisor - in one hand is not the best solution. It is because in bank's activity an important role plays bank secrecy. The specificity of this institution is associated with limited possibility of obtaining information from the bank. There is therefore a risk that the ECB citing a secret that binds him, may commit fraud. As a result, operational transparency of the new structure may be limited due to natural causes. The question therefore arises: what when internal control mechanisms and audit will fail?

In every political move, is reflected desire to minimize responsibility. Analyzing Dirk Schoenmaker and Arjen Siengmainn<sup>7</sup> report it is clear, that the highest costs in case of bankruptcy of 25 European banks would suffer the countries, which apply a strict policy against the banks and not allowed their excessive growth. An example of this injustice is Poland, which have a stable banking sector, and paradoxically will have to pay the most of from the countries which are outside the Eurozone.<sup>8</sup> The reason for this is accepted by European politicians, the method of calculating the costs of implementing the mechanism of banks liquidation. - ECB's capital key which corresponds to the shareholding of the member country in the total population number and GDP across the whole EU. However, the right solution while considering such issues, would be the separation of the financial sector (banking) from the economy. It's because factors that are determining operation of each of them are different.

In an attempt to repair the banking system, you must estimate all the benefits and the costs incurred or planned as a result of decisions made on the basis of the sector, and only that sector. Costs should be borne in proportion to the size of the banking sector, and the benefits should accrue in proportion to the level of safety. Therefore, the larger the banking sector the higher the cost, the safer sector the greater benefits. The aim is to rationalize the mechanisms and consolidate the principle higher risk-higher costs. Unfortunately, the issue of financial outlay, which is associated with the implementation of the project - *Banking Union* as politically inconvenient, it is not taken into substantive discussions.

---

<sup>7</sup> D. Schoenmaker, A. Siengmainn, *Efficiency Gains of a European Banking Union*, <http://ssrn.com/abstract=2214919> - 13 February 2013.

<sup>8</sup> According to the report D. Schoenmaker, A. Siengmainn which shows that the eurozone countries Spain (with two big banks belonging to the group of the 25 largest) and the Netherlands (with three such institutions) could have net benefit of 11% and 3%. However, Germany, Italy and France would suffer a cost of 7%, 4% and 3%; About the countries from outside the euro area, the analysis shows that the United Kingdom (with five banks among the top 25) and Sweden (with one big bank regional) would benefit most of - 13% and 9%. All the countries of Central and Eastern Europe, unfortunately would have to pay more. In the group of countries outside the euro area most of will to Poland - 5%, due to its size.

## Fiscal and Monetary Policy.

Also, in terms of financial policy we can refer to the solutions adopted by Iceland. Actions taken from the long-term perspective produce the desired results. OECD researches show that the country's budget deficit fell by 3% in 2011. From the presented predictions results that in 2013 this trend will continue.<sup>9</sup> However, to achieve a state of permanent economic growth Iceland has already undertaken a number of reforms. On the one hand, the government had to heal the financial system on the other to calm the mood among investors. The solution was the introduction in 2008, the restrictions on the movement of capital in order to prevent mass disposal by foreign investors bonds issued in Icelandic crowns.<sup>10</sup> Also, the depreciation of the currency, has allowed the recovery of the internal market.

In the EU, Iceland scenario is impossible to achieve as long as the politicians do not understand that the exit from the Eurozone, at the beginning Greece, and in the longer term maybe other countries, is essential.<sup>11</sup>

Project of the single currency, from the very beginning was pursued by political objectives. After the establishment of the common currency rating of many countries in the monetary union has increased and interest rates on minimum levels encouraged to take out easy credit. In this situation, all members of the community benefit - south countries run into debt using the credibility of Germany,<sup>12</sup> while the dominant countries drew profits from a decrease in the competitiveness of individual European economies due to blurring of the differences in exchange rates. Under these conditions, export-oriented German economy has been developing very dynamically. Germany, as a country in which the external sector (net exports) is the main engine of economic growth<sup>13</sup> gradually made dependent from itself countries where domestic demand plays a crucial role.

From fact of euro adoption, benefits has only dominant countries, and therefore ignored the issue of unreasonableness functioning of the single currency without a common government. It is worth noting that the "imperfect mechanism for economic policy, based on a centralized monetary policy and decentralized fiscal policies of individual countries"<sup>14</sup> is its consequence. In addition, the EU lacks the characteristic structure for federal countries, which would allow the operation of automatic stabilizers in the federal budget on the line the central government and the regions or states.<sup>15</sup>

Moreover, the introduction of the single currency caused the rapid indebtedness of southern Europe countries. This example shows clearly that the same monetary policy for all European countries not producing the desired results. In the case of different countries with different saving cultures,

---

<sup>9</sup> *OECD Economic Surveys Iceland*, <http://www.oecd.org/eco/48208267.pdf> - 28 April 2011.

<sup>10</sup> *Islandia ma rating inwestycyjny*, <http://www.parkiet.com/artykul/1307459.html?print=tak>, - 15 February 2012.

<sup>11</sup> *P. Krugman: Greece will leave the euro*, <http://news.bbc.co.uk/2/hi/programmes/hardtalk/9725121.stm>, - 31 May 2012.

<sup>12</sup> J. Kundera, *Kryzys w strefie euro. Przyczyny i metody przezwyciężenia*, [w:] K. Opolski, J. Górski (red.) *Perspektywy integracji ekonomicznej i walutowej w gospodarce światowej. Dokąd zmierza strefa euro?*, wyd. Wydział Nauk Ekonomicznych Uniwersytetu Warszawskiego, Warszawa 2012, p. 31.

<sup>13</sup> R. Wortera, *Źródła narastania akcji kredytowej w warunkach integracji walutowej*,

[http://www.knf.gov.pl/Images/KNF\\_Zrodla\\_narastania\\_akcji\\_kredytowej\\_tcm75-24075.pdf](http://www.knf.gov.pl/Images/KNF_Zrodla_narastania_akcji_kredytowej_tcm75-24075.pdf), - 10 September 2010, p. 26.

<sup>14</sup> J. Kundera, *op. cit.*, p.31.

<sup>15</sup> *Ibidem*.

adoption of the same inflation rate and the same rate of interest was not appropriate practice. The stability of the currency was a paradoxically deadly for the southern countries. Therefore, analyzing the countries inconsistency in disciplining their finances, presented by the European Commission at the end of 2011, the idea of euro bonds issue may raise a reasonable doubt as to the effectiveness of the project.

Communitarisation of the credit risk may give rise to moral hazard. "Countries demonstrating a tendency to expansionary fiscal policy will have access to cheaper sources of financing their debt, which will reduce the effectiveness of fiscal adjustment. So there is the risk of softening the hard limit, which is the acceptance of the financial market for the issuance of debt and reduce the motivation to consistently carry out the necessary reforms.<sup>16</sup> "European elites are looking for any ways (for taking Europe out of crisis?), only to prevent a collapse of the Eurozone.

It is worth to repeat that the return of Greece, and in the long term, also other countries, to their national currencies would allow for cleaning the market uncertainty and deception. From the point of view of fiscal policy - high yield of bonds will force bankrupt countries to stop the irrational borrowing. On the other hand, from the point of view of monetary policy, exchange rate of the domestic currency may be a buffer insulating country from external disturbances, as well as the mechanism to prevent the so-called asymmetric shocks.<sup>17</sup>

## Conclusions.

Different scenarios are devoted to current events, some assume in nature disaster, seeing the collapse of the euro area and the EU. Others, however, although they have every day more and more, they see consolidation in the crisis of the Eurozone and the EU whole as a result of taking any effective action as it was accompanied by the previous diaphragms.

Danger, which involves the actual destabilization can induce that the *old member countries might be tempted to focus on cooperation, without looking for new partners making increasingly difficulties, which are trying to highlight their demands by blocking the decision-making process of the Union. In turn, some of the new members of the Union may fall into claustrophobic self-importance (inability?) such countries, covering their weaknesses by external threats will increase abstinence in relation to joint to the decision-making process.*<sup>18</sup>

We believe that the European Union has rolled off on Hallsteinow bicycle integration, maybe not so far but certainly into a side road. The authors of this article are "for" the creation of a better Europe, a united, strong and open to trade. But throughout this process, let us not forget about our own countries which gives us a basis for political and civil freedoms, acting boundary fence with Euro-sphere.

---

<sup>16</sup> B. Baran, *Obligacje stabilnościowe jako instrument lagodzący kryzys zadłużeniowy w unii walutowej – spojrzenie krytyczne*, [w:] *Perspektywy integracji ekonomicznej...*, p.19.

<sup>17</sup> G. Tchorek, *Teoretyczne podstawy integracji walutowej* [w:] „*Mechanizmy funkcjonowania...*”, p. 42.

<sup>18</sup> J. Barcz, *Unia Europejska na rozstajach, Traktat z Lizbony*, Instytut Wydawniczy Euro Prawo, Warszawa 2011., p. 19.

Frederic Bastiat wrote *If we are talking about us, I think that the country is not, or should not be anything other than a common force established in order not to become a tool of oppression and mutual plunder. On the contrary, it is in order to give everyone his due, and to prevailed justice and security.*<sup>19</sup>

---

<sup>19</sup> F. Bastiat, *Dziela zebrane, Państwo* [w:] L. Balcerowicz, *Odkrywając wolność przeciwko zniewoleniu umysłów*, Poznań 2012, p. 359.