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Real Convergence as the Way to Heal the Eurozone

Abstract: *In attempting to elaborate a path to attain true convergence in the Eurozone, this article first analyses the mechanisms of convergence and the free market, and concludes that, contrary to what was expected, the free market principles have led to divergence in the Eurozone, with the northern countries as creditor states and southern countries as debtor states. The hindrance presented by the increasing costs of credit, higher in the South than in the North of the EU, has diminished the chances of the southern countries to compete in the Single Market. The current situation is undermining confidence in the hitherto-applied model of European integration, A deep diagnosis of the condition of the European Union is necessary in order to guarantee its survival. In fact, it is only through an active sectoral policy, implemented at both the level of the European Commission and the individual member countries, that the process of real convergence in the EU can be attained. Sectoral policy should be fine-tuned to the operation of market mechanisms in individual sectors of the economy in order to increase the employment rate, foster economy growth, foster specialisation and collaboration, and encourage greater equality. While it would not be easy to implement a proper sectoral policy within the present institutional system of the Economic and Monetary Union, this is crucial to the continuous development of the Eurozone. In this context, this paper favours a 'semi-Keynesian' interpretation, It is postulated to use financial instruments and support the countries suffering from the crisis in order to enable them to stimulate economic growth and create jobs. The problem is only going to be alleviated when the gaps between development levels are significantly diminished, structures of production are more assimilated, and intra-branch specialisation gains more importance. This is the 'real convergence.*

Introduction

In France, in early October 2013 we witnessed an event of both an economic and social nature which has become an object of analyses reaching far

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beyond the country and affecting the entire Eurozone. The President of France, François Hollande, came to Florange in Lorraine. Florange is a town famous for one of the largest steelworks companies in the world, a place where rich deposits of iron ore and coal create, so it seems, perfect conditions for the development of heavy industry. When the company owner, well-known metallurgy mogul Lakshami Mittal, two years ago announced the shutdown of two furnaces of the steelworks, his decision shocked almost all political circles in France. The French President responded by nationalising the industry. Moreover, Hollande and his ministers began to criticise many aspects of globalisation and complain about the inefficiency of governments in the Eurozone in facing these challenges.

The statement expressed by the President did not surprise the French public, since the country has a long-standing tradition of state intervention. According to some critics, the active role of the state in the economy plays an important role in the creation of nuclear energy, the armaments industry, the aviation industry, and France's excellent infrastructure and health service.

This time, however, the French government lost the battle with the powerful Indian industrialist. When Hollande arrived to Florange, he admitted to the plant employees that Mittal had decided to close the plant and nothing could be done about it. Other economists agree that production in France is becoming less and less profitable in many sectors of the economy, mainly due to the higher costs, inflexible labour force, and higher fiscal burdens. Additionally, statistical data reveals that in only five years as many as 350,000 jobs have been lost. In fact, industry shrank the most, contributing only 12.5 per cent to French gross domestic product, which is the lowest share among all the Eurozone states.[1]

President Hollande admitted that even a wealthy country such as France, but one that is stumbling under the burden of constantly increasing public debt, was no longer able to proceed with the nationalisation of a steel plant; an act perceived critically by foreign investors, including those from the Eurozone. France could not afford the option to indemnify the Indian entrepreneur in case of nationalisation. A secret investor who intended to purchase the steelworks for 400 million euros did keep his promise.

Several questions and lessons emerged from the Florange case. It is known that Mittal demanded lower salaries and longer working hours. Trade unions rejected these demands. Regardless of which side is right or wrong,

[1] See: *Hollande retournera sur le site d'Arcelor Mittal à Florange le 23 septembre*, "Le Monde", 23.09.2013.

in the long run it is worthwhile to answer some fundamental questions, one of which is: Is it at all possible to build a healthy base for an economy mainly relying upon a dynamically expanding service sector? This issue is one of many concerns of the Eurozone states.

1. Mechanism of convergence and the free market

The establishment of a common currency in the Eurozone initially led to a surge in economic growth in the less developed countries, mainly those situated in the southern part of Europe. The implementation of the convergence mechanism, on the other hand, emerged from the free market. Less developed countries had comparative advantages in the form of lower wages, a larger labour force, resources, and lower capitalisation. This contributed to quite a beneficial situation, which may be summarised by three factors:

- Cheap and unused resources of production factors in the South;
- Abundance of capital from the northern Eurozone countries;
- Low interest rates and readily available credit.

These factors accelerated the rate of economic growth in the less developed countries and it was hoped that, over time, they would lead to equalisation of GDP levels throughout the zone. Of course, the countries of the wealthy North were also expected to benefit from the rapid growth of the South.

Unfortunately, these hopes have not materialised. The invisible hand of the free market mismanaged investments as additional streams of capital flow surged. Instead of the much desired convergence, what followed was actually divergence (which is still going on). The economies of the southern states have become uncompetitive in comparison with the northern European member states and their global trade partners. This is due in part to higher Euro exchange rates, shaped by the economically sound North, but being too high for the South.

Several problems affect the lack of real convergence:

- The abundant capital inflow from the North, accompanied by a scarce inflow of foreign direct investments;
- The relatively meagre increase of direct trade exchange within the Eurozone;
- Many investments, financed with credit originating from the capital inflow, thus causing speculative bubbles, have missed the mark, such as in Spain and Ireland;
- Financing of public debt increased, e.g. in Greece, Portugal, and Italy;

- Labour costs increased in terms of goods and non-tradable services, which resulted in the Balassa-Samuelson effect, bringing about a growth of inflation in some cases;
- The Euro exchange rate became less competitive compared to other trade partners;
- The open global economy, which is beneficial for the wealthy northern part of the Eurozone, proved disastrous for the South;
- The southern part of the zone suffered from deindustrialisation.

The last point mentioned above is due to the fact that investment, which has been financed by capital inflow from the North, has ended up in the South in the non-tradable sector, while the tradable goods sector has not been able to compete with the leading manufacturers from the North and the cheap producers from Eastern Europe.

The economic problems caused by the process of divergence were disguised for a time under the scope of generally good business practice. However, the recent global crisis unravelled the real scale of the effects on the southern economies. The crisis, which hit in the years of 2007–2009, has shown no signs of recovery despite some symptoms of rebound.

The need to bail out the banking system using government funds clearly evidenced the weakness of economy in the southern countries. Public debt has soared, as did the level of indebtedness to creditors from the northern countries. George Soros described the situation that emerged quite brutally, but all the same aptly.[2] In his opinion, at the beginning the European Union was meant to be a voluntary association of equal states, which sacrificed some of their sovereignty for the sake of a common benefit. However, he argues that the Eurozone crisis has turned the EU into a union of unequal states divided into debtors and creditors, whereby the latter countries have the power to dictate economic policies.

The relationship between debtors and creditors reflects the essence of the dependence between weak and strong economies. Additionally, high public debt undermines the debtors' position and leads to cuts in government expenditures. Strong economies like Germany are able to maintain the growth of their economies by increasing their exports, which compensates for decreased domestic demand in the slowdown period. In addition, debtor countries suffer from low GDP, increased unemployment, and from debt increase (an effect, *inter alia,* of the higher interest rates paid in the bond market).[3]

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[2] *Ideas for the New Century*, a debate held in the Presidential Palace in Warsaw, PAP (Polish Press Agency), 12.11.2012.

[3] See also: A.Z. Nowak, Y. Shachmurove, *End of Eurozone?*, in: *Understanding Global Economy – National and Regional Studies*, Faculty of Management, University of Warsaw Press,

2. Labour market conditions in the EU – dilemmas and challenges

The process of divergence of the Eurozone economies has already happened, but remains ongoing. It may proceed even further, considering that the temporary competitive advantages of the northern countries are further augmented by high credit costs for governments, businesses, and households alike. The hindrance presented by increasing costs of credit, higher in the South than in the North of the EU, has diminished the chances of the southern countries to compete in the Single Market.

For how long will debtors remain trapped in this pitfall? Is the economy resuscitating, which could be altering the present situation? It is difficult and troublesome to alleviate the tensions occurring nowadays in the labour markets of these countries. Such tensions not only lead to social conflicts and unrest, but also undermine confidence in the hitherto-applied model of European integration.

In this context, analysis of the reasons for the changes in the labour market becomes an important element in the dispute over the advisability of state intervention in the areas of employment and unemployment. Andrzej Wojtyna believes that '(...) *where no immediate labour market compensation occurs, room opens up for an active macroeconomic policy.*'[4] He argues that limited wage flexibility prevents the private sector from reacting in an appropriate way. When a government is able to adapt its policy sooner and react to a shock more effectively, then room appears for traditional Keynesian stimulation of demand.[5] His opinions aptly reflect the essence of the circumstances concerning the present high level of unemployment in Eurozone.

Experts like Janusz Heller and Kamil Kotliński provide interesting studies about the relationship between public finance and the unemployment level.[6] They examined fifteen Eurozone countries over the period 2000–2011, and conclude the following:

Firstly, the application of mistaken fiscal policies leading to excessive state indebtedness during the financial distress of 2009–2011 resulted in

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Warsaw 2012; A.Z. Nowak, *End of eurozone?* in: *European Integration Process in the New Regional and Global Settings*, eds. E. Latoszek, I. Kotowska, A.Z. Nowak, A. Stępniak, Faculty of Management, University of Warsaw Press, Warsaw 2012.

[4] A.Wojtyna, *Ewolucja keynesizmu a główny nurt ekonomii* (*The evolution of Keynesianism and the main streams of economic thought*), Warsaw 2000, p. 214.

[5] *Ibidem*, pp. 214–215.

[6] J. Heller, K. Kotliński, *Trwała destabilizacjafinansów publicznych a stopa bezrobocia w wybranych krajach Unii Europejskiej* (*Permanent destabilisation of public finance and the rate of unemployment in selected European Union states*), "Studia Europejskie", No. 4(64)/2012.

negative consequences for individual Eurozone states. For instance, a group of countries with relatively stable public finances, such as the Netherlands, Finland, Denmark and Sweden (the latter two of which remain beyond the Eurozone), recorded increased unemployment rates in the years 2009–2011. The authors emphasised that the stabilisation of public finance never precludes some forms of fiscal expansion, mainly those focused on retaining low levels of unemployment. However, these countries had sufficient budgetary reserves to dampen the effects of negative crisis. This enabled them to reduce the scale of increased unemployment.

The authors observed that countries with destabilised public finances reacted in various ways to the crisis. Greece and Portugal could not contain the accelerated increase in their unemployment rate. At the same time, these countries also recorded further deterioration in their destabilised public finances due to the costs of the debt incurred. Greece and Portugal suffered from external shocks that showed their weaknesses. They could not counteract the negative consequences of the cited externalities.

Table 1. The unemployment rate in the years 2000–2011 for selected EU member states

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Denmark	4.3	4.5	4.6	5.4	5.5	4.8	3.9	3.8	3.4	6.0	7.5	7.6
Finland	9.8	9.1	9.1	9.0	8.8	8.4	7.7	6.9	6.4	8.2	8.4	7.8
Netherlands	3.1	2.5	3.1	4.2	5.1	5.3	4.4	3.6	3.1	3.7	4.5	4.4
Sweden	5.6	5.8	6.0	6.6	7.4	7.7	7.1	6.1	6.2	8.3	8.4	7.5
Greece	11.2	10.7	10.3	7.7	10.5	9.9	8.9	8.3	7.7	9.5	12.6	17.7
Portugal	4.5	4.6	5.7	7.1	7.5	8.6	8.6	8.9	8.5	10.6	12.0	12.9
Belgium	6.9	6.6	7.5	8.2	8.4	8.5	8.3	7.5	7.0	7.9	8.3	7.2
Italy	10.0	9.0	8.5	8.4	8.0	7.7	6.8	6.1	6.7	7.8	8.4	8.4

Source: J.Heller, K Kotliński, *Trwała destabilizacja finansów publicznych a stopa bezrobocia w wybranych krajach Unii Europejskiej* (*Permanent destabilisation of public finance and the rate of unemployment in selected European Union states*).[7]

The conclusions from these studies lead to further analyses about the background of unemployment in the Eurozone. According to Grzegorz Tchorek, factors improving the ability to react to and alleviate external shocks include the mobility of production factors and flexibility of prices and

[7] After: http://www.epp.eurostat.europa.eu/tgm/ (last accessed 2.06.2012).

wages, although government fiscal policy nevertheless plays a crucial role.[8] In his opinion, by applying an overly expansive fiscal policy over a period of relative stabilisation, some countries of southern Europe and the Baltic regions depleted their ability to use fiscal policy instruments right at the time when the first external shocks emerged. Some of the answers to the problems described included serious and socially harmful public expenditure savings, pressure upon the EU partners to lend a helping hand in the form of debt cuts or further credit facilitations.

3. The need for a new vision in the area of economic policy

A deep diagnosis of the condition of the European Union is necessary in order to guarantee its survival (which is very desirable). Members of the Eurozone need to implement fundamental changes in their economic policy. First, a more pronounced role is needed for sectoral policy, including industrial policy. In fact, it is only through an active sectoral policy, implemented at both the level of the European Commission and the individual member countries, that the process of real convergence in the EU can generate a new stimulus.

Instead of being modelled upon the old industrial policy, this sectoral policy has to be brand new and relevant to the times of integration. Such a broadly understood policy is not unfamiliar in the Economic and Monetary Union.[9] After all, it concerns the support, given in various forms, to such sectors as:

- Agriculture;
- Small and medium-sized enterprises start-ups;
- Infrastructure development;
- Education and human capital development;
- Support for a variety of initiatives in the areas of environment protection, culture, art, *etc*.

All these efforts, except perhaps for the first and the last categories, are aimed at supporting or correcting market-based mechanisms. Sectoral policy should fine-tuned to the operation of market mechanisms in individual sectors of the economy in order to increase the employment rate, foster economy

[8] G.Tchorek, *Teoretyczne podstawy integracji walutowej (Theoretical foundations of monetary integration)* in: *Mechanizmy funkcjonowania strefy euro* (*Mechanisms of eurozone functioning*), eds. P. Kowalewski, G. Tchorek, J. Górski, Warsaw 2011.

[9] Cf. generally: P.B. Kenen, *Economic and monetary union in Europe: Moving beyond Maastricht*, Cambridge 1995.

growth, foster specialisation and collaboration, and encourage greater equality. Such a policy should also protect the economy from the emergence of speculative bubbles. We do not think these are idealistic utopian solutions. It is possible, indeed necessary, to implement them.

Sectoral policy, understood this way, is meant to direct the invisible hand of the market, using the visible hand of the government and the collaborative hand of other EU member states. The aim is real convergence. This can be done by targeting those areas which are necessary to stimulate the process of true convergence. Indeed, in the postulate of reversing the hitherto prevailing trend of divergence, we see an essential opportunity for the development of the European Union and Eurozone. We realise, however, it is not going to be an easy task.

The crisis in Europe has also revealed that we are dealing with a serious and aggravated crisis of trust in the European Union, i.e. mistrust in both the individual politicians as well as currently existing institutions. This is accompanied by decreasing confidence in the concept of European solidarity, which has been developed since the end of World War II and has provided milestones for European integration. However, national egoisms loom and are strengthening in Eurozone members, hindering further integration.

We assert however that there is an opportunity for the European Union to create a new vision based on a sectoral policy in which the visible hand replaces the invisible one. As mentioned above, we know of many examples of effective sectoral policy, often under the simpler name of industrial policy. The obstacles are the conditions established by the prevailing neoliberalism and the institutionalisation of pre-conditions imposed by the Economic and Monetary Union (EMU) and the World Trade Organisation (WTO).

According to typical variants of the above ideology, the government usually has a dreadful reputation. State authorities are seen as lazy, cynical bureaucrats, afraid of doing anything non-schematic. Sometimes they are corrupt as well. Meanwhile, the ‘opposite side’ (business world) is perceived to consist of hard-working, dedicated entrepreneurs or private employers and risk takers. The black, evil image of the state authorities is false and simplified, in contrast to the (also simplified) white and chivalrous image of the business world. There are highly competent and reliable public officials as well as greedy, egoistic, short-sighted business executives, quick to commit fraud, and not immune to the attitude of ‘grab the money and run.’

First, the Eurozone countries should build quality institutions and fair competition. Second, there is not a single universal or best pattern for capitalism and the role of the government therein. The one usually regarded as universal is just the model preferred by the International Monetary Fund and by the financial markets.

One needs to be aware that it would not be easy to implement a proper sectoral policy within the present institutional system of the Economic and Monetary Union. However, this is crucial if one advocates for the continuous development of the Eurozone. One must not overlook the trap which some debtor countries fall into. Resolving only the sovereign government debt problem, while necessary, is not going to restore or bring about these countries competitiveness.

At the same time, long-term unemployment is a social drama, especially for young individuals, and it entails fatal consequences like hysteresis, migration, conditions of economic instability, and cavities in the very substance of a nation.

4. What is sectoral policy?

In order to improve competitiveness and economic growth, the following conditions are necessary:

a) Promote the small and medium-sized (SME) enterprise sector. Particular emphasis should be put on promoting SME 'market discoveries.'
b) Develop those business sectors with real prospects of generating high added value, innovative production, or enjoying higher probabilities of increasing export;
c) Create new jobs, mainly in the areas of goods and non-traded services, such as health service, child and elderly care, education, *etc*.

These proposals contain some ideas of targeted planning which are contrary to strict neoliberal doctrines. To rebuilt their competitiveness, the countries of southern Europe need to develop the instruments and measures used by 'emerging markets.' This kind of postulate is not easy to implement in light of the obligations resulting from membership in the EMU and agreements made under the WTO. Some methods that have proved successful for emerging markets simply cannot be duplicated. Instead, this precept rather provides directions, indeed the underlying philosophy, for actions which are dictated by the seriousness of the current situation. One needs to be aware that free market-based mechanisms have been and remain ineffective in overcoming these problems, at least within a time frame acceptable to the present generation.

Today is the time to start testing the European Union institutions, agencies, and the banking system before implementing new sectoral (industrial) policies. It should be kept in mind that affluent countries do not feel the need to talk about industrial policies.

5. The financial perspective of the present crisis

The common currency of the European Union members intended to prevent negative consequences of the dissolution of the Bretton Woods system.[10] The common market tolerates the system of liquid exchange rates to improve competitiveness. Countries are eager to adjust their monetary policies to achieve depreciation of their domestic currency and enjoy a positive current accounts balance. The system of Bretton Woods and the gold standard became popular thanks to their control of monetary policies. The gold standard excluded exchange rate-related policies. A country's economy depended upon external balances, which were necessary to retain fixed rates. Difficulties with the maintenance of the fixed exchange rates necessitated the implementation of a deflationary policy whenever a deficit in current counts emerged. The harsh consequences of such a policy affected different social groups unequally.

Financial support for countries in the process of adaptation and implementation of monetary policies enabled them to apply solutions to emerging social problems. The relation between money and gold, known as socially-rooted liberalism, allowed experts to identify hegemony in some countries.

The Bretton Woods system did the job in practice. However, it was politically costly. According to a number of economists, devaluation was not praiseworthy. Additionally, turbulence in the global economy in the 1970s and the dissolution of the Bretton Woods system brought about a gradual revival of flexible exchange rates. In fact, a policy of flexible exchange rates seemed like an attractive option for politicians as it allowed them to conduct independent national monetary policy.

Flexible exchange rates allow politicians to avoid unpopular decisions. When the depreciation of domestic currency occurs, entailing consequences related with inflation, it is easy to blame financial markets and remain clean. Governments influenced currency exchange rates by using monetary policies. This intervention created disagreements between conservatives and liberals, who are against the application of monetary policies. What came to the rescue was a theory of rational expectations that justified and decreased the effectiveness of governments' intervention in the economy. Fully independent central banks in many developed countries targeted inflation rates and strived for price stability. As a consequence, exchange rate policies and external trade balances were entrusted to market-based mechanisms. In short, central banks were entrusted to maintain price stability while market mechanisms were expected to do the rest.

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[10] See generally: E. Helleiner, *States and the Re-emergence of Global Finance: From Bretton Woods to the 1990s*, Cornell University Press, Ithaca, NY 1996.

In theory, the system of flexible exchange rates combined with central banks' inflation target policy should ensure the smooth operation of markets. Reality however, has proved otherwise. Currency exchange rates did not fit the economic fundamentals, nor did the achievement of inflation targets ensure a balance in the economy. The financial crisis of 2008–2010 revealed the latter problem, while the flawed nature of flexible exchange rate systems under conditions of globalisation and financialisation appeared earlier.[11]

Flexible exchange rates became a barrier to further integration in the European Union and constituted a serious reason to give up national currencies and create the common currency – the Euro. Obviously, there were other reasons as well. They notably included political considerations. Additionally, the strongest currency in the EU – the Deutschmark – could not have played the 'beneficial hegemony' role in the potential European variant of the Bretton Woods system.

In debates held during the stage of deepening globalisation, proponents of the introduction of the Euro pointed out many expected benefits to be enjoyed by the entire global economy. The Euro fits perfectly within the concepts of trade liberalisation and international cooperation. It also influences the operations of individual national economies. It was not only the liberals that could expect the common currency to render more flexible prices and wages. The hope was that adoption of the Euro would lead to improved competitiveness, achieved through real adaptations and sound economic policies rather than through monetary manipulations undertaken in order to achieve lower exchange rates for domestic currencies or through official devaluation.

This in fact signified the return to the idea of the gold standard and the final divorce with 'socially rooted liberalism', to the benefit of pure liberalism. The liberalism of solutions adopted in the EU took the form of the Brussels consensus and fit within liberal ideas of globalisation. The free movement of goods, services, and capital, along with its benefits, brought about the rule of financial markets. Financial markets, in line with the liberal doctrine ideology, also enabled these markets to control a number of governments' non-rational decisions. The most significant example is the abandonment by many governments of instruments of industrial policy and disregard for the role of industry in GDP in favour of services. Today, this error (mainly in Spain and Greece) means millions of people out of work. Now many governments in the EU better understand the need to rebuild or innovate some neglected sectors of the real economy.

[11] See also: A.Z. Nowak, *Współczesny świat w erze turbulencji (The contemporary world at a time of turbulence)* in: *Zarządzanie: tradycja i nowoczesność (Management: tradition and modernity)*, eds. J. Bogdanienko, W. Piotrowski, Polskie Wydawnictwo Ekonomiczne, Warsaw 2013.

In analysing the possibility of restoring debtor countries' competitive edge, all the above-mentioned circumstances have to be recognised and kept in mind. In this context, for the return to sectoral policy to be feasible, a return to Rooseveltian 'socially-rooted' liberalism must also be possible.

6. Concepts for repairing the Monetary Union's operation

One might distinguish between two interpretations of the reasons for the crisis of the Monetary Union. According to the first, some governments were irresponsible in allowing an excessive growth of public and/or private sector indebtedness. The consequences of this indebtedness were painfully exposed by the crisis. As a result, those countries ruled by irresponsible politicians lost the confidence of the financial markets. According to the second interpretation, the Euro system has several flaws in its structure and implementation, flaws which remained partly hidden during the period of good business outlooks. This interpretation lends support to the arguments raised by many sceptics against implementing the Eurozone project in the first place. Many American economists and academic circles in Europe share this opinion.[12]

Germans and other economists representing the neoliberal economy have their own interpretation. The Belgian economist Paul De Grauwe points out that the less developed Eurozone countries have no real control over the currency in which they become indebted. This exposes them to uncontrolled inflows or outflows of capital streams, depending on the changing confidence with which financial markets regard them. Under such conditions, they are unable to manage their liquidity since they do not control the money supply. This threatens to provoke a financial crisis even where no fundamental reasons are present.[13]

According to the 'German interpretation,' the remedy to heal the system is to restore trust in the indebted countries through reduction (some may go as far as to say elimination) of its budgetary deficit, gradual decrease of its public debt, and improvement of its competitiveness through reduced production costs. This strategy requires strict EU surveillance over economic and budgetary policy under the Stability and Growth Pact, as well as based upon new instruments counteracting macroeconomic disproportions. The Germans firmly emphasise introduction of the principle of fiscal discipline.

[12] R. Dornbusch, *Keys to Prosperity: Free Markets Sound Money and a Bit of Luck*, MIT Press 2000. Cf. also: P. Krugman, *Can Europe Be Saved?*, "New York Times Magazine", 12.01.2011.

[13] P. De Grauwe, *Prospects for monetary unions after the Euro,* MIT Press, Cambridge, MA 2005. See also: P. De Grauwe, *Economics of monetary union*, Oxford 2009.

Having learned from past experience, fiscal discipline should remain under strict control and countries should be subject to financial sanctions whenever they infringe on its principles.

The point of view shared by Germany and a couple of other states – recently turned creditor countries – is based upon a belief that over the last decades, significant differences emerged among EU member states with regards to the levels of their competitiveness, together with excessive distortions of macroeconomic balance. Strong mutual economic links often resulted in negative phenomena occurring in other member states, thus weakening the resilience of the entire EU economy to external shocks. These factors impact the way the Economic and Monetary Union operates. According to this theory, this happened due to convergence and the ignoring of the provisions of the Stability and Growth Pact by some EU member states.

Therefore, based on the actions by the proponents of this theory, in order to eliminate the existing macroeconomic imbalances and counteract the emergence of subsequent ones, a special mechanism for surveillance over the EU member states' macroeconomic condition has emerged. It relies on three fundamentals:

- An early warning system;
- Application of precisely defined rules, included in the Excessive Imbalance Procedure (EIP) and;
- Strict enforcement of the same, with financial sanctions imposed upon Eurozone member states in cases of a breach.

The above mechanism foresees that correcting actions will be launched when, based upon a detailed assessment of situation, the European Commission finds an excessive macroeconomic imbalance in a given member state.[14] In such a case, the Council, instructed by the Commission, will have the right to adopt a recommendation stating the occurrence of such excessive imbalance. They can then recommend that the member state concerned undertake necessary remedies (pursuant to Article 121(4) of the EU Treaty), and define a time frame within which such member state is obliged to present a plan for corrective measures, together with a schedule for implementation.

The fiscal pact adopted, known as the 'Six Pack,' demands rigorous sanctions for chronic infringements by a Eurozone member state of the rules of the Stability and Growth Pact. The efforts of several governments, especially in southern Europe, to apply the fiscal discipline required by the Six Pack are undeniable. Still, the evaluation of this policy is not unequivocal.

[14] Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011on enforcement measures to correct excessive macroeconomic imbalances in the euro area, OJ 2011 L 306/8-11.

While this paper shares the idea of rationalisation of state expenditures, i.e. avoidance of living beyond one's means, it recommends a new prescription for the problem of southern European countries. The German model is not the only basis upon which one may heal an economy. Germany does have the same experiences as Greece in terms of fiscal soundness, country size, and export potential.

Actually, there is another conclusion which can be drawn from German experiences, one which suggests the possibility to reduce differences among Eurozone member states in terms of their competitiveness. This could be achieved by using internal income redistribution in the Eurozone countries, considering that little room is left for external transfers. If the reduction of labour costs is considered a recipe for improving the competitiveness of countries of the South, then it might be feasible to meet their endeavours halfway and increase real wages in the countries of the North. This postulate need not be regarded as evidence of the authors' caustic attitude – in fact, rather as a single moral in a wave of morals addressed to EU outsiders. It would be easier to achieve the same effect if Germany would allow for a higher domestic inflation than that of the weaker partner countries. In that case, price competitiveness, lost during the stage of price adjustments (the Balassa-Samuelson effect in the Eurozone), would be restored. However, it must be admitted that the acceptance of higher inflation by Germany is unlikely.

In this situation, this paper favours a 'semi-Keynesian' interpretation. It is postulated, firstly or at least in parallel, to use financial instruments and support the countries suffering from the crisis in order to enable them to stimulate economic growth and create jobs. The unused (or under-used) financial instruments we have in mind mainly include the following:

- Low-interest credit from the European Stability Mechanism (ESM),
- Loans from the European Investment Bank,
- Increased investments in human capital,
- Further redemption of treasury bonds by the European Central Bank,
- Banking regulations preventing the emergence of speculative bubbles,
- Eurobonds.

It should be immediately noted that, at the present stage of the project, Eurobonds cannot be issued due to lack of approval, mainly on the part of Germany. Eurobonds would lower the indebtedness costs of the peripheral southern countries, but would raise the costs for the largest economies.

This kind of policy correction requires a deep political-economic integration and the establishment of a new model of solidarity within the European Union. Today, in reviewing the current practice of EU actions one can observe the plodding implementation of the 'German' option, with only cer-

tain elements of the semi-Keynesian option, which might be better described as a solidarity variant. We support the idea that their implementation may alleviate the effects of the crisis, although it still is unable to eliminate the risk of dissolution of the Economic and Monetary Union. However, implementation of the current solution is not going to eradicate the roots of tensions stemming from the disillusioned hopes for real convergence, which require the gradual elimination of structural differences among the European Union member states.

We also agree with Karol Lutkowski, who noted considerable differences in levels of economic development from the very beginning between the central, Mediterranean, and Atlantic peripheries. According to Lutkowski, these gaps are accompanied by divergent production structures. Development usually translated into shrinking the share of traditional branches, to the benefit of the processing industry and the services sector. The differences in structures, related with different developmental levels, causes individual stages within any cycle to occur out of synchronicity. This entails a threat to the common currency system in case of a shock, which impacts those economies asymmetrically, depending on the stage of a cycle they are in. The European Central Bank cannot satisfy each country while running policies of a uniform interest rate, oriented toward the maintenance of a certain, rather low but still average, inflation for the entire Eurozone.

The problem is only going to be alleviated when the gaps between development levels are significantly diminished, structures of production are more assimilated, and intra-branch specialisation gains more importance. This is the ‘real convergence.’ It offers better opportunities to proceed faster, free from exchange-rate risk, i.e., within the common currency system. However, as long as this process is incomplete, the common currency is under risk of failure.[15]

Thus far, both the scopes and types of remedial measures, although originating from opposing diagnoses about the reasons for the Euro crisis, count on more controlled and regulated markets to remedy the problem. One also witnesses the first attempts to evaluate the consequences of coordinated fiscal consolidation in the European Union member states. The International Monetary Fund, based on the National Institute Global Econometric Model (NIGEM) and upon data regarding the present crisis (R. Barrel, D. Holland, and A.I. Hurst)[16] emphasises the following key conclusions:[17]

[15] K. Lutkowski, *Co się stało w strefie euro (What happened in the eurozone?)*, “Rzeczpospolita”, 15.06.2012.

[16] R. Barrell, D. Holland, A.I. Hurst, *Fiscal Consolidation Part 2: Fiscal multipliers and fiscal consolidations*, OECD Economics Department Working Paper, No. 933/2012.

[17] Report, World Economic Outlook, July 2012 and October 2012.

- In 'normal times' fiscal consolidation would lead to a decreased index of public indebtedness with respect to GDP in the EU member states, however in the present situation it is probably going to harm the entire European Union;
- Plans for fiscal consolidation implemented nowadays are going to lead to an increase, rather than decrease, in 2013 in the public debt in relation to GDP in the entire EU;
- The same is going to happen in almost all individual EU member states (including the United Kingdom, and with Ireland as an exception);
- Coordinated programs of budgetary cuts implemented during a period of serious economic straits actually bring about effects contrary to those intended, and thus are detrimental;

The above-mentioned three economists, whose data is used to draw conclusions about fiscal therapy in the EU, are convinced that the present tightening of economic policies in many countries, in particular in southern Europe, are counterproductive. According to them:

A) Under normal circumstances one may expect that the effects of a more restrictive fiscal policy would be alleviated by a loosened monetary policy. When monetary policy is liberalised, what follows is reduction of long-term interest rates. This stimulates investments and partially compensates for the painful consequences of budgetary cuts. At present, however, interest rates are extremely low so any further sharpening of fiscal policy is probably not going to produce a compensatory reaction in monetary policy. While programs of quantitative alleviation are being implemented, as are those involving a loosening of credit policy, the effects of these efforts are limited due to the low interest on 'risk-free assets.' There is no certainty that these programs would influence in any specific way the level of risk premium applied to assets bearing a greater risk of insolvency.

b) Over the period of a slowdown. i.e. a period of high unemployment and a significant probability of losing one's job, a larger share of households and enterprises struggle with decreased access to credit. In non-crises periods, when perfect capital markets operate and foresighted consumers can correctly anticipate the future, households are able to adequately distribute consumption over time. In such conditions, consumers' expenses are largely independent of the economy's condition at a given moment or on transitional shocks to fiscal policy. However, all these market reactions in normal times are not present during periods of severe economic downturns.

C) When all countries implement contractive fiscal policies at the same time, production in each of them not only becomes restricted, but also –

through commercial links – cause contractions in other countries. In the case of the European Union the consequences of budgetary cuts are serious, transposed upon the EU's entire economic system.

Many today admit that the applications of shock therapy in the European Union, as well as the policies advocated by the International Monetary Fund, have been a crucial mistake. Germany, which has tried to force the southern European countries, and in particular Greece, to tighten their belts, should acknowledge that such a one-sided strategy has been erroneous.

We do share the point of view that radical governmental budgetary cuts are the wrong policy measures, and neither do we argue that countries undergoing such a shock therapy are without guilt. However, the history of successfully developed economies indicates the efficacy of policies that are not restricted only to monetary and fiscal areas, but include the real sphere of the economy and people's income. At the same time, we believe that when analysing the Single Market – the great achievement of the European Union – one should also take into account the issue of productivity and the competitiveness of the weak economies within the market.

7. Productivity and economic competitiveness

We assert that an increase in productivity is of general benefit only if it serves almost everybody and is distributed over all layers of society, indeed the entire international community. Competitiveness refers to somebody's advantage over someone else, usually to the other person's detriment. For example, devaluation improves one country's competitiveness versus its trading partner(s), which in turn weakens their competitiveness. For our partners, devaluation of our currency means the appreciation of their currencies, potentially leading to retaliation in this or another manner, whereby eventually all countries lose. In order to avoid monetary wars under the Bretton Woods system, devaluations were agreed to via arbitration by the International Monetary Fund. Countries had the right to defend their current accounts balance in cases of fundamental imbalances, and their partners were likely to agree to such currency devaluations.

When building the Common Market, member states wanted to increase productivity and indeed they have achieved this goal. The increases in productivity have been an impressive success. Member states were assisted in their attainment by the Bretton Woods system since it solved – sometimes well, sometimes not so well – the problems of competitiveness. When that system collapsed in mid 1970s, exchange rate battles in efforts to improve one country's competitiveness made it difficult to proceed with concordant

cooperation among the EU's partners. The Deutschmark could not replace the US Dollar, nor could the Federal Republic of Germany stand in the US's shoes as 'beneficial hegemony'. This occurred not only due to historical residues or Germany's economic power, but also due to Germany's heavy reliance on exports and its export competitiveness.

But one problem that needs a solution is the non-competitiveness of a country within a common currency area. According to the neoliberal doctrine, when the free market fails, it is the fault of the State. That is what 189 Germans economists had in mind as they agitated to block the initiative of establishing the European Stability Mechanism. Instead of the collective support mechanism set up in 2012 (that could be made permanent in a modified form from 2013), the economists argued it would be better to let countries restructure their debts. '*Restructuring allows the countries concerned to reduce their debt and start over*' said the economists. However, ultimately the German Federal Constitutional Court ruled that Germany may ratify the Treaty on the European rescue fund ESM, if their financial responsibility in this respect shall not exceed the agreed 190 billion euros.[18]

Irresponsible governments should pay for their misconduct. At the same time, it not appropriate to deprive countries the right of self-defence in cases of fundamental imbalances. By becoming European Union member states, countries were obligated to adopt the common currency, but without renouncing any possibility of self-defence adjustment measures. Should the European Stability Mechanism play the role of an aid fund handing out charity money? The attitude of those who protest is understandable as an earnest care for their own and their compatriots' interest, indeed survival. However, it is recommended that the EU institutions play an intermediary role in agreeing with some protectionist actions in cases where a fundamental imbalance emerges. For example, the EU could support the reindustrialisation of southern European countries, or involve itself in similar efforts within sectoral policy.

At this point, the question may be asked: *what is the purpose of the Common, Single Market, if protectionism is still permissible*? It should be emphasised that the Common Market is not a free market, as manifested by a number of existing regulations concerning its operation. It is not possible to eliminate all elements of protection because this is a common market. Thus, all the countries participating in the common market should have equal opportunities. What often occurs is a matter of dispute over the definition of state (government) aid in the European Union. According to the official definition, then, state aid is an intervention on the part of state institutions consisting in pro-

[18] Judgment of the Federal Constitutional Court – Second Senate, 12.09.2012, see: http://www.bundesverfassungsgericht.de/entscheidungen/rs20120912_2bvr139012en.html

viding, in any form, aid to either a single business entity or a group of businesses, resulting in interference into in the functioning of the free market.

Accordingly, any kind of aid that meets the following criteria is regarded as an illicit public aid:

a) An entrepreneur, in the functional understanding of this word, is the beneficiary of support provided;
b) Aid is provided through or from government sources in any form;
c) Aid is selective and becomes a benefit to its beneficiary;
d) Such aid hinders competition by favouring some entrepreneurs;
e) Such aid influences trade exchange between the European Union member states.

Rules concerning government aid are selective. Thus, licenses are granted to some entities to conduct business activities but are denied to similar enterprises. Also common is the prohibition against providing public services on the basis of contracts concluded outside of public procurement law.

All the above-mentioned reasons against providing government aid seem to be justified. The problem is that there are regulations in the Single Market which undermine these principles. In many cases, the European Commission approves various privileges to companies or individual entrepreneurs based upon some superior, valid social or economic reason(s).

The European Union approves government aid that covers, among others, areas such as:

- Regional policy,
- Investment activities aiming at increased employment in small and medium-sized enterprises,
- Aid to women's entrepreneurship,
- Activities for environmental protection,
- Support for advisory services in SMEs, e.g. their participation in training or fairs.

The above are just a few examples of government aid provided by countries with approval from the European Commission. New concerns emerge and result in other approved areas. They include the following:

- The creation of new jobs in sectors of production and knowledge-based services,
- Investment activities aimed at science, research and innovation,
- Increasing capital in companies that face increased investment risk,
- Cases of companies whose employees cope with some particular disadvantages (e.g. handicapped employees).

We are convinced that these postulates simply call for more openness and agreement with regards to supporting business entities and entrepreneurs with the aim of improving their competitiveness. We underline that consent

given to governments' efforts to improve competitiveness is, essentially, the same as consent given to devaluations. It might be more difficult to negotiate, but it should be added to the arsenal of instruments and measures for the so-called 'real devaluation' as a tool which is less painful to the society and at the same time, in our opinion, more effective.

8. Which architecture better fits the European Union?

This section formulates the appropriate architecture for the European Union and its priorities. The British Prime Minister David Cameron asked the question – which integration are we going to adopt: integration involving a common currency or a Common Market? In fact, both variants of integration seem acceptable. We assert that the need for integration is beyond doubt. Today, however, the key issue is healing the situation in the Eurozone. As important as this is for the EU itself, it is also crucial for the global market, which truly needs the Euro as one of the world's major currencies.

We share the view about the need to restore stability in the EU financial sector, although the task is not easy considering how interrelated this is with the budgetary condition of many countries. Based on the experience learned thus far, a common mechanism of surveillance of the European financial sector should act as a guarantor of its stability. Therefore, the Banking Union seems to be a project which should be approved in principle. Another disintegration of the European financial sector would entail a serious reduction in the scale of operations of the common European interbank market. This would be a major drawback to the entire real sector of the economy. The European Central Bank (ECB) controlled the liquidity of inter-bank clearance between the countries of southern and northern Europe through its intervention. Experiences gathered from the EU's financial market call for strengthening, coordinating, and regulating the role of the ECB. However, the life buoy provided by the ECB is no longer sufficient. Thus, the draft of the Banking Union, going beyond the establishment of new regulations for the ECB, needs to be implemented.

From the Polish point of view, the idea of a Banking Union and the solutions to be adopted are critically important, because Poland is probably going to become a member of the Eurozone. This dilemma, however, goes beyond the scope of present considerations and extends to future ones. We perceive the Banking Union at present as the presenting the possibility of institutional support for the sake of increased productivity and increased competitiveness of the economies of the European Union. It may also be assumed that changes in the system of regulations and activities within the European banking system will make it possible to overcome the crisis of

trust in financial markets. While we are aware that financial markets are often considered as a hardly acceptable compass for economic decisions and social policy, nonetheless they cannot be ignored.

We believe that a crucial concern is the selection of paths leading to the restoration of growth in the European Union, and in particular in the Eurozone. Some economists in Poland suggest dissolving the Eurozone as a solution to the present situation. A controlled decomposition of the Eurozone in order to save the European Union has been proposed by Stefan Kawalec and Ernest Pytlarczyk.[19] According to them, the present crisis demonstrates the problems connected with the introduction of a common currency. Instead of cementing the EU even further, the Euro may lead to more serious conflicts than we face today, presenting a threat to the achievements of European integration. The authors of the proposal argue that the fundamental problem related to the common currency is that member states lost the possibility of using one effective and almost irreplaceable adaptation instrument, i.e. a swap of mutual exchange rates. In effect, a group of countries, mainly from southern Europe, face the threat of a permanent loss of competitiveness. In Greece, Portugal, and Italy the financial chaos resulted from aggregate factors such as the excessive fiscal expansion and high public debt, measured as percentage of GDP. Spain, on the other hand, lost its competitiveness due to the uncontrolled increase of private indebtedness, fuelling the growth of wages and a construction boom.

The authors of this radical proposal argue that financial markets are no longer eager to finance the current account deficits in those countries. In order to improve their trade balances and eliminate current account deficits, the countries in question should – according to Kawalec and Pytlarczyk – lower wages by 20–30 per cent. A country with its own currency could thus achieve an improvement of its competitiveness in the short run by weakening its domestic currency.

Kawalec and Pytlarczyk cite two methods for achieving improvement of national competitiveness in the short run: by weakening the national currency and by reducing prices and wages. The weakening of a currency may take the form of devaluation where the currency's exchange rate is defined by monetary authorities, or the form of automatic depreciation where the currency exchange rate is shaped by the market. Deflation, instead, may happen as an effect of strong limitation of demand through fiscal stringency or as a result of a restrictive monetary policy. They agree that the weakening of a currency and deflation both result in lower wages and an improved trade balance.

[19] S. Kawalec, E. Pytlarczyk, *Kontrolowana dekompozycja strefy euro, aby uratować Unię Europejską* (*Controlled decomposition of eurozone – to save the European Union*), available at: http://liberte.pl/ (last accessed 27.06.2012).

Of course, it is more effective and cheaper to apply the method of weakening a currency as an instrument for short-term improvement of competitiveness than to apply the method of deflation. In the long run, however, weakening a currency leads to increases in wages and prices, and the beneficiaries quickly find that their short-term improvement in competitiveness is eaten up by inflation. The question both economists asked was whether the fiscal union, in such circumstances, may act as a remedy to the problem of low competitiveness faced by some Eurozone countries.

According to Kawalec and Pytlarczyk, regardless of whether the fiscal union is politically practicable, it should be understood that its emergence would fail to provide a remedy to the competitiveness deficit of individual countries. As convincing examples, they point out that the southern regions of Italy are given, each year, solidarity transfers accounting for 16 per cent of their GDP, while Eastern Germany keeps their unemployment rate twice as high as in other regions of the country.

The authors of the proposal for controlled decomposition of the Eurozone emphasise that while fiscal union could reduce the risk of irresponsible budgetary policy being carried out in the future, it would not be able to eliminate the already-generated differences in the competitiveness of various national economies. Therefore, they conclude, one should not be afraid of the dissolution of the Eurozone, as it will restore the situation at the very root of European integration; namely, the Single Market can operate without the common currency.

The only thing that should be avoided is an uncontrolled disruption of the Eurozone through the establishment of a new European monetary order based upon the national currencies of economically homogenous blocks of countries. The process has to proceed gradually. First, the most competitive countries should leave the zone, mainly those capable of retaining their reliability in the eyes of investors. The Euro, according to Kawalec and Pytlarczyk, should remain as common currency for the least competitive countries. This gradual process should be accompanied by the creation of a new mechanism for monetary coordination in Europe.

9. Poland and the Eurozone

A majority of those involved in debates on the Polish economy agree that this is not the right time to enter the Eurozone.[20] Differences appear around

[20] See also: K. Ryć, A.Z. Nowak, *Euro will be later – Costs or Benefits?* in: *Problemy nacjonalnoj strategii (Problems of National Strategy)*, Gosudarstwiennyj Institut Strategiczeskich Isliedowanii, Moscow 2010.

the more detailed question whether to opt for the accession at all and is so, how and when? Here attitudes vary. We have presented above the concept proposed by Kawalec and Pytlarczyk concerning the controlled decomposition of Eurozone. Below we examine in more detail some other opinions expressed in Poland.

A) We should not accede to the Euro. Instead we should maintain the liquid exchange rate of the Polish Zloty, because sovereign monetary policy, which is possible only in the case of non-accession, best serves sustainable economic growth. This argument is supported by other arguments such as close economic cooperation with the enormous economic organisms that protect countries from excessive fluctuation of exchange rates. However, monetary sovereignty is costly. Transaction costs are higher, as are costs of credit and of debt servicing, as well as all sorts of other costs and risks. In fact, these 'other costs and risks' were exposed by the present crisis and by the increasing consequences of global economic financialisation. Under such new circumstances, exchange rates become unmoored from the actual condition of economies. Hence the common triple dilemma: free movement of capital – freedom of monetary policy – freedom to shape the currency exchange rate, turns into a double dilemma, and actually has an alternative: the free movement of capital – or – freedom of monetary policy and exchange rate policy.

   Even if today this tearing off of currencies exchange rates from the real economic sphere is not yet total, and the above-mentioned alternative is not omnipresent yet, the trend in this direction is evident. A small open economy loses its monetary and exchange rate sovereignty at the same time.[21] Possibilities for limiting the freedom of capital movement by governments are uncertain, while the ways and means to evade any such restrictions imposed are plentiful. Finally, we do not really share the argument that extensive trade exchange with a strong commercial partner contributes to stabilizing the exchange rate of a small open economy's currency, in the sense that this gives a chance for the Polish Zloty to take advantage of an umbrella provided by the Euro. In our opinion, this is only a temporary advantage to be enjoyed until the markets say: 'let's check, then'. The Polish Zloty has already experienced the effects of such a 'checking' when, over a short period of time, the price of the US Dollar oscillated within the wide range of PLN 2 and PLN 4. Poland's national

[21] H. Rey, R. Portes, *The Emergence of the Euro as an International Currency*, "Economic Policy", vol. 13(26)/1998, pp. 305–343.

economy suffered the impoverishment of households indebted in foreign currencies and of certain businesses, either similarly indebted or losing heavily on currency options.

B) The most frequent opinion is that it is best to 'wait and see', while closely observing the changes occurring in the Eurozone, in order to decide about accession as and when a proper window of opportunity presents itself. Another variant of this strategy proposes to wait 'with a loaded gun' i.e. a postulate to meet the Maastricht criteria and then to wait in readiness for the final decision. However, even if it costs nothing, this may entail a loss for both Poland and the European Union. Of course, it is desirable to meet the criteria, but this should be done calmly in order not to harm the present modest rate of growth.

C) The best solution for Poland is to wait with active participation. We are obliged to accede to the Eurozone. We cannot negate the benefits of a common currency. A strong European Union is beneficial to Poland and the global economy, once it regains its ability to act efficiently. It is just as important to us as to the EU to prevent a collapse and in effect the uncontrolled disruption of the Eurozone. Our status as a candidate country to accession enables Poland to actively participate in improving the EU and at the same time obliges it bear the costs this involves.

10. Our idea for Europe

We believe that the concepts put forth by the above-mentioned economists are interesting and none should be entirely precluded. We simply do not know the direction and rate by which the conditions of the Eurozone will be repaired. We argue, however, that there is still time for a solution – one which is less revolutionary and partially an alternative to the mainstream changes occurring nowadays in the Eurozone.

It should be observed that at present it would be impossible to find a political consensus for a process of return to national currencies, no matter how cleverly devised. Thus, perhaps even more importantly, pivotal European Union leaders seem to create foundations for solutions that, after all, have different directions. Almost all the political forces along the Rhine share Germany's fears that the return to national currencies would entail appreciation of the Deutschmark, with all its potential consequences.

If there is something we are concerned about, it is that the reforms undertaken thus far, featuring an evident domination of fiscal solutions, may expose Europe to long-standing political conflicts and social unrest. This

would deepen the decreasing productivity and competitiveness of many Eurozone countries. If this bleak scenario comes true, Europe's position would become even weaker with respect to such global powers as the USA, India, China or, more recently, Mexico and Brazil.[22]

In our opinion, the hitherto-existing fiscal fundamentals should certainly be supplemented by solutions found and prepared based on new foundations, which may be called Keynesian. This was what we have attempted to describe in the present article. Concerning the new role and importance of Brussels in the European Union, we observe, without being shocked or upset, that there is an increasing need for Brussels' visible hand in order to overcome the crisis. However, our expectations from Brussels are more diversified and somewhat different from those formulated by the mainstream remedies offered thus far. We welcome the European Commission's decision with respect to re-invigorating the labour market through the injection of the EU's structural funds. We also favour the news that the European Commission has recently loosened financial discipline for six countries, including Poland, in order for them to catch a breath for a year or two before they make difficult reforms.

We essentially want to advocate to the European Union's politicians and decision-makers a strategy to improve competitiveness and accelerate a socio-economic convergence. We believe that growth should include a combination of factors and urge a dynamic continuation of efforts aimed at support for various sectors of the economy. Thus, a new vision is needed in the area of economic policy. An active and well-defined role of the State will not only not hinder, but in fact will help to overcome the complex, serious, and socially dramatic economic situation experienced by many countries. The new priority for the European Union is therefore a postulate for *par excellence* economically, yet taking social values seriously at the same time, thus encouraging the acceleration of real convergence of the Eurozone member states. We believe that the assumptions of 'nominal convergence', which has become a postulate, are not ambitious and not productive enough to generate optimism about the Eurozone and its future fate.

As realists, we advocate the introduction of additional solutions and ideas in the spirit of John M. Keynes. We do not forget that the author of the concept of state interventionism seemed to be the biggest optimist during the period when everything around was seen as bleak and hopeless. While others announced the twilight of western civilisation, Keynes simply but firmly

[22] Cf. in this context, *Intellectual Property, Innovation and Management in Emerging Economies*, eds. R. Taplin, A.Z. Nowak, Routledge, London 2010.

declared himself in favour of stimulating the economy using fiscal policy in order to suffocate the crisis. However, it should also be remembered that John Maynard Keynes – a speculator from London's City and lecturer at Cambridge University, when asked on his deathbed about his regrets after living a long and fulfilling life, famously responded: '*I should have drunk more champagne.*'