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## **PRO MEMORIA**

### **Margaret Thatcher in the World Politics (1925-2013)**

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These days we commemorate one of the most powerful and controversial politicians, the only British woman prime minister, Margaret Thatcher. Her funeral was accompanied by the mourners as by the protesters. Her asset to the world policy is undisputable in various areas during her three terms in office. She and her cabinet played an inevitable role in the Cold-war mediation process as well as put a significant label to the British position in the EU and EU's life.

When she assumed the Office in 1979, the world was divided into two blocks, block led by the USSR and a democratic block dominated by the United States. Such bipolar division of the world as well as the Cold war in progress dramatically influenced her decisions in foreign policy altogether with her positions based on the Conservative ideology.

When evaluating her asset to the world peace and stability in the Cold-war period, strengthening the British position of a "balancer" during her Cabinet must not be omitted. Britain did not play a role of a moral arbiter but a role of an actor using mediation to keep the balance in the international society then. However acting as mediator, her decisions were not morality-based but just mirroring the joint interest of the USA and its traditional ally, Great Britain interlinked with the anti-communist interests in the Easter block. This mediation role was markedly sharp in the process of Cold- war disarmament and arms control rounds held between the United States and USSR, and significantly contributed to moderation of the political surrounding of the international society then proving diplomatic skills of the British Prime minister, Margaret Thatcher. Such position was enabled mainly because of her personal and very close relations to the leading personalities of the both Cold-war actors, Ronald Reagan and Mikhail Gorbachev.

This was also a room for her contribution to development of the US defence and foreign policy concerning the nuclear weapons directly interlinked to the fact that continuity of all the actors (USA, USSR and GB) at the top positions was kept, and thus provided excellent grounds for efficiency and continuity of the rounds taken (which resulted to arm control and disarmament agreements). However, not being the only factor of the disarmament process success (aimed at prevention of a world-war outbreak due to an exceeded armament), Thatcher's mediation was one of the factors influencing the whole process significantly.

Another area of Thatcher's foreign policy was comprised by the EC issues and since then the British position in the EC/EU has constantly being discussed attracting attention not only of the national (British) but also the whole EU public and political elites. In the background of the British Euro-scepticism also the recent Cameron's speech on the EU may be seen proving that the British EU membership and life in the European family is still hot, disputable and not over at all mainly in these turbulent crisis times when the EU requires all the MS to keep a line when the life decisions are taken. Britain has (again) opened a "thatcherian" discussion of the nation states role and powers in the EU era and roles and powers of the EC/EU institutions being devoted more and more powers by the MS. Britain has proved (once more) that she is one of the European countries where the "competence dispute" is the core of her EU position as called the Euroscepticist position. However, such British sceptic positions against the united Europe project and wider European integration is rooted in the World War II but fully arose in the 70s reaching its peak under Thatcher's cabinet just short after she assumed the office. Such position may be seen in various lines as proved in British "undecided" position to the European integration in general. As confirmed in Cameron's speech these days, the core lies in the geographical position of the country and historical determinants of the British "uniqueness" (maybe better to say "we-ness" and "they-ness"). Thatcher's deal maybe seen in the EU matters also these days when the British contribution to the EC budget is one of the top topics of the day reminding Thatcher's words: "Britain cannot accept the present situation on the Budget. It is demonstrably unjust. It is politically indefensible: I cannot play Sister Bountiful to the Community while my own electorate are being asked to forego improvements in the fields of health, education, welfare and the rest. The imbalance is not compatible with the spirit of the Community..." (Thatcher, 1979)

The British opt-outs, seen as Thatcher's contribution, just strengthened the British position of an "undecided" partner being not included into all the member duties (e.g. the Charter of Fundamental Rights of the European Union, the Schengen as well as the European monetary union).

Thatcher's Euro-scepticism rooted in Churchill's tradition based on the concrete historical circumstances made her the EC in-out referendum leader in 1975 confirming her in the position of British Euro-scepticist while claiming that Britain has a power to either leave the EU or to change the mutual relations. (Thatcherová, 2003: 348) In 1984 the most important moment in the British political scene was the EC budget issues pushed by Thatcher – negotiations on a new British contribution to the EEC budget as mirrored in Thatcher's speech given at the College of Europe in Bruggy, felt as an enumeration of the EEC "imperfections" while warning against any further integration which, in her politics, resulted also to a refusing attitude to the European Exchange Rate Mechanism (ERM). Thanks to this speech Thatcher was (and still is) identified as an "authentic" Euro-sceptic due to her doubts on the EEC policies and direction towards a "superstate". Such undiplomatic statements (and formulations) comprised first direct confrontation of hers with the European institutions and the term "Euro-scepticism" found its strong position at the British political scene since then.

After leaving the office, Margaret Thatcher did not stopped her political activities and many times gave her statements also to the EU issue continuing with her claims of "non-sustainable" development of the EU.

Thatcher's specific position and influence also within the Conservative party resulted into a new political direction of the Tory ideology called "Thatcherism" putting an emphasis on rebirth of the traditional Conservative values, nationality, British national interests, freedom of international markets and others. She put a great emphasis to Britain's role in Europe and in the world leaving a strong heritage to the British via many of her steps as Falklands, EU – Britain relations, Cold-war issues as well as domestic policies taken. Her permanent label put on the British policy and legacy is emphasised by David Cameron's words "...We are all Thatcherites now." (In: [David Cameron's reading at Lady Thatcher's funeral](#))

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# ECONOMIC CRISIS AND ITS IMPLICATIONS

## The European Identity in the Light of the Economic Crisis

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### **Abstract**

This text is prepared by an active politician, member of European Parliament and activist of European Peoples Party. Author focuses on European identity in the time of economic crisis. Based on empirical researches he tries to prove that European Union is still attractive for citizens integration project which should be continue.

### **Key words**

*European identity, economic crisis, European politics, European integration*

The strive to fight the economic crisis has prompted a debate on the European Union and the supranational identity of its 500 million inhabitants. There was never a similar situation in the geopolitics that a group of countries voluntarily decided to be linked on so many levels. Being in the heart of that decision making process is a privilege and therefore I am grateful to be able to present my standpoint from a more practical perspective. European identity is not easy to define as it covers universal norms like peace, the right to life and human rights as well as a European self-awareness. Umberto Eco claimed that Europe is linked only by war, culture and crisis. After the fall of the communist regime and a fading memory of the Second World War in the collective memory of the Europeans, it can be argued that there is a lack of interest that can bring all the citizens together. It is especially demanding in the light of 27 heterogeneous member states with the absence of a serious external enemy to preserve a high level of interest for the European project. Crisis that Europe is facing right now can be perceived as a common external enemy that member states have little control over and paradoxically this can join the nations to fight together against it. It is the time to remind every and each of us that it is the ultimate purpose of the EU to bring peace and prosperity to the continent. Therefore, the Nobel Prize that was



awarded to celebrate 60 years of peace thanks to the European Union is a clear sign that the community needs the spur to face new challenges.

The founding fathers of the EU have started with quite modest goals which depicted creating a common market and customs union. The European Economic Community originally was an international organization consisting six Member States and having quite limited authority. Once the integration deepened, the integration process became the most extensive example of inter-state cooperation of the past 500 years. European political, legal and economic integration has proceeded from the Treaty of Rome in 1957 to the Treaty of Lisbon in 2001. The authority of the community expanded in the meantime to almost every domain of modern political, economic and social life (**Fligstein, Polyakova and Sandholtz, 2012**). During the 1980-s, the EU launched a series of major projects including the single market, the Schengen Agreement, the multiple rounds of enlargement of the Euro. This resulted in creating a more cohesive political structure of the Community and expanded the realms of co-operation both geographically and functionally. The political agreement was made possible thanks to a series of institutional reforms. Furthermore, the European Parliament expanded vitally since its beginnings of the original European Coal and Steel Community. That had a real impact on institutionalizing the principle of representing a democracy in the EU. (**Rittberger, 2005**) In the context of the European integration the concept of the "European identity" was mentioned for the first time during the European summit in Copenhagen in 1973. At that time, the group of nine countries decided to conceptualize the common internal interest, heritage and the tradition of the unification. Thirty years have passed and nobody could have ever imagined the scope of the integration, both in quantitative and qualitative terms. As a result, the need for reinforcing the supranational identity has become one of the most important goals of the European institutions in order to legitimize their existence and promote the need for the European legislation among the citizens.

Current political recipes to fight with the crisis and protect from the new ones claim that "more Europe" is a goal that we should achieve. At the same time one can observe a dramatic growth of right wing, nationalistic parties that represent Euro-sceptics and very often the increasing hatred towards the immigrants. These contradictory tendencies pose a great challenge for the European policy makers and it is especially visible in the past months during the launch of the multi-annual financial framework negotiations 2014-2020. The

upcoming financial perspective should promote growth, jobs creation and tightening cultural bonds between the MS. It cannot be achieved while some countries prefer to socially withdraw while performing a "romance with Europe" or continuously threaten to withdraw altogether. One of the recent sensible ideas on how to overcome the crisis was presented by Jose Manuel Barosso and claims that creating a "federation of nation states" is a possible solution. I am also an avid supporter of this approach, since only deepening integration, concentrating on developing system integration can ensure the follow up of social integration. By strengthening the internal market, trying to fight all kinds of discrimination and ensuring abundance of the EU law, the European Parliament continuously strives to prove its trustworthiness among the citizens.

From the beginning of the integration the architects of the EU system anticipated that once the process of the economic integration was established, political integration is going to follow. A leading scholar of the European integration of that period, Ernst Haas formulated this idea as a theory of regional integration (**Haas, 1961**). He claimed that co-operation is bound to create a "spillover" mechanism meaning unintended consequences that lead to more co-operation and supranational rule-making. As the authority to generate rules and policies shifted to Brussels, more actors would engage in this process. In other words, firms, governments, political parties and citizens would start to orient their expectations towards the EU. According to the traditional approach, the system integration- meaning creating institutions regulations and structures has the priority over the social one, defined by the development of the common identity and the European public zone (**Cichocki, 2012**). The natural conclusion that can be drawn from it is that once system integration is deepened, the social one should follow. On the other hand, the bigger the divergence between these two, the more threat it poses to the stability of the community. This model is also linked with the construction of the "Other" that can be important for creating a sense of European identity so that the decisions made in order to overcome the crisis can be perceived as a "shared idea". There is a vital tool in that case and this is the creation of "other", both externally and internally. There is evidence that the Euro-zone crisis can function in some contexts as the external "Other", as it should bring the European communities together, promote internal cohesion and solidarity on supranational level (**Galpin, 2012**). It can be derived from this example that the external "Other" is likely to reinforce the identity of the community. The internal "Other" has the adverse effect; it can lead to the fragmentation.

The current political debate indicates a growing aversion to the deepening Europeanization on both ends of the distribution of wealth among the member states. The increased radicalism on the right and left wing is visible in highly indebted countries of the South such as Greece and in the wealthy north- taking an extreme right wing party in Finland as an example. Even Germany that so far was commonly described as a safe haven of the European integration, one can observe certain doubts in the discourse both on the political and social level. The importance of national identifications was very prominent during the demonstrations in the spring 2010 in Greece and Germany. As the Greek government faced a heavy financial crisis, as a member of the Eurozone, it turned to the European Central Bank for help. In return ECB asked to undertake a severe austerity measures in order to secure the assistance. These have lead to the wave of acute protests and demonstrations throughout the country. At the same time German citizens, as their government provided the largest share in founding the bail-out, demonstrated in the streets as well, opposing to the plan altogether(**Fligstein, Polyakova and Sandholtz, 2012**). The ways of co-ordinate the fiscal policies in order to avoid future bail-outs definitely bring the MS closer together. This is one more example of the importance of tightening the cooperation in order to achieve a common goal.

Coming back to the concept of “internal other” and the power of language used in public debate, it is crucial to exercise caution while describing developments to the public in times of crisis. When the above mentioned concept emerges too often during a public discourse, it can easily break down European solidarities and identities and replace them with nationalistic trends. This is especially problematic while the southern European countries such as Greece are depicted as lazy or incompetent or when Germany's past is invoked as it becomes a powerful EU player in the efforts to resolve the crisis. Such examples might be rightfully linked to conservatively- leaning publications with the special emphasis on the tabloid press. Unfortunately these affect the political discourse on the highest levels as well as the quality press. (**Galpin, 2012**).

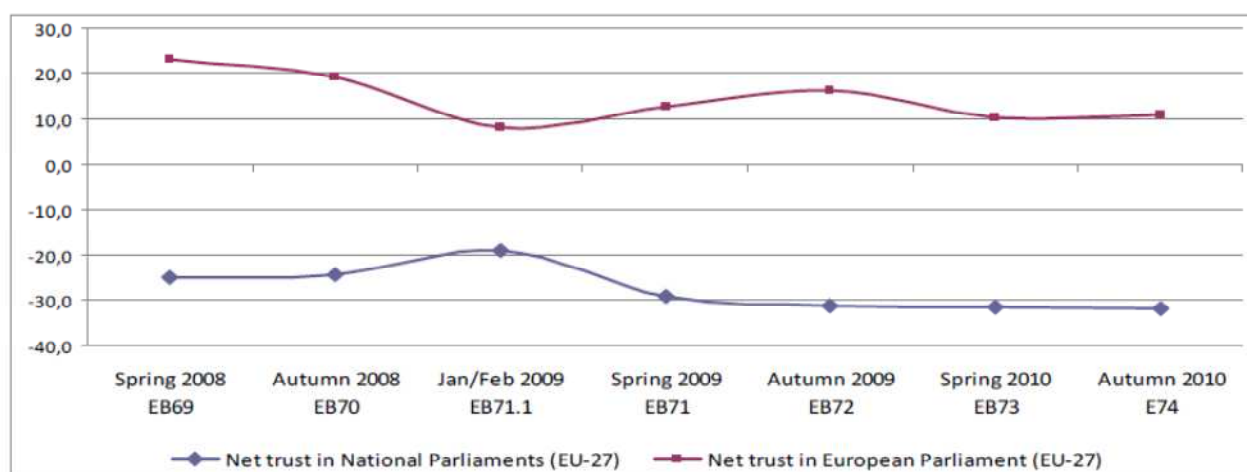
The British Prime Minister, David Cameron described the fiscal treaty the following way “it involves quite tough punishments for countries in other parts of Europe that live beyond their means” (**BBC News, 2011**). A comment like most probably could have had an adverse effect on the solidarity among the European citizens. One should not forget that the media has a very strong stance in shaping the public opinion and the language that is used

should be thought through.

The financial crisis has affected trust in national and European governmental institutions in different ways. The authors of an extensive paper on the influence of financial crisis analyse the determinants of trust in the national and European institutions over the last decade and comes to the conclusion that inflation reduces citizens' trust only when the economy runs smoothly. In times of crisis, citizens do not worry about inflation but rather about jobs and the effects of a recession. Declining trust in national governments is related to an increase in unemployment in the EU-15 in all time periods, whereas trust in the European Commission and the European Parliament seems to be strongly associated with the situation in the real economy (unemployment and growth of GDP per capita) only in times of crisis. Yet in the EU-27, falling levels of trust in the national and European governmental institutions during times of crisis seem to be primarily related to an increase in government debt. In an EU-15 country sample, this negative relationship appears to be driven by countries that owe a larger share of their increase in government debt to aiding/bailing out their financial sector and the implementation of significant austerity measures **(Roth, Nowak-Lehmann and Otter, 2011 update)**.

**Fig. 1.** Trust trends in the national parliament and European Parliament in the aftermath of the financial crisis in the

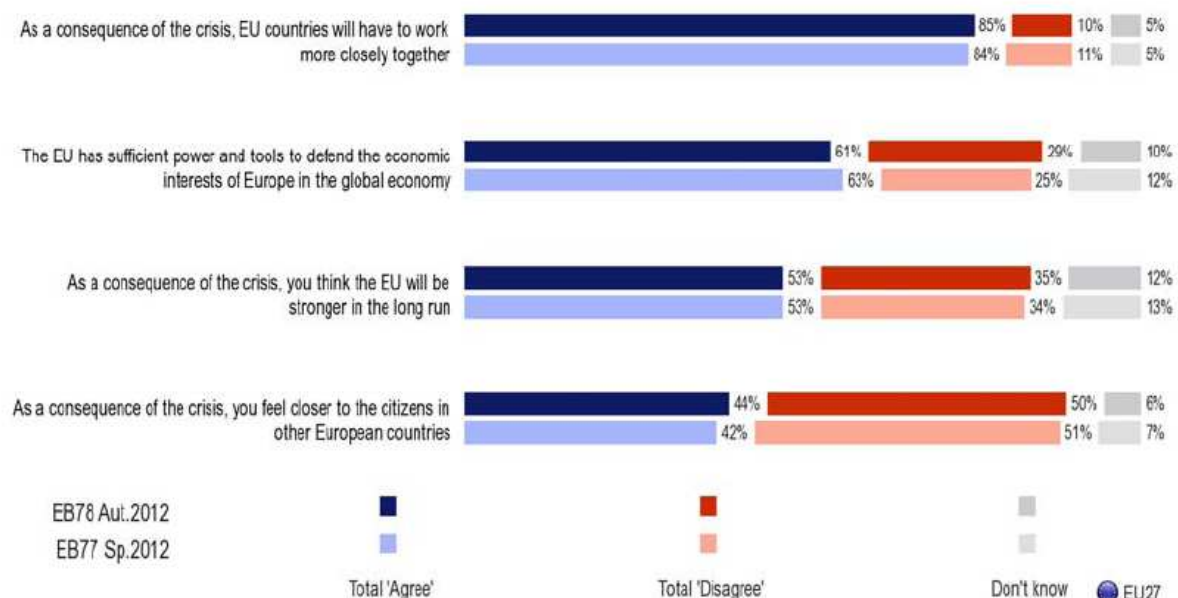
EU-27



Sources: Standard Eurobarometers 69-74 and Special Eurobarometer 71.1.

There was no major change in the attitudes of the respondents regarding the consequences of the economic crisis between the spring and the autumn 2012. A large majority of Europeans consider that EU countries will have to work more closely together (85%, +1 percentage point). More than half of Europeans also believe that the EU will be stronger in the long run as a result of the crisis (53%, stable). Though still a minority, slightly more respondents now say they feel closer to citizens in the other EU Member States (44%, +2). Finally, just above six Europeans in ten agree that the European Union has sufficient power and tools to defend the economic interests of Europe in the global economy (61%, -2)

Fig.2. For each of the following statements, please tell me whether you totally agree, tend to agree, tend to disagree or totally disagree.



Source: Standard Eurobarometer 78; Autumn 2012

The above presented data proves the point that the trust in the European Institutions, with the European Parliament as a front-runner remains trusted, despite the economic situation at the moment. I strongly believe that it is thanks to the direct elections of the Members of the European Parliament that the citizens hold their representatives accountable for the decisions taken. It is therefore crucial to remember about this faith that the Europeans have in their representatives, especially in the light of budget negotiations.

One has to be aware that 94% of the EU budget is directed to the Member States, its regions, its people or used to achieve the priorities of the foreign policy. All the cuts that are going to be made in terms of transport infrastructure, broadband networks, the rural development, the Erasmus Programme will have a direct impact on the long-term quality of life of our citizens and the competitiveness of Europe. EU policies in the areas of research, education, training and development create our added value and represent a sound investment in the future of the young generations. Not only an ambitious MFF is needed, we should also focus on the flexibility in the long term perspective. In practice this means creating a mechanism that allows a legally binding revision clause and flexibility between the expenditure categories as well as financial years. In order to reinforce the trust already showed to the institutions, the European Parliament, the Commission and the Council shall "ensure that the financial means are made available to allow the Union to fulfil its legal obligations in respect of third parties" as it is stated in the article 323 of the EU Treaty. In the difficult times of crisis, when questions of trust are raised, it is crucial to remember that the European Union is a lot more than a sum of 27 national interests, we have to concentrate on a bigger picture.

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# The Global Crisis and Its Impacts on Business in EU Countries<sup>1</sup>

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## **Abstract**

One aspects of the influence on the economic crisis is its impact on the business of legal entities. The global crisis hit not only the companies taxation in the European Union, but also strongly influenced the establishment of new entities. The objective of this article is to compare the business conditions in the selected EU countries with the aspect on the legal entities. The article is opened by common consolidated corporate tax base (CCCTB) of the companies operating in the European area. In the following section I describe the current problems of corporate taxes in the selected EU countries. The end of the article is dedicated to the new tax and business-legal measures aimed at legal entities in the Slovak Republic.

## **Key words**

*corporate tax, start –up company*

## **Introduction**

Taxes extend to every human activity, having an impact on the property, affecting the amount of wealth, while most of us when faced with this term express the feeling of a negative attitude. However, taxes are also an integral part of the public budget providing certain social benefits for all of us and possibilities to fund public goods and activities. And above all this negative attitude towards paying taxes leads us to the basic identification of the types of taxes, differentiation of patterns and search of ways to control and influence the amount of paid taxes. The tax issue involves a large number of specific problems, as well

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<sup>1</sup> This contribution/publication is the result for the project implementation creating excellence in economic research department for addressing the challenges of civilization in the 21st century (ITMS 26240120032) supported by the Research & Development Operational Programme funded by the ERDF.



as tools for their solution. The amount of taxes is not the only thing with important role, neither is the simplicity of the tax law, but the overall philosophy of controlling the public finance in the country, or the overview of the amount and the direction of the public expenditures.

Taxation of income is an integral part of various economic schools. The main difference between the economic schools is the actual position and the importance of the taxes in the economic system, the preferences of different tax basis and the definition of the tax objectives. On the contrary, the common feature is the quantitative importance of the taxes as state budget income. This way taxes do not only influence the economy as a whole, but also on individuals, whom taxes force to work, run businesses and save. Pension tax theory according to the various economic schools, can also be divided according to the tax rates, which these schools prefer:

- Linear tax theory
- Progressive tax theory
- Digressive tax theory

Current tax theories include on one hand neoconservative views as well as Keynesian views. These theories look at taxes in close liaison with the overall economy, while maintaining that major tax principles are the following: the benefit principle and the principle of liquidity.

The group of current tax theories consists of the theory which resonates upon the question of choice between the consumption taxes and income taxes. Many have tried solving this question in their work, such as S. S. Dharmi, M.P. Davereux, Bradford, R. Broadway, D. Wildasin, etc. As a response to the aforementioned theories, a third alternative theory arose, the mixed tax system theory. I mention primarily the income-tax oriented system, where income taxation is led according to the Shanz-Haig-Simons concept (abbreviated SHS system).

In his book Economics of State Intervention N.R. Murray says: "There is no production of goods and services, which would require the existence of government. Therefore, the very existence of the state budget and taxation considered as an act of intervention in the free

market operation and effect of such intervention is to be examined.” Murray’s book creates the space for mutual confrontation of the state and the criminal. “If states have their own revenues and expenditures, than criminals have them as well. Where states impose taxes, criminals collect their own forced dose. Where governments issue fraudulent or flat money, space for counterfeiting is opened for criminals. It should be clear that from a paradoxical point of view that there is no difference between the nature and the impact of taxation and inflation on one hand and stealing and counterfeiting on the other hand. It always comes down to tampering with the functioning of the market, which results in the enrichment of one group over another group of people.”

In recent years, pension tax theories dealing with the tax harmonization in the European Union are brought to the fore. In the area of income taxes the structure of direct taxation is uniform and all member states apply independently the corporation income tax and personal income tax. The structural uniformity hides the large differences arising mostly from the construction of the tax basis, whether for businesses, or for individuals. Therefore different opinions arise whether the ongoing process represents tax harmonization or tax competition. H. Hameakers claims that the existence of tax competition itself must lead on to the so-called spontaneous harmonizing effect – hence to a spontaneous convergence of rates, which on its own means that tax systems should not be harmonized artificially. Artificial harmonization subsequently could cause negative pressure on the state budget.

J. Mitchell warns that without a tax competition (during tax harmonization) the governments could act like a monopoly – levying excessive taxes, and therefore true tax harmonization implies higher tax rates. If governments can use excessive taxes, they are not forced to be effective in the area of public spending. Reducing tax rates in the frames of tax competition must not always lead to decline in the tax collection. The area of direct taxation is characteristic for the exactly opposite development.

Edwards and Rugy warn that tax competition could lead to the decline of tax basis of other states and to the deformation of the allocation of capital and services. The decline of taxes has a positive effect in the state in which it is been realized, by contributing to the influx of capital and growth of tax rates. In the other countries tax competition has a

negative effect because there is an outflow of capital and simultaneous decline of tax basis and the overall economic growth.<sup>2</sup>

Tax harmonization in the area of direct taxes is mainly focused on the area of taxes from corporate income. As Robert E. Hall and Alvin Rabushka speak in their book Flat tax it is very difficult to define who pays corporate taxes. It is important to distinguish between the technique of corporate taxes and its influences, and in reality, who actually pays for these taxes? Annually legal entities submit a request for tax returns of their income taxes. The companies indicate declined revenues for the sum of expenditures that incurred in connection with the business. In calculating the amount of net income the company reduces the amount of taxable income for the expenditures made for capital acquisition, labor costs, the costs of goods and services, paid interest rates and sometimes questionable costs. "One should not think that income taxes of legal entities are taxes paid by anonymous persons. It is rather the duty of individuals, who own the company altogether. In this sense the company is a simple collection through which its owners have their income taxed. If the companies do not pay their fair share on taxes, the companies' owners should pay higher taxes on their income than individuals. A question arises hereby, why such companies exist," claim Hall and Rabushka. The reason is that the company – the legal entity provides special privileges and benefits to its owner and it is preferred for the execution of some types of business. Even though it appears that the corporate income taxes are collected from the company's owners, the economists disagree with this and are searching for the real incidence of the tax. Many economists claim that corporate tax should include certain types of income taxed at the company level:

- Profits from the use of equipment,
- Profits from the ideas contained in copyright, patents and trade secrets,
- Profits from the past (such as the construction, marketing and advertising efforts),
- Earnings of key executives, owners and employees alike,
- Profits deriving from apartment rents and other real estates that the company owns,

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<sup>2</sup> The other states have higher tax burden ((in comparison with the state that has lowered the tax burden), in these states there is an outflow of capital, decreased investments and overall decline of the GDP growth).

- Employee benefits provided for the workers.

### **Common consolidated corporate tax base in the EU (CCCTB)**

Income taxation of companies in the EU is undergoing significant changes. Based on the Stability and growth pact of the European Union the cyclical adjustment of the budgetary position with the goal of achieving long-term balance requires a gradual harmonization of the tax base for the companies. The tax policy of the Member States of the European Union (EU) is characterized by the assertion of their own national traditions and tax specifics on the one hand, and on the other it is affected by the harmonization process itself.

The aim of the economies is to maintain their national traditions, tax specifics, as well as their competitive tax advantages. Pension taxation remains the responsibility of the national governments and the fiscal policy thereupon becomes an area of unification of tax systems with significant differences. The current state of the tax policy is a phenomenon where the individual, territorially separated, tax systems are gradually traversed and become an interconnected and mutually influential totality.

There are changes in the definition of the tax base, transfer of the tax loss to the following tax year, and in the implementation of the new structure of annual target items in the creation of the tax base. The general tendency is also to reduce the tax rates. The European Union regulates the area of corporate taxes with number of corporate tax directives. "The tax policy of the EU is a very complex and complicated system, where taxes should not create a competitive advantage and cannot be an obstacle to the creation of conditions for free movement of goods, services, capital and labor." The differences in the tax burden between the Member States of the European Union are a result to various factors. We can include among those the different definition of the social status, demographic characteristics, different benefits and bonuses in the scope of the tax system. Therefore the tax burden of the Member States is not statistically significant – mainly due to the high variability of the taxes. The differences between the old and new Member States of the Union are that high rate of unemployment is characteristic for the new member states, which is not caused by the high tax burden, but other factors specific to transition economies. Despite these differences, the Member States of the EU are trying to increase

the share of taxes in the GDP, through increase of the tax burden or increase of the efficiency of tax administration and tax payments.

The active fiscal policy, carried out through tax reforms is the result of a compromise between the economic and political decisions. As C.H. Heady states, the optimal tax system is a system in which no change nor reform, will lead to increase in welfare. Therefore, tax reforms do not seek for the best tax system but a system that would be better than the previous one, with which I fully agree. Any positive changes in the tax law increases the international competitiveness of the country and therefore it brings about a stronger position of the country in the European area. Based on these facts I agree with the argument made by V. Tanzi, that in the period of development of international cooperation, the basic factors that contributed to the creation of traditional tax systems cease to be valid, and therefore it is very difficult to predict and quantify the amount of tax revenues of single countries, as well as the impact of the tax rate on the single tax systems. New challenges for the tax systems of the EU Member States are particularly globalization, increasing international cooperation and the emergence of multinational corporations and the impact of the information technology development as an important factor in the new organization of multinational societies. Recently, an emphasis is set for on the impact of rising demands for the consumption of non-renewable resources and environmental pollution. To address these problems, single countries are pushing forward the so-called 'ecological tax reforms', that would ultimately compensate for the reduction in the tax burden on labor.

Simplification on the rules of business, reduction of administrative costs and more efficient collection of taxes from corporate entities in the Member States of the European Union (EU). Such benefits should bring about a common consolidated corporate tax base (CCCTB), aimed at companies operating in several Member States of the EU. The legal entity therefore would not be misconstrued by the tax laws of the member states themselves, but would apply one system for calculating the tax base and would have the obligation to submit only one tax return report. The uniform rules would eliminate the problems arising from price transfer and double taxation. With the summarization of the profits and losses of

companies of individual Member States it would be possible to additionally determine the final tax base of the company<sup>3</sup>.

Entering the CCCTB would be optional<sup>4</sup> as companies that are not planning to enter the European market have no reason to profit from savings in administrative costs. Distribution of the consolidated tax base for the participating trading countries would be shared by three equally weighted criteria: assets, workload and turnover.

The introduction of the CCCTB should contribute to an increase in cost savings up to 7% for the participating companies. Significant reduction in the costs of doing business would also affect companies that are planning to expand on the market of the Member States. The introduction of the CCCTB would therefore bring about that the costs related to taxes should fall to about 62%. These savings would open an opportunity for the small and medium businesses to succeed in the European area.

### **Business conditions in selected European countries in the form of a limited liability company**

Following the current rates of corporate taxes it is most profitable for companies to move their headquarters to Hungary and Cyprus. In Hungary, the corporate tax reaches 10% (if the company's profit is less than € 1.81 million). After exceeding this limit higher taxation of 19% is applied. Dividends are taxed at 16% rate. In order to found a company, 4 procedures are necessary and the company can be set up to 5 days. The minimum amount of the capital is fixed at 500 000 HUF (about 1.760 Euro). The costs of setting a company through electronic registration start at 150 000 HUF (about 530 Euro). On the date of registration of the company in Hungary it is necessary to send at least half of the capital on the account of the company and the rest could be send within one year of registration. Just as in Slovakia, in Hungary an individual (physical person) with back taxes cannot register a

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<sup>3</sup> For example, the company would achieve € 5 million in Germany, in France € 3 million and in Denmark it would have € 1 million loss. The consolidated basis of the taxes of the company would reach € 7 million. We would not be talking of tax harmonization of the income taxes of the legal entities as a whole. Setting the tax rates would remain the responsibility of the member states, and it is exactly these tax rates that should provide certain degree of tax competition.

<sup>4</sup> Minimum 5 years.

company. In addition to corporate income tax in Hungary it is also necessary to pay the local tax in the rate which is determined by the local self-government<sup>5</sup>. Parallel with the tax registration it is necessary that a social insurance registration is made. This way companies are offered a variety of tax reliefs. The most important of these is the investment tax relief which can be used in all regions of the country. A company can apply for an investment tax relief if the investment reaches the amount of at least 3 billion Hungarian forints (around 12 million Euro) or HUF 1 billion (around 4 million Euro) in certain favored areas of investment. Another condition is that the investment result must be the creation or expansion of institutions/facilities or substantial change in the product produced, services provided or in the manufacturing process. Tax relief is granted for the period of 10 years from the completion of the investment and for the given fiscal year it may not exceed 80% of the corporate tax.

On Cyprus all companies (residents or non-residents), regardless of the amount of profit are a subject to 10% corporate tax rate. The tax rate is among the lowest in Europe and it creates a suitable space for tax optimization of international transactions. Opening a company could take up to 8 days and it is necessary to follow through 6 steps. The minimum amount of basic capital for a Private Limited Liability Company (identical form of the s.r.o in the Slovak Republic) is not fixed. The average amount of the costs associated with the establishment of the company is 1,400 Euro. Specific for the establishment of the new company on Cyprus is the reservation of the name of the company and an obligation to obtain permission from the register of companies. Gains from sale and purchase of bonds and the profits from the permanent commercial establishment, situated outside Cyprus are not subject to taxation. Interests that are not a result of the ordinary activities of the international company but are closely related to it are exempt from taxation. Among the chosen countries in the Czech Republic it takes the longest to establish a company, up to 20 days, where it is necessary to fulfill 9 steps. The current corporate tax reaches 19% and dividends are subject to 15% tax. The lowest basic capital is 100 000 CZK (about 3 950 Euro) and the average cost of setting up a company with limited liability are about 10 200 CZK (about 400 Euro). The Ministry of Justice runs the register of business

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<sup>5</sup> The maximum amount of local taxes is 2%. However it is not calculated from the profit but from the company's turnover.

names on the website, where it is necessary to check for the availability of the name for the new company. Certified founding charter, statement on any previous criminal records, statement from the real estate register, personal bank account and a registration at the Trade Licensing Office are the documents that should accompany the application for registration of the company in the commercial registry at the respective regional court. In case of large new investments it is possible to receive an investment support in the form of tax rebates, which can be applied for up to five consecutive tax years. The Netherlands is the European country with the highest capital requirements for the establishment of a new company. The minimum registered capital is 18 000 Euro and the companies are taxed at 25% corporate tax<sup>6</sup>. Also, dividends are subject to the highest 25% tax. In the process of registration of the company it is necessary to fulfill 5 steps, whereupon the establishment can take up to 5 days. Besloten Vennootschap (alternative to the Slovak s.r.o.) is required to pass the entire amount of basic capital in cash to the bank, which then issues a certificate of its establishment. The establishment of such a legal form of business costs on average 1,870 Euro. In the Netherlands it is possible to take advantage of the special joint taxation regime and to summarize the achieved losses within the group. Dividends are taxed at a withholding tax of 15%, in case they are distributed to countries outside the EU. Otherwise, they are exempt from taxation. Interests and royalties are not subject to taxation.

The lowest costs needed to establish companies are in Romania and range from 450 RON (about 100 Euro). The companies are subject to 16% corporate tax<sup>7</sup>. The number of days required to establish a company and the number of procedures necessary to do in order to establish it is 10. The minimum capital of a newly formed Romanian company amounts to 200 RON (about 44 Euro). When setting up a company in Romania it is necessary to obtain a confirmation from the commercial registry of the uniqueness of the business name and the composition of the full amount of basic capital in a bank account.

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<sup>6</sup> If the company's profit does not exceed EUR 200 000 the amount of corporate tax is 20%.

<sup>7</sup> Companies with a turnover of up to 100 000 EUR, with a maximum of 9 employees and minimum 50% of the revenues must be from activities other than advice and consultation are subject to 3% corporate tax.



## **Business activity of legal entities in the Slovak Republic**

The decline in economic activity, the growth of the unemployment rate and reduced living standards are indicators that show that the impact of the economic crisis on the Slovak economy. Elimination of the global crisis can be addressed through macro and micro measures. The tax policy is part of the micro measures along with the labor market policies, payroll policy and the budget policy. The role of the emergency measures, which are also the content of this contribution is to preserve the production capability of the Slovak economy, to stimulate demand, to promote and support employment and entrepreneurship.

In Slovakia there are constant tax changes that require regulation in order to ensure fiscal consolidation of the public finances and the gradual reduction of the governmental deficit of the public finances and higher tax collection. During 2011 and 2012, a number of significant changes were adopted that affect the calculation of the base of corporate tax as well as their tax responsibilities.

Since January this year many novelties are being applied. The amount of the tax rate from the corporate income was overall increased from the initial 19% to 23%. It was not only the increase of the tax rate but also the new administrative burdens that have significantly worsened the business conditions and the emergence of new companies since January 2013. Currently it takes up to 16 days<sup>8</sup> to found a company with limited liability, and for its establishment there are 6 steps. The minimum amount of registered capital of a company with limited liability is 5,000 Euro. The average costs of setting up such a legal form of entrepreneurship range between 190 and 360 Euro<sup>9</sup>.

When setting up a new company and its registration in the commercial registry since January 2013 a statement of affirmation from the tax administration is necessary. The tax authority issues within 3 working days a confirmation that the founding company has no arrears of taxes higher than 170 Euro. The same confirmation from the tax administration is to be given when transferring shares, whereas the confirmation is submitted not only by the party that sells the shares but also the one that acquires them.

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<sup>8</sup> The intention of the current government is reducing the time of enrolment to the commercial register to 3 working days.

<sup>9</sup> Lower costs are possible if the electronic registration is utilized.

Significant changes in the Labor Code through the employees will affect the level of employment in the near future. Among the most prestigious changes are included:

- change of the definition of dependent work,
- maximum two-year trial period,
- employment for a fixed period,
- concurrence of notice of leave and severance packages,
- working time account and flexi-account,
- night work,
- setting a minimum wage for employees working on a contract.

Since January 2012 there are changes in the depreciation of tangible and intangible assets of the companies and it is necessary to have not yearly but monthly amortization. The changes also contributed to the depreciation of assets acquired through financial leasing. Selected legal entities since 2011 are subject to specific temporary bank levy and extraordinary (also temporary) removal which is also applicable in regulated companies. These two measures should contribute to the 2013 budget more than € 500 million.

Parallel to the tax measures, para-fiscal measures that have significant impact on society are being put in practice. There will be a tightening of existing business conditions, mainly for the new-emerging companies in Slovakia and one of the goals of the current government is a more effective collection of tax revenues aimed at reducing tax evasion and prevention of new tax evasions. In order to combat tax evasion from October last year, an amendment of the Law on Value Added Tax (VAT), tightens the rules for registration of voluntary VAT payers, and it introduces the obligation to submit tax security and stricter penalties in tax fraud detection.

Non-tax measures are aimed at correcting in the area of criminal and commercial law. The rules of business are tightened and two new penalties in the area of taxes are introduced – tax fraud and obstruction of tax administration. The main objective of these measures is the introduction of criminal liability of the taxpayer for the aforementioned crimes. The digest goes as tax fraud, if the taxpayer requests a refund of VAT or exercises duties in order to enrich oneself to the extent of more than 2,660 Euro. The taxpayer who

has committed the tax fraud can receive a prison sentence between 1-5 years, and in the case of committing a crime of greater range up to 12 years.

The taxpayer commits obstruction of tax administration by stating false information in documents, conceals required reported data, or destroys crucial evidence. For example, this could be issuance of fictitious invoices. For obstruction of tax administration the taxpayer is at risk of imprisonment between 1 and 5 years, and with higher damages up to 8 years.

The new penalties associated with tax evasion, are only the first step in the fight against deliberate cuts in the state budget revenues. In May last year, the government approved the Concept of the fight against VAT fraud. The changes and measures in the area of tax, commercial and criminal law were divided in 3 time periods. The criminal law sets a mandatory ban on running a business from 5 to 10 years for each entity that has committed a tax offence.

In the calendar year 2013 the tax administration priorities should be the establishment of a tightened system of fiscal surveillance of risk subjects and improvement of tax information exchange between the Member States of the EU. For the legal entities which will be established from January 2013 there is a requirement to deposit cash of the shareholders of the company to the Treasury. In the trade relations there is a mandatory cashless payment above specified limits (suggested amount is 10 000 Euro). Preclusion of tax fraud should also deal with cases of company deletions “ex officio”, in case of back taxes or tax audit. Specialized courts in the area of tax criminal law and legal responsibility of the legal entities belong among the planned changes in the area of criminal law for next year.

No later than 2014 number of novelties should be put into practice, such as the obligation to electronically submit a comprehensive report on domestic supplies of goods and services to the tax authorities, introduction of rating taxpayers with the obligation to declare this rating on the tax documents, the establishment of a register of disqualified persons and insolvency registry and tightening of the conditions in the law on competition and bankruptcy.

## Conclusion

The impact of the global crisis on business run by legal entities is undeniable. Measures aimed at strengthening and improving business conditions are carried out not only at the regional but also at international level. The European Union is significantly progressing in the area of legal entities and the introduction of CCCTB is an important step in the European area and a condition for the functioning of the internal market. Exactly the reality of strengthening the single market is conditioned with a more significant and complex harmonization of the tax base in the society. The system should support cross-border activity, tax legal entities according to their economic power, to prevent market distortions and prevent circumvention of the obligation to pay taxes. A common consolidated tax base on income from legal entities should secure removal of barriers on business activities of EU Member States, reduce counting of losses and avoid double taxation. To mitigate the impact of the crisis the individual Member States of the EU shall implement measures of tax and non-tax nature. Most European countries (e. g. France, Great Britain, Hungary) gradually have reduced the corporate income tax, in order to re-launch their economies, increase the employment rates and to achieve positive impact on investment. In time of computerization and free movement of persons and capital it is necessary to improve the conditions for the formation of new companies in the country with an emphasis on simplicity and sequence of basic operations and reducing the time required to register a new company. These facts in cooperation with a low tax burden create favorable conditions for foreign investors, and may also have an impact on companies changing their seats between countries.

Companies doing business not only in Slovakia are trying to legally optimize their tax base. In my opinion, however, the above tax measures in the SR do not significantly contribute to that step. Increasing the rate of corporate taxes from the initial 19% to 23% and the increase of the health levy on dividends from 10% to 14% are the main novelties that influence the life of companies doing business in Slovakia. On the basis of the analysis done by the Ministry of Finance of the SR only these two changes should bring the expected return to the state budget of about € 300 million. Increasing the maximum assessment base for the payment of health insurance contributions from this year's dividends will have a negative impact on equity. This way capital is becoming more expensive and higher taxes will

have a negative impact on the share prices, as investors will demand the same high net dividend yield. Tax payment changes complemented by new administrative measures may ultimately mean a decline in total income tax and capital outflows to other EU countries.

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14. Taxation trends in the European Union 2012

# **EMU as a Safe Haven:**

## **Response of New Member States to the Global Crisis**

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### **Abstract**

The current financial and economic crisis has had a significant impact on the world economy. The region of Central Europe is not an exception – its trade ties and export dependency on Germany and France has caused a backdrop in the economic performance. While in the beginning of the crisis, it seemed that the impact on these states would not be as negative as in Western Europe, the reality has been quite different. The region of Central and Eastern Europe is a very heterogeneous one, and its differences were clear in the responses of individual countries to the crisis. However, in many cases, countries were forced to ask for assistance from international bodies, such as IMF and World Bank (with the contribution of ECB). An interesting element is added, linked to the preferences to join the Economic and Monetary Union. While in the beginning, most countries saw the EMU as a safe haven that would protect them from the crisis turmoil, their entry strategies later returned to reflect the previous preferences towards the EMU, which were not so enthusiastic. Negative reaction from the EU institutions to the tentative efforts to speed up and simplify the entry procedure to the EMU also played its role. As a consequence, EC and ECB have not played the dominant role in battling the crisis, and this role was passed to the IMF.

### **Key words**

*global crisis, EMU, European integration*

### **CRISIS IN GENERAL**

An examination of the aftermath of financial crises shows deep and lasting effects on asset prices, output and employment. Unemployment in average rises by 7% and the trend

lasts for 4,8 years. Unemployment rises and housing price declines extend out for five and six years, respectively. On the encouraging side, output declines last only two years on average, by 9,3% . Even recessions sparked by financial crises do eventually end, albeit almost invariably accompanied by massive increases in government debt. According to Reinhart and Rogoff study on financial crises in the postwar period on 23 cases, the main cause of debt explosions is usually not the widely cited costs of bailing out and recapitalizing the banking system. The collapse in tax revenues in the wake of deep and prolonged economic contractions is a critical factor in explaining the large budget deficits and increases in debt that follow the crisis. (Reinhart and Rogoff 2009)

- Duration of crises is 6 years on the average;
- Equity prices decline about 60%;
- Unemployment rate increases by 7%, duration 4,8 years until at previous levels – better in emerging economies like Southeast Asia;
- Decline in real per capita GDP – 9,3%.

How relevant are historical benchmarks for assessing the trajectory of the current global financial crisis? On the one hand, the authorities today have arguably more flexible monetary policy frameworks, thanks particularly to a less rigid global exchange rate regime. On the other hand, one would be wise not to push too far the conceit that we are smarter than our predecessors. A few years back many people would have said that improvements in financial engineering had done much to tame the business cycle and limit the risk of financial contagion. The aim of this paper is to look at the recent economic crises and put it in the context of the integration process of the New Member States of the European Union (NMS) to the Economic and Monetary Union (EMU). The first part of the study analyzes the macroeconomic figures in the EU and NMS, and the impact of the crisis on these categories. As the focus is on the EMU, most of analyzed categories are connected with the Maastricht criteria. The paper then examines the political implication of the crisis, as well as the response of the Member States to the crisis – both in monetary and fiscal spheres. The next section focuses on the NMS EMU entry strategies and their relations to the crisis. It also examines the role of the international bodies such as ECB, IMF and the World Bank and their involvement in the Central and Eastern European (CEE) region.

## CRISIS IN NMS

In terms of real GDP growth, the eurozone's GDP dropped by 4,1% annually in 2009. While the NMS countries enjoyed a considerable growth in the period of 2006-2008, this period of prosperity ended in 2009 as a result of decrease in foreign demand, which hurt them considerably because of their openness and pro-export orientation. (See Figure 1) Hungary's GDP fell by 6,3% in 2009, and is expected to stagnate further in 2010. In Poland, GDP growth slowed down to 1,7% in 2009. There appeared signs of stagflation in Hungary and Poland. In Slovakia, growth in 2008 was 6,7%, quarterly 2,5% and predictions for 2009 decreased to 2,4%. (Huček et al. 2009) In Baltics, GDP fell by 15% in 2009. Reasons for economic slowdown in the region can be found in the decrease of foreign demand and domestic demand, especially the part of investment.

This data shows a certain degree of optimism to the future– the forecasts for 2010 in real GDP growth are positive, with many countries of the CEE region being expected to post growth numbers, and the average growth in 2011 is expected to be 3.04%. Does that mean that the crisis is over in the EU? The numbers for the EU as a whole and the eurozone are more cautious, but in both cases, it seems that in terms of GDP growth, Europe has put an end to the global economic crisis<sup>10</sup>.

In the beginning of the crisis, the predictions were quite optimistic. Hungary's gross domestic product was predicted to drop by 0,2% in 2009, according to the central bank (NBH) staff's optimistic scenario, while under a worst case scenario the economy could contract by 1,7%. (National Bank of Hungary 2010) The Slovak economy started slowing down in the last quarter of 2008, bringing the growth down to 6,2% compared to 10,6% in 2007. The weakening of the economy was a result of decreasing of both foreign and domestic demand. Parallel to the slowdown of growth, the labour productivity and average wage decreased as well. The crisis fully spilled over to the real economy in the first half of 2009, with both foreign trade and domestic demand channels at work, and economic activity slumped throughout CEE. Having bottomed out in the first half of the year, most CEE economies saw a mild recovery in economic dynamics in the latter part of 2009. As a notable

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<sup>10</sup> At the time of publication of this study, the EU is trying to weather a sovereign debt crisis, with Greece, and most recently Ireland, being in the spotlight. However, due to the lack of data and uncertainty of the outcome of that crisis, the paper only deals with it marginally.



exception, Poland continued to record moderate positive economic growth in 2009. This might be attributable to:

- (i) fairly low initial vulnerability levels;
- (ii) lower degree of export dependence;
- (iii) strong (albeit partly temporary) fall in the exchange rate (which notably contained imports);
- (iv) some fiscal stimulus; and
- (v) infrastructure investments, which were partly financed by the EU. (Gardo, Martin, 2010)

When analyzing the data for the inflation for the EU, the eurozone and the candidate countries, we can see a clear difference between members and non-members of the EMU. The inflation criterion has been the deciding factors allowing or restricting the countries to successfully enter the eurozone. This criterion can be marked as limiting with respect to the EMU entry, especially in combination with the fulfilling of the exchange rate stability criterion. (Beblavý 2007) The effect of the crisis on the inflation is also quite significant – the inflation in the Euro Area decreased by 3% from 3,3% in 2009, Lithuania recorded a big drop from 11,1% to 4,2%, Slovakia, Czech Republic, Slovenia and Estonia's inflation went under 1%. (Figure 2) This effect was the most beneficial for Baltic countries, and *de facto* enabled Estonia to successfully apply for the 2012 EMU entry.

One of the categories that demonstrates the different positions of the NMS countries and the effects of the crisis is the exchange rate and its volatility. The exchange rate in Czech Republic, Hungary and Poland was extremely volatile since November 2008 till February 2009 (30%). Slovakia's exchange rate in the end of 2008 was stable, as it had already set its fixed central parity to the euro. If we look more closely on the volatility of the exchange rate of the Visegrad 3 countries, the stories are very similar. Covering the period since January 2007, we see stable currency development, in cases of Poland a slight appreciation, in case of the Czech Republic a little stronger appreciation, vis-à-vis the euro. This development was due to 2 factors: fairly good economic performance of these countries, coupled with the effects the financial crisis was having on the eurozone. The exchange rates in all three countries hit their peaks in July 2008, as the crisis has not shown its effects in the region yet. However, since then, the exchange rates started to fall rapidly, by as much as 21% (Czech

Republic), 31,2% (Hungary), and 42,6% in Poland in the period of 8 months. (Figures 3, 4 and 5) The trajectories show that the greatest fall of the exchange rate happened in the period between November 2008 and February 2009. All of these currencies reached their minimal level in February/March 2009, after which they started to stabilize and even show upward trends again (in case of Poland and Czech Republic). In comparison, Slovakia's exchange rate of course did not waver, as it was already fixed with the euro in July and November 2008. In the case of countries such as Poland, Hungary or the Czech Republic, the depreciation scale was very rapid. Between July 2008 and the beginning of February 2009, the Polish zloty lost almost one third of its value against the euro. A rapid liquidity shortage on financial markets of those countries, leading to a significant increase in volatility of their currencies, is indicated as one of the reasons. Another reason was a change in the perception of those countries and their ability to finance deficit in the current account under new circumstances that prevailed in the international currency system until the end of the easy-money era. (National Bank of Poland 2009) The situation in Hungary in October 2008 was particularly difficult and Hungarian authorities had to apply for aid to both the IMF and the ECB. What were the effects of the huge volatility of the exchange rates? On the one hand, such great volatility brings about a great degree of uncertainty and instability. It leads to the loss of investors' trust, decrease in investment and in turn in private consumption, and can bring panic. On the other hand, in the short term, it increases the competitiveness of the domestic products on international markets (cf. devaluation policies of France and Italy in 1980s). An exchange rate crisis may bring a collapse of the country if a sufficiently large portion of its debt is denominated in a foreign currency. On the other hand, we could see a clear increase in retailing in the border areas, where the fall of the neighbouring currencies prompted Slovak citizens to shop abroad.

In terms of budget deficits, most of the CEE countries run deficit budgets – the only exceptions being Estonia and Bulgaria. While the deficits are not overly high, their tendency to a relatively high volatility makes predictability rather difficult. While the trend of decreasing the deficits in the years preceding the accession is showing in some countries (Slovenia 2002-2006, Slovakia 2002-2008, Lithuania 2001-2006), the rest of the countries offers a mixed picture – Poland, for example, is balancing between 1,9% deficit and 5,4%, Hungary is traditionally the worst, having 7 and 9% deficits, Czech Republic 0,7 to 6,8%. One

common feature, however, is the increase in the deficit spending as a consequence of the crisis. When we compare the average budget deficit in 2008 – 2,0% in the eurozone, 2,3% in the EU, and 2,5% in the New Member States, and in 2009 – 6,3% in the eurozone, 6,8% in the EU, 6,11% in the NMS – impact can be seen immediately. (see Figure 6) The governments in the EU took the responsibility to mitigate the adverse effects of the crisis by increasing government spending by 4%. Of course, a totally different question is how efficient they are. By historical standards the expected increase in public debt – about 20% of GDP from end 2007 to end 2010 – is typical for a financial crisis episode. However, what is concerning is that the jumping-off point is considerably higher (by up to 30 percentage points), and that the debt increase coincides with the onset of the ageing bulge in public (health, pension) expenditure. As discussed in more detail below, a sharp deterioration of the sustainability of public finances can be expected even before the budgetary cost of ageing is taken into account, with the likely decline in long-term growth due to the crisis along with contingent liabilities related to financial rescues adding further pressure. (Directorate General Economic and Financial Affairs 2009)

In the area of public debt, the heterogeneity of the countries is apparent. Some of the states, especially in the Baltics, started off with a very small debt burden, and were not forced to adjust their economic policies, while Bulgaria and Hungary, and to a certain degree Poland, did have to factor in the impact of the public debt. If we focus on the Visegrad group countries, especially in the last years, we can see a relative stability, fluctuating +/- 2% of their debt levels in the period of 2004 to 2008 (with the exception of Hungary). However, the effect of the crisis is obvious – an increase of 8% in Slovakia, 3,8% in Poland, 5,4% in Czech Republic and 5,4% in Hungary. (see Figure 7) That is the effect that Reinhardt and Rogoff talk about. While only Hungary of all the CEE countries finds itself over the Maastricht hurdle, the crisis did cause a significant increase in all the countries' public debts, and would threaten to pass the criterion. In Poland, the State Treasury debt at the end of December 2008 went up by 4,6% from November or, by 25,2 billion zloty and totaled 569,9 billion zloty. The debt rose by 13,6% or, 68,4 billion zloty since the start of the year. On the other hand, the "Greek way" has served as a warning sign, resulting in a much stricter surveillance of EU Member States' public finances, and possibly thus preventing excessive spending. With the Commission's proposal on the medium-term budgets this October, it is a

sign that in terms of financial regulation, the EU institutions are prepared to play a much tougher role than hitherto. Despite the fact that the regulation is aimed mostly at the EMU members, it may have implications on the non-member states as well.

From the above indicators, a certain lack of homogeneity in the economic performance which provides the base for the political decision-making, is obvious. For that reason, there has been very little or no cooperation between the NMS in the field of coordinating their efforts or policies to join the EMU. The diversity in economic performance places unique dilemmas framed by various economic policy constraints. As a result, the cooperation has been mostly limited to the technical aspect of the accession, with the present EMU members sharing their experience from the communication campaign or the changeover period, but very limited in the area of finding a common ideal policy mix, which is very unlikely to exist.

#### **MEASURES AGAINST THE CRISIS**

There are two main policy areas used to counterbalance the effects of the crisis. The policy response to the crisis in the CEE region focused on three areas:

- 1) standard monetary policy action, in particular changes in interest rates;
- 2) non-standard (monetary) policy measures, including liquidity and exchange-rate supporting measures; and
- 3) fiscal policy.

Several CEE countries obtained international financial assistance. Furthermore, the crisis response in the Euro Area, e.g. the standard and non-standard monetary policy measures taken by the ECB, had a significant impact on the CEE region as well. (Gardo and Martin, 2010) In the field of monetary policy, ECB and national CBs saw lowering the interest rates as the main instrument of correction. Central banks in the Czech Republic and Poland lowered the interest rates to 1,75% and 4%, respectively. In Hungary, basic rate stayed at 9%. However, the scope of this paper is not in the analysis of the monetary policies, as the fiscal policies present a much more interesting case.

National governments tried to support the domestic demand by fiscal packages. For example, Poland and Czech Republic initiated massive infrastructure projects, Slovakia and Czech Republic created support package for automobile industry. Hungary aimed for drastic fiscal cuts on the other side, same with Baltics, especially Latvia. The outlook for the Baltic countries was quite pessimistic – despite sound fiscal policy, they found it difficult to borrow money. The Prime Minister of Poland also appealed for above-political accord on the euro and repeated his proposal to suspend budget aid to political parties in 2009 and 2010. Poland launched 40 billion zlotys in construction projects and 400-500 million euros' worth of energy investments.

The fiscal response was determined by two key factors. First, the extent to which public finances were already under stress at the beginning of the crisis. Second, CEE countries with high external financing needs needed to take account of a possible weakening of investor confidence which would complicate access to foreign funds. Whereas the Czech Republic and Poland decided on fiscal stimulus packages of around 3% of GDP in 2009 (broadly in line with the EU and the Euro Area average), the net impact of fiscal policy measures in Bulgaria, Romania and Hungary was either neutral or even deficit-reducing. (Gardo, Martin, 2010) The fiscal stance in the Czech Republic, as measured by changes in the structural balance, was expansive in 2008 and 2009. The increase in the headline deficit in 2009 reflected a deterioration in both the cyclical and the structural component, with the latter mirroring mainly the impact of fiscal stimulus measures. The fiscal stance is expected to be restrictive in 2010 amid the efforts of the Czech government to correct growing budgetary imbalances. (Directorate General Economic and Financial Affairs, 2010) In Hungary, fiscal policy has been restrictive since 2007. After deteriorating markedly in 2005 and 2006, the structural general government balance improved continuously over the next three years. The restrictive fiscal stance constrained domestic demand and thus also contributed to an improvement in the external balance, while at the same time the associated indirect tax hikes had an upward impact on prices. During 2009, further significant fiscal adjustment measures were adopted to restore investor confidence in the Hungarian economy. Moreover, a broadly budget neutral reshuffling of the tax revenue structure was implemented, with a lower tax burden on labour compensated by higher consumption taxes, which again exerted an upward pressure on consumer prices. Measured

by changes in the structural balance, the fiscal stance is expected to remain broadly neutral in 2010 and then become expansionary in 2011. (Directorate General Economic and Financial Affairs 2010a) Given the lack of fiscal space and the fragility of the financial market situation, the authorities were only in a position to support the economic recovery by taking measures that did not have a significant negative budgetary impact. In Poland, robust real GDP growth led to a strong reduction of general government deficits during 2004-2007, with a mildly restrictive fiscal stance, as measured by changes in the structural balance, in most years. However, the structural deficit remained elevated. The fiscal policy stance turned markedly expansionary in 2008, reflecting a reduction in social contributions, increases in personal income tax reliefs and generous indexation of social benefits and pensions. Fiscal expansion continued in 2009, with a cut in personal income tax and increases in social transfers and public investment. The structural deficit projection implies a moderately restrictive fiscal stance in 2010 and 2011. The consolidation measures announced in the 2010 budget include an increase in excise and quasi-excise duties with a deficit-reducing impact of about 0,2% of GDP and a limit on wage and salary growth in the central government, leading to savings of about 0,3% of GDP. Moreover, following the adoption of the budget, on 29 January 2010, the Prime Minister and the Minister of Finance presented a package of reforms titled “The Plan for the Development and Consolidation of Finances” with the overall net impact of 2% of GDP, concentrated in 2012.

On average, the fiscal burden of the crisis for the Visegrad group was largely within limits of the region. Czech republic spent approximately 3,4% of its GDP on anti-crisis measure, Slovakia 3,2%, Poland 3,4%, and Hungary 0,5%. The NMS average burden was 3,3% and the EU as a whole 6,0 %. (Directorate-General for Economic and Financial Affairs, 2009)

## **EURO ENTRY**

Dyson (2006) distinguishes 3 possible positions of CEEs towards Euro Area entry:

1. Pacesetters;
2. Delayed approach;
3. Self-exclusion.

Pacesetters see the eurozone as a shelter from the instability. For different reasons (including correlation of business cycles, political context, trade relations), they try to adopt the common currency as soon as possible. The countries with the delayed approach put their focus on flexibility, and argue that more time is needed for them to catch up to the rest of the eurozone. They feel that the stability provided by the Euro Area does not tip the scale when compared to the loss of the monetary policy and the exchange rate channel to offset the inflation pressures. The self-exclusion countries focus on superior growth and social model, mixed with national identity, and put the eurozone entry quite low on their priority list. While Dyson's typology certainly has merits and explains the reasons for the decision-making of the EU Member States, it has certain shortcomings. First, pace-setting is not quite possible in the area of monetary integration, because of the asymmetrical position of the candidate countries. They did not and do not have any bargaining power towards the EU institution in negotiating the terms of entry – those are firmly set in the Maastricht criteria. Therefore, if the candidate countries do not fulfil the criteria, they stand no chance in being admitted. If they do fulfil the criteria, the results are still reviewed by the ECB and the European Commission from the point of view of sustainability, and can be refuted on that ground. On the other hand, self-exclusion is not possible in the NMS, as they did not manage (and did not even try) to negotiate an opt-out clause, as did Great Britain and Denmark in the 90s. Some of the countries, namely Czech Republic, act like they belong to this category, but in fact they do not.

Therefore, a new typology is proposed, based on two sets of factors, stressing the domestic preferences and situation. It is quite difficult to categorize them, so I chose a multidimensional division – on the political level, or the willingness to submit the country to a commitment, and the economic level, or the capacity and readiness of the country to fulfill the Maastricht criteria. We can basically distinguish three groups of countries. Using a fairy-tale terminology, the first group of countries can be called Red Riding Hoods – Slovakia, Slovenia, and Estonia. The second can be called Sleeping Beauties, and it comprises Czech Republic and to a certain degree, or rather certain date also Poland – those are the countries that decided to wait for better times. And the last group, consisting of the remaining 5 countries, can be called Cinderellas – they may be willing to make a commitment, but lack the capacity to deliver the required results. (Pašiak 2010, 73) The first group is composed of

those countries that did not change their original preference and early entry remained their preference, and at the same time successfully implemented their accession strategy. Slovakia and Slovenia are the only NMS that fulfilled their original target dates set before their accession to the EU. As Red Riding Hoods, they were “good pupils”, obedient and observant. They had a clear goal and adjusted the instruments necessary to achieve it. Their story ended with a happy-end, mainly thanks to their cleverness and ability to foresee the development in the future. The most recent addition to this group is Estonia, whose constraints in the economic field were in fact widened as a result of the crisis because of the drop in inflation, which enabled Estonia to become a Red Riding Hood. The largest group of countries consists of countries that did not keep their original target dates, due to economic factors – inflation, and in some cases public finances as well. This group consists of Latvia, Bulgaria, Romania, Lithuania and Hungary. They possess the political will to enter, but their economies constraint them to a various degree. As Cinderellas, they hope for a positive development, in many cases external (e.g. economic crisis bringing down inflation, which is very beneficial for Estonia), in order to reach the happy ending. Even with positive external development, they must work hard to achieve that goal, as did the heroine in the fairy-tale. The last group consists of countries that have sound economic base to enter the Eurozone, but due to the political reasons, they hesitate to do so, and prefer a delayed entry (or an entry as late as possible). The rhetorics in Poland seem to be pointing towards a change of preferences since end of 2008, but there is little substance to back them. The Sleeping Beauties have decided to wait for a more opportune time to adopt the euro, in the calculations that the intermediate period with a greater freedom in economic policies will enable them to converge with Eurozone in real terms.

Now let us see whether the economic crisis changed the preferences of these countries. Before crisis, that is in 2007 and the beginning of 2008, 6 countries updated their EMU accession strategies. There was a notable shift compared to e.g. 2004, when everyone wanted to be a Red Riding Hood (or a pacesetter). The EMU enthusiasm disappeared and the positive spillover from the EU accession causing all of these countries to choose 2007, 2008 and 2009 as their target dates diminished significantly. All the countries, with the exception of Slovakia, chose delayed approach, some bordering with self-exclusion. The target dates were postponed to 2012 and later, many of them being non-binding. In short,



due to various reasons including loss of attractiveness of EMU itself and fair but strict position of EU institutions, the plans for EMU entry were set back. Right before the crisis there were two Red Riding Hoods – Slovenia already in the eurozone, and Slovakia on its way, two Sleeping Beauties – Czech Republic and Poland, not willing to commit to any particular date, and the rest of the countries belonged to the Cinderella group. Has the crisis changed these preferences?

After crisis, in mapping the preferences, different phases can be distinguished. First phase, lasting from the beginning of the global crisis till the late fall 2008, depends largely on the initial impact of the crisis – CEE region was not touched, except for the Baltic countries. Then, when the crisis hit the CEE region, which can be best demonstrated on the volatility of the exchange rate, the preferences were altered. The exchange rate volatility caused by decreasing foreign and domestic demand started to have impact on these economies. *„The preferences towards the euro have completely changed over the last weeks. It's been interesting to see how the NMS from the beginning, from 2004 and right now, have changed preferences. After the enlargement, we have seen that a group of countries was totally euro driven. It was their ultimate aim and affiche, if you want, say the Baltics for example. Others, like Poland, Czech Republic, Romania, I would say, had a completely different strategy, saying that they had to first adjust, they needed the exchange rate flexibility and they had plenty of things to do before joining the euro.“* (interview EC official, March 2009) A very good benchmark mainly to the Visegrad countries was their neighbour – Slovakia, which also suffered from crisis, but seemed to be better off under the umbrella of the euro. This period is characterized by a rise in the interest in Euro Area. Instability of the exchange rate was also translated into decrease in FDI, and while the exporters were satisfied with the increase of the competitive advantage, popular feeling was not that positive. The candidate countries saw more clearly the upsides of the membership in the eurozone, and started considering more seriously their entry plans. *“The ones who actually thought they were better off out of the Euro area, because they were keeping some independent monetary actions are now thinking that it is not so useful, or at least, in the period of trouble, definitely having their own exchange rate and being present in the structure is not so helpful. So now, what do we see? We see that every single member state, with no exception, wants to join the euro, and want to join the euro as soon as possible. And*

*we are back to the debate where we hear that maybe we need to change the conversion criteria, maybe the ERM II period is not the best thing to do, maybe we should have a big-bang start where everybody would jump into the euro. So I think it is very interesting to see that even politically, things have changed. From the EC point of view, to the best, because it is in the Treaty that every single member state has to join the euro at one point of the other.”* (interview EC official, March 2009) However, in the beginning of 2009, the economies of the candidate countries were not in the shape for a successful bid. None of the countries besides the Baltics were in ERM II, and that meant at least a 2-year wait. Since the prospects of being in the recession without the support of a stable currency seemed quite unpleasant for the NMS political leaders, a political pressure started to mount towards the EU with the goal of speeding up the accession process. The euro and the EU institutions were the closest to the NMS, so that is where they turned for help. These efforts culminated at the European Council meeting in March 2009, where a group of countries led by Hungary proposed a €179 billion package to aid the countries ‘willing, but unable to enter the eurozone.’ It came along with a notion for a fast-tracking of the accession process to the EMU. To help mitigate currency risk, Gyurcsany proposed faster euro adoption for eastern EU members. While economic terms including controlling inflation rates and budget deficits shouldn’t have been eased, the time needed to spend in the pre-euro test of currency stability known as the exchange-rate mechanism was proposed to be shortened from the current two years. Gyurcsany declared that the program such program, along with the clear intention that everyone is headed” toward the euro “at an accelerated pace, can create the currency stability needed for ERM entry. In Hungary’s view that would allow many of the EU’s eastern members to adopt the euro in the next two to three years. (Penz, Lovasz, 2009) Poland pledged support for the Hungarian proposal to shorten the time currencies must remain in the exchange-rate mechanism, the pre-euro adoption test of currency stability. This clearly shows the change in preferences, with the attractiveness of the eurozone significantly boosted.

On the other hand, this proposal was not met with enthusiasm in the EU. The EU leaders flatly rejected it, for several reasons. First, the eurozone was in troubles economically as it was. The notion of supporting more economies with a rescue package and easing their way into the EMU seemed illogical from the point of the EC and ECB, as it would only add to the trouble of the euro. *Euro needs to be adopted when the country is*

*doing well, not when it's in recession.* (interview Slovak official, March 2009) These candidate countries represented a further burden for the euro that the EU institutions were not willing to take on. *Equal treatment issue is very important and politically, I think it would have been a wrong signal to change it, because in whatever direction you would have changed it, it would have been questioned in terms of equal treatment. So that was very difficult. The second argument was that if you open this Pandora box of the criteria, you would never close it again. And this is a very powerful argument as well.* (interview EC official, March 2009)

This stance is further enhanced by the surprising disunity by the NMS. The Hungarian proposal received only ambivalent support, and NMS failed to act as a unified group. Therefore, there was no real bargaining power behind the proposal, which marks the end of the second phase. The third phase is characterized by the effect of devaluation of currencies that brought advantages in competitiveness, a relative stabilization of the exchange rate volatility, and a gradual shift towards countries' former preferences, that is the delayed approach for most of them. How can this phenomenon be explained? There have been two processes at work. First, after the refusal of the EU institution for speeding up the process, it was obvious that there would be no short-term advantages resulting from joining the eurozone. The countries (those who could) started exploiting the new comparative advantages, and look for diverse ways to subvert the crisis. Basically, after a few months, the things were 'business as usual', and there appeared no applications to join the ERM II. The euro lost its attractiveness because it closed the door. The candidate countries realized that the recession will not help them in the catching-up process, and opted to retain their flexibility. If we look at Figures 3, 4, and 5, we can see that the exchange rates were stabilized, so the panic was over. The fourth and final phase which lasts until the present is marked by a further loss of attractiveness of the eurozone for the NMS countries. This was caused by the internal problems within the eurozone. The Greek crisis exposed the vulnerability and weaknesses of the euro and disunity of the Member States. From the current point of view of NMS, there are few incentives to rush into the EMU. The logical approach is to wait and see how the current internal crisis is resolved, and not to waste efforts on a possibly futile quest.

## INTERNATIONAL ACTORS

With the European institutions taking a less active role in helping battle the crisis, other international institutions demonstrated a more active approach. The principal actor in this field was the International Monetary Fund. The IMF became in multilateral loans in the CEE region. It has bailed out Hungary, Poland, Latvia, Ukraine, Serbia, Belarus, and Romania. IMF bailout is connected with conditionality, different for each country, but mostly involving restructuring fiscal policies. We can demonstrate of IMF approach on two examples – loans to Latvia and Hungary. Latvia's Stand-By Arrangement of €1,7 billion came in December 2008, as an answer to its economic difficulties, with other international bodies contributing to the total of €7,5 billion. *The Latvian authorities started implementing package of policy measures aimed at stabilizing the economy. In assembling the financial support for the authorities' program, the IMF coordinated closely with the European Union, the World Bank and several Nordic countries.* (International Monetary Fund 2008) The Stand-By Arrangement will last until 2012, and is supposed to boost the Latvian economy in such a way to enable it to enter the European Monetary Union successfully. This in practice means that IMF will pass Latvia into the hands of the ECB and the European Commission. *We had to negotiate an emergency loan from IMF and the EU. There is conditionality attached to this loan, and three strategic things: One is that the exchange rate remains untouched, so the peg remains as it is. Second is that there are limits for fiscal deficits for 3 coming years, and the third is the strategic aim is for Latvia to join the euro in 2012, it's like exit strategy from the program. It's like an anchor to fix the benefits and efforts that we are taking. Of course, this conditionality doesn't oblige the EU to accept us, it is only our own decision to go for this.* (Interview Latvian official, March 2009) The Hungarian case is quite different. Hungary was the first CEE country to be bailed out by the IMF. As its results were considerably worse than Latvia's, there were no expectations for Hungary to join the EMU at the end of its Stand-By Arrangement which was agreed in November 2008. Hungary was among the first emerging market countries to suffer from the fallout of the current global financial crisis. As financial difficulties in advanced economies led to a decline in global liquidity and an increase in risk aversion, investors increasingly started differentiating among emerging markets. Hungary's high external debt levels, which amounted to 97 per cent of GDP at end 2007, and significant balance sheet mismatches, negatively affected investor appetite for Hungarian assets.

(International Monetary Fund 2008a) The amount of the loan was €12,3 billion from the IMF, again with other international bodies contributing, up to €20 billion in financial support, that was to provide Hungary with the amount of reserves that is sufficient to meet its external obligations, even in extreme market circumstances. (International Monetary Fund 2008a) Thus, IMF can be considered the principal actor in bailing out the CEE countries, with the EU playing a more passive role.

## **Conclusion**

The crisis has affected both EU and New Member States, and while it may be labeled as 'imported,' it acts as an external constraint in the process of the preference formation in the NMS. One of the findings of this paper is in the linkage between economic and political factors when determining the preferences of the states towards the euro. The economic results and performance, due to the asymmetrical nature of the EMU and candidate countries, constitute a limiting factor for the political will to enter. The crisis has narrowed the space for the political decisions by worsening the economic performance of the NMS countries. The preferences of the NMS towards the eurozone changed during the crisis – while initial general approach was cautious, the crisis has shown the degree of stability that the euro provides, especially when compared to the volatility of exchange rates in the CEE countries. That caused a rapid shift in the preferences towards an early adoption of the euro. The reaction of the EU institutions and lack of solidarity from other NMS, however, caused a gradual return to the previous preferences, accompanied by the improvements in the economic performance. The Greek crisis has constituted another drop in the attractiveness of the eurozone, which means that with the exception of Estonia, the current preferences of the NMS are much like they were before the crisis. Eurozone is not to become the 'rescue zone'. The EU seems to be secondary actors in the crisis, due to internal problems, and giving rather negative signals, and IMF taking the prominent role.

## TABLES AND FIGURES

Figure 1 – Real GDP growth (%)

	2006	2007	2008	2009	2010	2011
<b>EU (27 countries)</b>	3.2	3.0	0.5	-4.2	1.0	1.7 <sup>f</sup>
<b>Euro area (16 countries)</b>	3.0	2.9	0.5	-4.1	0.9	1.5
<b>Bulgaria</b>	6.5	6.4	6.2	-4.9	0.0	2.7
<b>Czech Republic</b>	6.8	6.1	2.5	-4.1	1.6	2.4
<b>Estonia</b>	10.6	6.9	-5.1	-13.9	0.9	3.8
<b>Latvia</b>	12.2	10.0	-4.2	-18.0	-3.5	3.3
<b>Lithuania</b>	7.8	9.8	2.8	-14.8	-0.6	3.2
<b>Hungary</b>	4.0	1.0	0.6	-6.3	0.0	2.8
<b>Poland</b>	6.2	6.8	5.0	1.7	2.7	3.3
<b>Romania</b>	7.9	6.3	7.3	-7.1	0.8	3.5
<b>Slovenia</b>	5.9	6.9	3.7	-8.1	1.1	1.8
<b>Slovakia</b>	8.5	10.6	6.2	-4.7	2.7	3.6

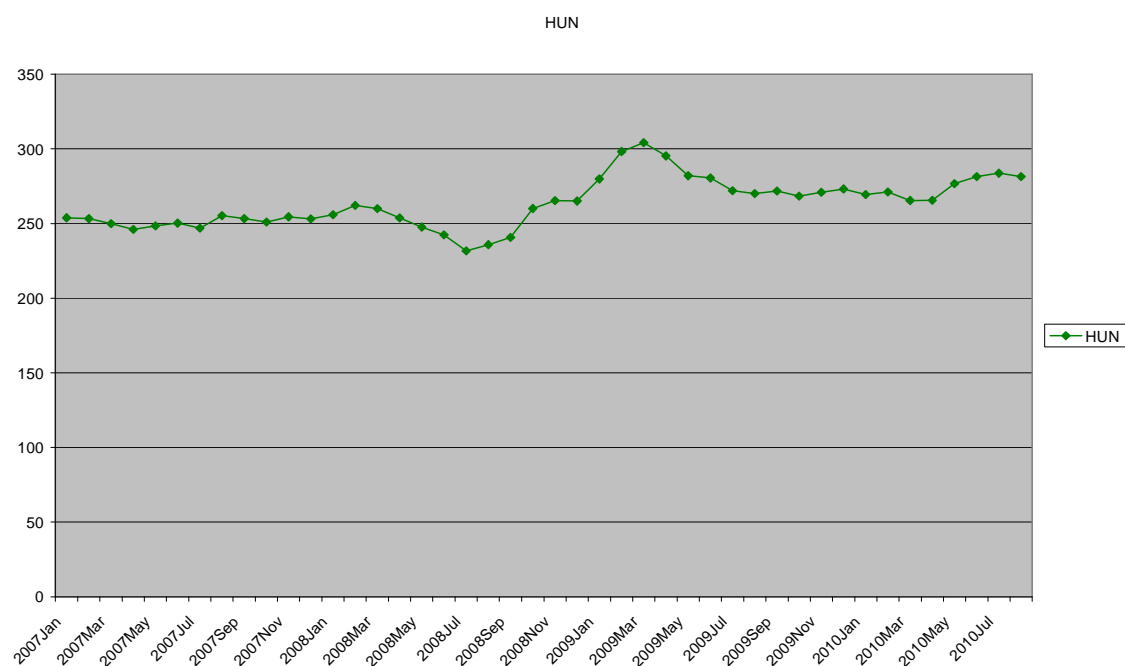
Source: Eurostat

Figure 2 – HICP inflation (%)

	2005	2006	2007	2008	2009
<b>European Union</b>	2.2	2.2	2.3	3.7	1.0
<b>Euro area (16 countries)</b>	2.2	2.2	2.1	3.3	0.3
<b>Bulgaria</b>	6.0	7.4	7.6	12.0	2.5
<b>Czech Republic</b>	1.6	2.1	3.0	6.3	0.6
<b>Estonia</b>	4.1	4.4	6.7	10.6	0.2
<b>Latvia</b>	6.9	6.6	10.1	15.3	3.3
<b>Lithuania</b>	2.7	3.8	5.8	11.1	4.2
<b>Hungary</b>	3.5	4.0	7.9	6.0	4.0
<b>Poland</b>	2.2	1.3	2.6	4.2	4.0
<b>Romania</b>	9.1	6.6	4.9	7.9	5.6
<b>Slovenia</b>	2.5	2.5	3.8	5.5	0.9
<b>Slovakia</b>	2.8	4.3	1.9	3.9	0.9

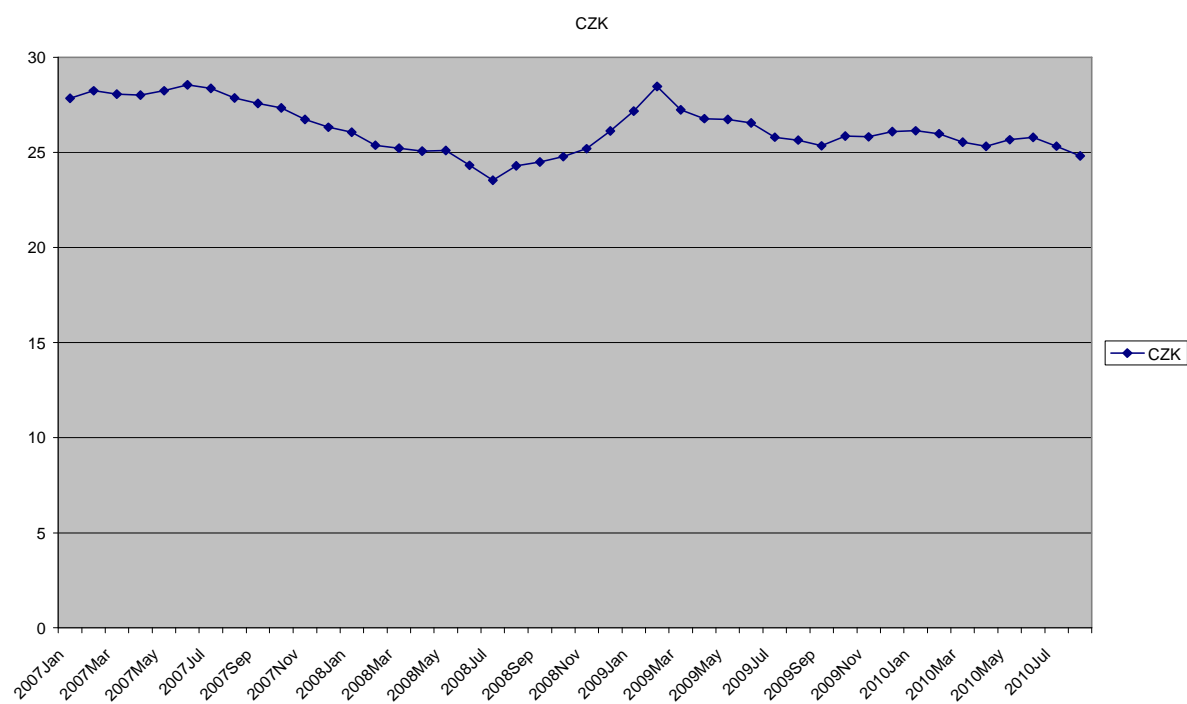
Source: Eurostat

Figure 3 – Exchange rate HUF/EUR



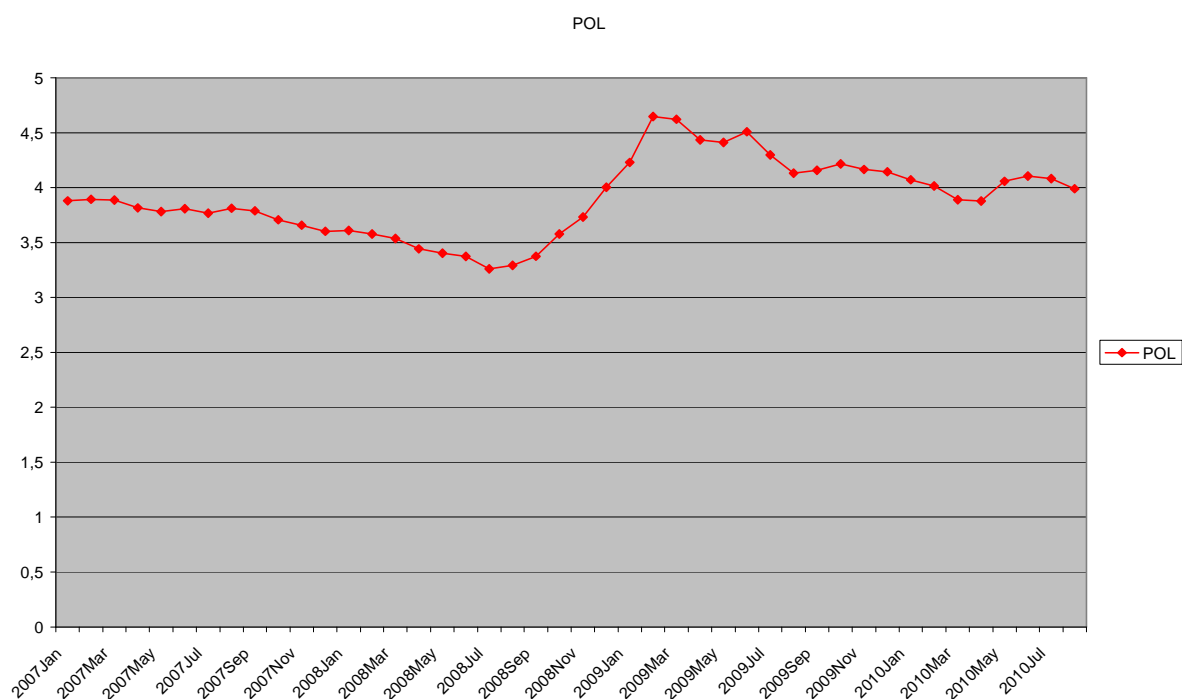
Source: OECD

Figure 4 – Exchange rate CZK/EUR



Source: OECD

Figure 5 – Exchange rate PLN/EUR



Source: OECD

Figure 6 – Budget deficits (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Euro area</b>	0.1	-1.8	-2.5	-3.1	-2.9	-2.5	-1.3	-0.6	-2.0	-6.3
<b>EU (27 countries)</b>	0.6	-1.4	-2.5	-3.1	-2.9	-2.5	-1.4	-0.8	-2.3	-6.8
<b>Bulgaria</b>	-0.3	0.6	-0.8	-0.3	1.6	1.9	3.0	0.1	1.8	-3.9
<b>Czech Republic</b>	-3.7	-5.6	-6.8	-6.6	-3.0	-3.6	-2.6	-0.7	-2.7	-5.9
<b>Estonia</b>	-0.2	-0.1	0.3	1.7	1.6	1.6	2.5	2.6	-2.7	-1.7
<b>Latvia</b>	-2.8	-2.1	-2.3	-1.6	-1.0	-0.4	-0.5	-0.3	-4.1	-9.0
<b>Lithuania</b>	-3.2	-3.6	-1.9	-1.3	-1.5	-0.5	-0.4	-1.0	-3.3	-8.9
<b>Hungary</b>	-3.0	-4.0	-8.9	-7.2	-6.4	-7.9	-9.3	-5.0	-3.8	-4.0
<b>Poland</b>	-3.0	-5.3	-5.0	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7	-7.1
<b>Romania</b>	-4.7	-3.5	-2.0	-1.5	-1.2	-1.2	-2.2	-2.5	-5.4	-8.3
<b>Slovenia</b>	-3.7	-4.0	-2.5	-2.7	-2.2	-1.4	-1.3	0.0	-1.7	-5.5
<b>Slovakia</b>	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.5	-1.9	-2.3	-6.8

Source: Eurostat



Figure 7 - Public debt (% of GDP)

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Slovenia	22,1	24,6	27,6	26,8	28,0	27,5	27,2	27,0	26,7	23,4	22,6	35,9
Bulgaria	79,6	79,3	74,3	67,3	53,6	45,9	37,9	29,2	22,7	18,2	14,1	14,8
Czech Republic	15,0	16,4	18,5	25,1	28,5	30,1	30,4	29,7	29,4	28,7	30,0	35,4
Estonia	5,5	6,0	5,2	4,8	5,6	5,5	5,1	4,5	4,2	3,4	4,6	7,2
Latvia	9,6	12,5	12,3	14,0	13,5	14,6	14,9	12,4	10,7	9,0	19,5	36,1
Lithuania	16,6	22,8	23,7	23,1	22,4	21,2	19,4	18,6	18,2	17,3	15,6	29,3
Hungary	60,4	59,5	54,3	52,1	55,7	58,0	59,4	61,6	65,6	65,9	72,9	78,3
Poland	38,9	39,6	36,8	37,6	42,2	47,1	45,7	47,1	47,6	45,2	47,2	51,0
Romania	18,8	22,1	24,7	26,0	25,0	21,5	18,8	15,8	12,4	13,0	13,3	23,7
Slovakia	34,5	47,9	50,4	19,0	43,4	42,4	41,4	34,2	30,4	29,3	27,7	35,7

Source: Eurostat

Figure 8 – NMS preferences

Country	Economic level	Political level
Slovenia	+	+
Slovakia	+	+
Estonia	+	+
Latvia	-	+
Lithuania	-	+
Czech Republic	+	-
Hungary	-	+
Poland	-	+
Romania	-	+
Bulgaria	-	+

Source: author

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# **The New Zealand Economic Experience in the Crisis World**

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## **Abstract**

The submitted paper is to analyse New Zealand's economic position in the world and its policies taken in the turbulent times under economic crisis in the world. New Zealand's economy is considered to be a trading one as the export as well as import both comprise the core factors in meeting the economic goals of the country.

## **Key words:**

Economy, crisis, reform, diversification, export, import, unemployment, OECD

## **Introduction**

In the 1950s New Zealand's rate of unemployment a per capita was one of the lowest in the world. In the late 1960s and 1970s, however, New Zealand experienced a series of external shocks because UK's enter to the EEC and this resulted in a significant downturn in its economic performance. Historical roots of the country underlying the strong ties to Great Britain not only in the state-building area (i.e. from colony to dominion up to the recognised and respected independent state) but also considering its trade and exports as the country needed to find new economic and trade partners in a long-term vision. Therefore, for example, rate of export to the most important Asian partners (as Japan, South Korea, Hong Kong, and Taiwan) increased in 17 % and reached 4. 540 mil. NZ dollar in the period of 1991 – 1993 (that represents one quarter of the whole New Zealand's export in the given period; Statistics New Zealand, the most current economic indicators see in the below table). Comparing to other OECD countries which experienced a crisis-caused economic slowdown in late 2008, New Zealand's economy achieved in 2010 a growth in 1.7 per cent, increased to 2 per cent in 2011. (An open economy with solid fundamentals. Available online at: <http://www.newzealandnow.govt.nz/investing-in-nz/opportunities-outlook/economic->

overview) The table below shows economic results of the country within the above period 2011-2012.

*Table 1 Economic indicators of New Zealand (2011-2012)*

Indicator	Total	Year end
Population	4,430,800	31-Mar-2012
Nominal GDP (NZ\$million)	204,503	31-Dec-2011
Nominal GDP growth	5.1	31-Dec-2011
Nominal GDP per capita (NZ\$)	46,155	31-Dec-2011
Real GDP (NZ\$million)	135,041	31-Dec-2011
Real GDP growth (%)	1.2	31-Dec-2011
Real GDP per capita (NZ\$)	30,478	31-Dec-2011
CPI inflation	1.8	31-Dec-2011
Unemployment rate (%)	6.3	30-Mar-2012
Total exports (NZ\$million)	47,870	29-Feb-2012
Total imports (NZ\$million)	47,249	29-Feb-2012
Trade surplus/deficit (NZ\$million)	621	28-Feb-2011

*Source: Statistics New Zealand, Reserve Bank of New Zealand*

Great Britain was a traditional market country for most of the New Zealand's production from the very beginning of a "production history" of the country. From the very beginning of the history of this colony it was an export country of many traditional products and London literally started to be used for them. So all the post – war governments struggled to substitute traditional British marked where the country's products were mainly exported to. After Britain succeeded to join the EC and started to apply all the related obligations, New Zealand experienced an economic shock. Thanks to diversification of New Zealand's overseas trade now the country is considered to be one of the most reform and progressive countries

not only from economic point of view (e.g. reforms of R. Douglas). Based on the World Bank's ratings, New Zealand is rated as the country with easiest doing business in the world from 2003 to 2005.

(<http://www.doingbusiness.org/data/exploreeconomies/new-zealand/>)

### **Top trade partnerships**

As a result of the 70s, the country entered close relations with its closest neighbour, Australia through various agreements. It had also intensified (in the 60<sup>th</sup> and 70<sup>th</sup>) its economic and political relations with Japan. In the 90<sup>th</sup> of the last century New Zealand, besides Australia, more and more traded with countries of Asian continent however the most important one still stayed Australia ties in CER –Closer Economic Relations since 1983 that still is one of the most effective free trade agreements in the world. For example, in the period of 1991 – 1993 rate of export to the most important partner Asian countries (Japan, South Korea, Taiwan, and Hong Kong) increased in 17 % and reached 4. 540 mil. NZ dollar, i.e. one quarter of the whole New Zealand's export then. (Statistics New Zealand; Australia's Trade Outcomes and Objectives Statement. <http://www.mfat.govt.nz/Trade-and-Economic-Relations/0--Trade-archive/0--Trade-agreements/Australia/0-trade-agreement.php>. Page last updated: Monday, 23 June 2008 12:23 NZST)

Also membership in APEC provides New Zealand definite advantages as up to 14 from the 20 most important markets of New Zealand are APEC member states and mainly the three strongest world economies – USA, China and Japan. Up to 70% of New Zealand's total trade and 60% of direct foreign investments comprise the region of APEC countries.<sup>11</sup>

Concerning the EU, it has developed into a key player in various international issues and the EU market is the second biggest market for New Zealand (just after Australia, it is approximately 15 per cent of the total country's export) and as the EU economic power and opportunities have also grown due to accession of new member states, thus it is becoming the most rapidly growing market for New Zealand's products (butter, fruits, sheep products and others). There is not only economic and trade areas of cooperation as recognised many times, but there are other significant layers of mutual cooperation, thus naming it a "partnership" as stressed by John Key (Prime minister of New Zealand) in his lecture: ...

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<sup>11</sup> <http://www.mfat.govt.nz/Trade-and-Economic-Relations/APEC/4-Importance-to-NZ.php>

*“Trade issues, while still important, are today only one part of the issues and agenda with Europe. This is the result of closer engagement with the EU across a wide range of areas. The EU and New Zealand now have extremely useful sectorial agreements with the EU,.....”* (John Key: Europa Lecture: Europe’s Place in New Zealand’s Foreign Policy).<sup>12</sup>

As recognised by the Ministry of Foreign Affairs and Trade of New Zealand, the European Union is a market of the largest extend which is constantly growing in a higher rate comparing to the country’s other ones.(<http://www.mfat.govt.nz>) The primary products are sheep meat, fruit, wine, medical products (as provided in Table 2 below) and New Zealand imports nearly \$7 billion in goods from the EU each year, mainly vehicles, medical products and other manufactured items.

*Table 2 Exports - top 20 commodities*

Commodity	NZ\$ millions	Year end
<b>Milk powder, butter, and cheese</b>	12,097	29-Feb-2012
<b>Meat and edible offal</b>	5,482	29-Feb-2012
<b>Logs, wood and wood articles</b>	3,176	29-Feb-2012
<b>Crude oil</b>	2,078	29-Feb-2012
<b>Mechanical machinery and equipment</b>	1,848	29-Feb-2012
<b>Fruit</b>	1,601	29-Feb-2012
<b>Fish, crustaceans and molluscs</b>	1,387	29-Feb-2012
<b>Wine</b>	1,181	29-Feb-2012
<b>Aluminium and aluminium articles</b>	1,160	29-Feb-2012
<b>Electrical machinery and equipment</b>	1,135	29-Feb-2012

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<sup>12</sup> These agreements concern for example science and technology, animal products. See: John Key: Europa Lecture: Europe’s Place in New Zealand’s Foreign Policy.

<b>Commodity</b>	<b>NZ\$ millions</b>	<b>Year end</b>
<b>Iron and steel and articles</b>	982	29-Feb-2012
<b>Precious metals, jewellery and coins</b>	908	29-Feb-2012
<b>Preparations of cereals, flour and starch</b>	848	29-Feb-2012
<b>Wool</b>	811	29-Feb-2012
<b>Casein and caseinates</b>	788	29-Feb-2012
<b>Wood pulp and waste paper</b>	721	29-Feb-2012
<b>Miscellaneous edible preparations</b>	662	29-Feb-2012
<b>Textiles and textile articles</b>	637	29-Feb-2012
<b>Wood pulp and waste paper</b>	633	29-Feb-2012
<b>Optical, medical, and measuring equipment</b>	625	29-Feb-2012
<b>Paper and paperboard, articles</b>	586	29-Feb-2012

*Source: Statistics New Zealand*

All the relations with the EU are undetermined and underlined by an issue of agriculture as New Zealand may be considered to be a traditional exporter of agricultural products. Another floor for the extended NZ –EU cooperation is open due to New Zealand's membership of the Asia Europe Meeting (ASEM) that provides a further opportunity for these two actors to engage more and effectively on the regional issues. Since 1996 ASEM provides a forum for dialogue between European and Asian heads of government meet every two years on agenda comprising trade and financial area, culture and education, transport, immigration, climate change and disaster preparedness, food security and development, employment, energy security, and others.



Except direct investments to the country and trade rate that are constantly of high numbers, tourism is another significant area within the economic line as Europe is the second largest visitor market for tourism. Europeans stay longer in New Zealand and consequently spend more. Another layer is represented by an issue of study and participation in working holiday schemes. In comparison, per a year there are around 10,000 Working Holidaymakers from the UK, then 7,000 from Germany, and approximately 3,000 from France so it is clear that the UK is the largest European source of tourists to New Zealand. (Statistics New Zealand. New Zealand Official Yearbook, 2002)

Germany has appeared in the last decades as a partner rising its importance for New Zealand. According to statistic data of 2009 and comparing to other EU member states, Germany has proved to be the largest country –importer of New Zealand’s products within the EU imports from New Zealand (amounting to around \$1.804 billion) importing mainly sheep-meat, fish, and fruit (kiwifruit, apples). Despite of the past disagreement concerning nuclear testing in the Pacific (dispute around Murroroa Atol testing), another significant player is France as the second largest European investor in New Zealand (Britain is the first one) also through activities of companies as Yoplait, Alcatel, AXA, and others. (<http://www.mfat.govt.nz>)

*Table 3 Top 10 trading partners*

Country	Exports (million)	NZ\$	Imports (million)	NZ\$	Total trade NZ\$ (million)
<b>Australia</b>	10,848		7,369		18,217
<b>China, People's Republic of</b>	5,887		7,439		13,326
<b>United States of America</b>	3,997		5,026		9,023
<b>Japan</b>	3,441		2,921		6,362
<b>Korea, Republic of</b>	1,675		1,454		3,129
<b>Singapore</b>	813		2,163		2,976
<b>United Kingdom</b>	1,545		1,267		2,812

Country	Exports (million) NZ\$	Imports (million) NZ\$	Total trade (million) NZ\$
Germany	775	1,994	2,769
Malaysia	875	1,478	2,353
Thailand	732	1,330	2,062
<b>Total trade</b>	<b>47,702</b>	<b>46,896</b>	<b>94,598</b>

*Source: Statistics New Zealand*

Based on BNZ economists, James Weir, *"New Zealand still looks a relatively good place to be when compared with most of the developed world..."*. (JAMES WEIR: Economic outlook fair but clouded. 19.2.2013. available online at: <http://www.stuff.co.nz/business/industries/8320307/Economic-outlook-fair-but-clouded>)

## CONCLUSION

As a result of the post-war development, the country entered close relations with its closest neighbour, Australia, through various agreements. In the 90<sup>th</sup> of the last century New Zealand, besides Australia, more and more traded with countries of Asian continent also through its membership in APEC that provides New Zealand definite advantages (14 of the 20 most important markets of New Zealand are APEC member counties as well as there are the three strongest world economies – USA, China and Japan; approximately 70 per cent of New Zealand's total trade and 60 per cent of direct foreign investments comprise the APEC countries. (<http://www.mfat.govt.nz>)

New Zealand, altogether with Australia, is the most important donor country in the Pacific area and both the countries recently announced increase of their share on the aid provided in the region. Therefore both the countries support all the cooperation with the EU and projects realised via EU. The EU opens another dimension of development of the Pacific for New Zealand as it declares that the region's future is New Zealand's responsibility.

Crisis recovery is led by exports done with New Zealand's traditional and major trading partners, i.e. Australia and China (see Table 3), who also have not been dramatically affected by the crisis. A range of measures was adopted to stabilise situation in the country and now New Zealand has interesting macroeconomic results, as for example strong fiscal position, to - by the early 2020s - reduce the net debt to 20 percent of GDP; and others. The NZ dollar has also kept its position as rated among the top 20 rated sovereign currencies in the world. (An open economy with solid fundamentals. Available online at: <http://www.newzealandnow.govt.nz/investing-in-nz/opportunities-outlook/economic-overview>)

The effectiveness of the policies taken is increased also by the fact that the National party was re-elected in 2011 holding its administration since 2008 by 2014 when new election will be held. The government's key policy drivers contain besides a better regulation in natural resources, also support to science through improved education and skills up to support to better public services trade and innovation.

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# **A CONSEQUENCE OF THE EU FINANCIAL CRISIS – A NEW ENERGY CRISIS?**

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## **Abstract:**

Energy security is an instrument of politics. Russia is one of the world key oil and gas suppliers. Recently, there have been attempts to a “misuses” energy policy in order to increase the influence over the customers and expand to new markets. The question is whether Russia will be able to fulfill all the obligations as well its goals stated in the energy policy. Russia is using energy increasingly as a political lever and there was a global increase in hydrocarbon prices.

The EU remains Russia’s largest trading partner and is dependent on revenues from gas sales to Europe. It seems that consequence of the financial crisis and its European solution may have influence on the Russia’s politics towards the EU. Would new energy source – shale gas – change anything?

## **Key words:**

energy security, crisis, Russia, EU

## **Introduction**

Problems such as aging infrastructure, global warming, rising oil and gas prices and the increasing dependence on supplies outside the EU, growing new regions and their need for increased energy demand forced the heads of states, EU officials, businesses and residents to talk more often about energy security and start common work in the political sphere. Energy security has become a phenomenon today. How do we understand it?

*Energy security* is a term influenced by geopolitical factors. General definition is that it is a country's status of security in relation to possible shortages in securing energy needs, economically available fuels and other sources of acceptable quality. Reliable energy supplies bring security to citizens, businesses and the state and that way create an enabling environment for economic development. It is the very premise of national security. Interruption or possible suspension of the supplies plus global economic crisis evoke possible problems at the energy market and create pressure on the issue of the energy security.

The notion, energy security, had evolved in the Post Cold War era, when the bipolar world changed into arena of several globally relevant players, including interstate players such as multinational corporations of international organizations. During the Cold War traditionalist (realist) perception of security had referred solely to military affairs and state-centrism. Non-traditionalists have argued that other issues, such as economic, environmental and social threats equally endanger players of the contemporary world (Tarry, 1999).

Current transition to a new energy era is a process where producing and consuming nations adjust their diverse interests to promote a deeper integration within oil and gas markets for the sake of global energy security. The biggest challenge for suppliers and buyers often stems from different understandings of energy security. Energy importers focus on security of supply – sustainable energy production and uninterrupted deliveries of oil & gas from energy exporters. Producers are concerned with stable revenues & guarantees of demand security from energy consuming nations (Yenikeyeff, 2006).

However agreeing with Duleba (2009), the energy security should be understood in the context changing the definition of “security of consumer”. The EU member states develop energy security policy especially in terms of ensuring access to energy resources for their own use. The global angle view requires change in the current energy thinking. Understanding of energy security should be moved so that it is understood as a concept standing on three pillars: security of consumer – security of producer - security for transit countries. It is necessary to overcome “consumer concept” of energy security and include the other two elements.

### ***Energy security, crisis and history and Russia***

The Russian federation is the biggest world gas and oil producer and exporter. The European Union on the other hand is the largest market for Russia's export of these goods. The position of the Russian "empire" strengthens even more after the 2004 EU enlargement, because the new member states from Eastern Europe are mostly energy dependent on this import.

However, it seems that Russia plays the energy game on four chessboards. Being that it is the largest country in the world and the major energy supplier to different countries it has a lot of responsibility. The West subsequently the EU is and will be the core of the export. The development of the East market is a promising target as well. The energy demand in China's and India's growing economies also participates in sharing the uncertainties arising from accounted energy reserves and energy flow. In the north there are regions that need to be explored and exploited, but that, itself requires having great budget and investments. At the same time in the South lots of competition is arising. This leaves us with the question: How long will this game last?

In other words, Russia's foreign policy is in theory characterized by more than few characteristics. Following the so called "bears effect model", which means that functioning of the energy security of Russian federation is connected to realistic theory of searching for the power<sup>13</sup>, Putin's energy policy tool is using Russia's energy sources and pipelines as a political instrument to enforce economic and geopolitical interests.

Russia's main goal in this regard is also described in the Energy Strategy to 2020, approved in 2002. The energy policy of Russia should provide a reliable supply of energy, ensure its security and independence, and support of using its full energy potential.

Even more important is Russia's objective to use its unique geographical and geopolitical position in order to strengthen its power on the global market and maximize efficiency of export possibilities of the Russian energy sector, as it is the main instrument of Russian diplomacy (Ministry of Energy of the Russian Federation, 2003).

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<sup>13</sup> After the collapse of the Soviet Union, the Russian foreign policy in the field of energy supply changed so called political revanchism. Brezhnev doctrine of limited political and security sovereignty replaced for Central and Eastern Europe, by Putin's doctrine of limited energy sovereignty.

Russian Oil and Natural Gas at a Glance



Source: <http://www.japanfocus.org/-Leonid-Petrov/2835>, online on March 14, 2013

### ***The EU Energy policy***

Energy policy and the issues of energy security and dependency became one of the main topics of the EU politics mainly after the Eastern enlargement. There is no common Energy policy within the EU; there is though EU legislation that regulates the common energy market. Generally, energy policy is accepted to be a “private decision” of national governments. The countries of Central and Eastern Europe are supplied with natural gas from Russia at the level of about 65%. The main connection pipelines are drawn from the East to West while the South – North connection is still absent. Some European countries (e.g. the Czech Republic) have found “new” supplier source in Norway. Others countries may not have a chance to change the flow if there are no new pipelines as well as new resources.

The example of above described reactive energy policy was in the winter 2005-06, when the first conflict emerged between Russia and Ukraine. At that time it was more like a commercial dispute, which was resolved quite quickly and the reduction of the supply of natural gas was the result.



In 2009, a new dispute between Russia and Ukraine led to crisis, which was the point, where the European Union started to take energy security concerns seriously, as well as for the former countries of the Eastern block. Gas supplies were completely cut off and negotiations on the crisis solution lasted nearly three weeks. This crisis was more politically motivated and the main reason was contractual relationship with the wanted impact on the EU. The EU (at that time Czech Republic as a presiding country) was a mediator of the conflict. In short, according to the EU gas supplies for the European Consumer are driven by long - term contracts and transit issues are purely bilateral problems of the two countries. The EU prepared projects of financial support to modernize the EU transit system according to certain rules<sup>14</sup>, and especially to the changed legislation. The most affected EU countries (Slovakia, Bulgaria) made decision to prevent such shortage again, as there were great loses not only in economic sphere. However, as the long – term energy contracts still exists, the question is whether other “example” of such a power use may occur again.

### ***Financial crisis and Cyprus case vs. energy security***

Crisis, mainly economic ones, historically reset economic borders of the state. The European financial crisis did not affect Russian politics in great and yet did not move the borders. It may be said that the latest country to ask for the EU help from ESM<sup>15</sup> – Cyprus in March 2013 – is the first EU member state with the impact on Russian economy.

It seems that Russia’s intention was to transform Cyprus into Russian beachhead by the led – bailout. In 2011, when the first problems occurred, Cyprus received EUR 2.5 billion loan from Russia. Currently, the country requested an extension of this loan and reduced interest rate to 2.5% from the current 4.5%. There are more foreign direct investments coming into Russia from Cyprus than from any other country. Cyprus is Russia’s most important tax heaven. Russian capital stored in Cypriot banks is estimated at several tenth billion Euros (as Cyprus was offering an access to offshore gas deposits and other “dirty

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<sup>14</sup> European Energy Programme for Recovery (EEPR), construction of new interconnection with Hungary, Poland and the opening of the backflow at Baumgarten hub

<sup>15</sup> The ESM was established on 27 September 2012, and will function as a permanent firewall for the eurozone with a maximum lending capacity of €500 billion. It replaced the two existing temporary EU funding programmes: EFSF and EFSM. All new bailout applications and deals for any eurozone member state with a financial stability issue, will in principle from now on be covered by ESM, while the EFSF and EFSM will only continue to handle transfer and monitoring of the previously approved bailout loans for Ireland, Portugal and Greece. There is a saying that same as China also Russia was invited to participate in ESM, however only China agreed.

money” and is known for the “tax heaven” conditions all over Europe). Not only Russia but also the Russian citizens have now loads of money to lose according to the EU decision in the Cypriot banks.<sup>16</sup>

The Eurozone countries have proposed a solution for Cyprus - to provide 10 billion EUR under these conditions: taxation of all deposits over 100.000 Euro; closing the second biggest Cyprus bank (Laiki) and the restructuring of the banks and whole sector.<sup>17</sup>

Russia’s Prime Minister Dmitry Medvedev denounced it as "confiscation." Yet, according to some journalists, the biggest amount of Russia money were already moved to other banks before their closure, however it seems that “revenge” is coming. “Revenge of Russian’s<sup>18</sup> may have different forms”.

In July 2012 the Duma passed a Law on NGO’s requiring that if they receive foreign funding they would have 90 days to register as “foreign agents” at the Russia Ministry of Justice. Since then nothing happened...Currently, two German well known NGOs (KAS and FES) being active in Russia are under inspection which likely may lead in leaving the country. May this have any connection to what is happening in the EU? Did the instrument of the power change?

### ***Shale gas as solution?***

Let us digress. Gas in general is a very favorable item. It is known as clean, relatively low – carbon fuel and cheap. Shale gas is a new type of energy resource that may change the energy sector in geopolitical, political and economic aspect.

The IEA and European Commission estimate reserves of shale gas in massive amounts. In other words, 60 years of independency to cover demand for whole Europe at precise levels.<sup>19</sup> However, they are not concentrated in one European region. There are two ways, how to reach shale gas. *Horizontal drilling* – instead of merely drilling straight down into the resource, horizontal wells go sideways after a certain depth, opening up a much larger area of the resource formation. *Hydraulic fracturing* - injection of a mixture of water

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<sup>16</sup> However, there are saying, that during first week of financial chaos in the Cyprus all the biggest money were moved. mainly from russian banks.

<sup>17</sup> As writing this article in the end of March, the April 2013 will be definite month to solve ESM financial aid for Cyprus – Germany Bundestag has to approve it in second April week.

<sup>18</sup> Alexander Nekrassov, warning if there were a large levy on wealthy Russian depositors, “then, of course Moscow will be looking for ways to punish the EU.” (The Guardian, March 27, 2013)

<sup>19</sup> Total recoverable reserves in Europe are at between 33 to 38 trillion cubic meters.

and sand at high pressure to create multiple fractures through the rock then liberates the trapped gas to the flow into the well (Yergin, 2009). This incredible new resource in USA and Canada, so called shale gas revolution, turned USA to the large savior of its own energy dependency as well as sooner maybe even largest gas exporter. Just in late march, British company Centrica, biggest British energy distributor, decided to sign long-term contract on import of shale gas (in form of LNG) from USA. It is mainly because of the very low price and incomparable with the Norway gas or Katar's LNG import.

Although, it looks that there are certain obstacles in the development of unconventional gas in Europe. Generally written in the most of the studies, they are - high population density, lack of know - how and inexperienced service industry, possible exploration and production costs and mostly regulatory and environment "unfriendly" policies. In Europe, most of deposits laid in drinking water areas, whereas above described way of shale gas drilling, which goes very deep may affect land and its shocks.

As the expertise on shale gas in Europe is mainly joined with the USA experience, there have been only few explorations done in Poland, Great Britain, Hungary and other. Some EU countries decided to ban even exploration due to the environmental skepticism (e.g. France). However European Union does not have a common approach to the question yet and it is unlikely that the significant contribution to gas supply by shale gas will be sooner than 2020.

### ***Conclusion - New energy crisis in horizon?***

Energy Security was mentioned for the first time in the connotation of warrior, when Winston Churchill, the first Lord of the Admiralty of Great Britain decided to convert the British Navy from coal to oil, so that Britain maintained its dominance in foreign policy. Since then we are not only talking energy security, but we understand how its means changed.

Winter 2012 - 2013 seems to be a long one; however, it does not seem that it may be extortion potential on the Russia gas side. It may be that the instruments of "extortion" have changed, as the Russia changed their interests on the world chessboard.

The European Shale gas Revolution, which may happen sooner or later, may be one of the new EU instruments to show less dependency on the Russia energy (gas) export, even under certain victimization of the processes. Then the concept of energy security standing

on the above mentioned three pillars will be even more comprehensive, important and accessible for the EU member states.

We may also see that the future international energy security status in geopolitical dimension may be an implication of the global financial crisis.

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## **CULTURAL AND PHILOSOPHICAL ASPECTS OF CRISIS**

### **The Crisis of National Identity and Branding Policy in Post-Soviet Countries**

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#### **Abstract**

The decline of the USSR and the system transformations of the newly formed sovereignties has resulted in cultural and institutional injuries to the societies, which have been deepened by the globalization processes in the world. Internal volatility and external requirements have had many negative consequences for the post-Soviet countries. For instance, there is a blurring of national identities and intensification of the territorial or local identities, which acquired features of conflict. Moreover, they have had to decide whether to represent themselves as a territory with a population or state with nation (sovereign actor in international relations). Identity in the context of branding the nation-state is irrational and is primarily associated with the state's own idea among the population about success. National branding strategy and symbolic forms of articulation of national identity are the socio-psychological tools that afford the ability to construct a sense of unity and integration within society. The expression and fixing of significant social meanings and values are realized by using the symbolization of political space within the context of national branding. The significant factor to this is the harmony of regional and national political identity in this process.

#### **Key words**

*nationality, post-soviet countries, national identity*

## **Methodology**

After the collapse of the USSR, numerous post-Soviet countries found themselves with grave issues of the Crisis consciousness and weak national identity as the result of the social injury. For the main analysis the countries of Ukraine, Russia, Kazakhstan, and Poland were used due to the fact that they all have common historical memory, the experience of system reforms and different political regimes today than in the Soviet times. Keeping the objectivity, the author has endeavored to subjectively identify the cause of the nations' position in the world rankings of the leading countries in the world by correlation to performance of these countries and the attitude of their citizens. Their national branding is asymmetrical and has a common issue (distrust of government, the need for education and careers, the general understanding of deviation) and national identity (people's understanding of their success and attitude towards him).

Decline of the USSR and the system transformations of the newly formed sovereign entities has caused cultural and institutional injuries to these societies, which were deepened by each other due the globalization processes in the world. More stabilized systems (compared to the post-Soviet countries) that were involved in the integration process have become the actors participating in creation of a common continental identity. This occurred on the basis of civilisational aspects of community, cultures and worldview positions. Internal volatility and external requirements had many negative consequences for the post-Soviet countries. For instance, there is a blurring of national identities and intensification of the territorial or local identities, which have acquired features of the conflict. These countries have had to overcome numerous political, economic and socio-cultural crises after the collapse of the Soviet system.

Moreover, they have had to make a decision whether to represent themselves as a territory with a population or to establish a state with nation (sovereign actor in international relations). Resolution of this problem comprises a matter of national branding policy, since the world has become a market of products and services, which is directed in searching for consumers. The "contract" which then gives them influence over the area (state, city or resort) in the distribution of resources in the world. Crisis consciousness is a major barrier to an integrated self-identity of the nation, making the people targeted on their success, confidence, interpersonal level, and belief in themselves and their country.

During the study of references within the parameters of the stated problems, the author's aim is to identify the specificity of interdependence between two political processes – 'the crisis of national identity' and 'public approval brands nation-states in the world'. For instance, the author mentioned the post-Soviet states (Ukraine, Russia, Kazakhstan, and the Baltic countries) and Poland as the countries of the former socialist camp. For fulfilment of the above stated aims, the author provides clarification of the critical categories as "identity" and "identity crisis"; "crisis consciousness"; "understanding of success"; "country as brand" and "policy of national branding" from the aspect of political science. On the basis of theoretical and empirical information, the author demonstrated the main indicators of the national identity of people in these countries, rating the positions of these countries in the world (through the key vectors of development and the level of their brand) through the correlation and establishment a conclusion was made about causal relationship of national identity in the country and the success of its brand.

"Identity" is a multidisciplinary category and often used in political science to study the reality in a group context. National identity – a self-determination through the nation-state, the sense of belonging to its language, culture, authentic heritage, values and indicators of development - is shown in this article as a result of public policy or political processes that have to be guided by public institutions (personal socialization, ethnic policy, electoral process, formation of the party system and political competition, and a national branding). Political science has several vectors for understanding the category of "identity", it does not repeat classic philosophical understanding "I am by myself". Messrs Goffman, Luhmann, et al give examples of research of group identities and concepts of "I" in a social context, which determine the nature of identity [Goffman 2004: 752]. Additionally, Messrs Taylor, Delprato, Tsyrendorzhiev et al, who present the Q-methodology approach, [Tsyrendorzhiev 2002:p. 35-55], appeal to the marginalized groups and individuals, who have used political practice to create a new reality. And researchers such as Shtompka [Shtompka 2004: p. 63-72], Preston [Preston 1997: 208] and Huntington [Huntington 2004: 635] among many others have studied marginal social environments in a state of cultural injury and identity influenced by globalization.

Numerous researchers have been exploring the role of identity in political processes in Ukraine from the 1990s. Scientists such as Goncharuk and Skoblik [Goncharuk 2009], [Shtefan, Masyuk, Mihyeyeva, Skoblik 2010] to Rodionova and Tytar [Rodionova 2010] [Tytar

2006: 240] studied problems of local identities in Ukraine within political sociology and other political sciences.

In Belarus, the problem of identity crisis was investigated by Titarenko [Titarenko 2008: 192-207] and in Russia the same issue by V. Fatyushenko [Fatyushenko 2011: 482]. And the Gorshenin Institute [Gorshenin Institute 2012] and the Research & Branding Group [Research & Branding Group 2012] held serious sociological polls on life goals and the political culture of some post-Soviet countries. All authors, which were mentioned above and come from a range of fields such as Psychology, Cultural Sociology, Political Science and Philosophy studied identity crisis and maintain its existence in all post-communist countries.

Transformation processes are accompanied by system crises and conflicts of varying nature, however, the most problematic are those, which have social and cultural significance. Cultural injury, as a result of the decline of the Soviet system, was a display of generation conflict, identity crisis of values and the legitimacy of the government, misunderstandings between the centre and the periphery, mistrust at interpersonal level and inactivity of institutions. There is a balance between domains of human activity in stable systems and economy and politics either completely or mostly coordinated with the socio-cultural subsystem. Darendorf's understanding of asymmetric transformation time of economic, political and socio-cultural nature, which is generally termed "**dilemma three times**", was completely internalized by the post-Soviet countries [Plotinskiy 2001:194].

Darendorf's suggestion to transform the subsystems step by step, starting with the formation of the evaluative paradigm of society (longest and most important component of the transformation), was impossible to realise. The collapse of the Soviet Union demanded the formation of new political institutions, economic crisis reforms, and a new format of relations between people in the society.

Top-down transformations had to coordinate the modernisation projects in the post-Soviet states, however, the political elite was weak and had little to no experience in expediting an exit out of the systemic crisis in which they had found themselves. Under such conditions, the main barrier between political and economic transformation became an identity crisis. The basic foundation for the success of political systems in the postmodern era is an orientation of the system on success, self-respect and the understanding of its purpose and path, though; this is not possible during a crisis of identity.



National identity formation is the process in which all the previously existing identities are combined (individual, group, territorial, and institutional) into one, the one that is linked to the future of the country, where you live. Thus, the crisis of national identity comes as a result of deprivation, frustration, social anomie or social rehabilitation - destruction of all hopes, stable submissions of themselves, the world and fundamental transformation of them. E. Erickson used the term "identity crisis" in relation to the experience of World War II veterans. He could draw parallels between the crisis of identity and marginality by his own immigrant experience [Erikson 2006: 342].

In the post-Soviet states, identity crisis was demonstrated by a loss of social and political values, the complexity of economic and family ties (through the new states' borders), financial and legal insecurity, emigration of friends, worries about the future of their children, search for yourself and ones own social role. These and other factors led to the phenomenon to be described by philosophers and psychologists as "crisis consciousness".

The author of this article uses the category of "crisis consciousness" in political aspects as a changeable set of meanings, evaluations and attitudes in which a person explains to the world of reality. As a result of a crisis consciousness, the transform state system activates the opposing processes. Occurrences have been observed of the formation of the "over-national" identities (the EU citizenship) [Goncharuk 2009] and "narrowing" [Huntington 2004: 635] of national identity to the regional, ethnic, professional one [Shtefan, Masyuk, Mihyeyeva, Skoblik 2010] as a form of self-defense under 'social injury'. The latter phenomenon is one that is typical of the post-Soviet countries and their developments: their national identity as a feeling of a united and successful nation was denied at the initial stage of their independence. During the post-independence years, each country of the former Soviet Union tried to re-create itself as an independent global actor. Hence, first of all, they had to form a unique brand of their nation-states.

National branding - the process of presentation and expansion of qualitative and positive rational knowledge and irrational characteristics of uniqueness of nation-state. Provided by S. Anholt (British government adviser in state branding matters), the art of an effective branding strategy is in the correct identification when there are answers to the following questions in the centre of the hexagon: "Who are we?" and "What is our strength and our talent?" [Anholt 2010]. The purpose of the national branding site is to provide its

information in the presence of wide circles of identification due to reflection in the mass consciousness of its exclusive local differences (the best features of mentality, traditions and the mission of the population and unique resources of the area), providing territory to become a force of impact, broadcast their own decisions and increase their resources.

The key to success in regards to the policy of national branding should be the national identity of the country's inhabitants. We can assume that, the national identity of citizens established faster in countries with more purposeful ideology. And thus, had a huge influence on positive perception them in the world.

According to the current state of development within the Soviet republics, the author is interested in correlations that can be drawn between such factors as: the place of the state in world rankings, the understanding of success and indicators of life standards and vision of the future way of the population.

Within the world today, there are numerous world rankings in part because of their specialisation. The author took and analysed "The Legatum Prosperity Index, 2012" [The Legatum Prosperity Index 2012], Anholt GfK [Anholt 2012] and the rating of "the most valuable country - brands 2012" [the most valuable country - brands 2012].

Analysing Anholt GfK, we could observe the positive dynamics in the ranking of developing countries: United Arab Emirates, Kenya, Turkey, and Poland. The world's attitude about them has clearly changed for the better because of the "quality of life", "rights and freedoms", "democratic principles", "cordial relations between people", "safe society" and "respect for nature." Incidentally, Russia ranked 22nd and Ukraine 42nd [Anholt 2012].

In the ranking of "the most valuable country - brands 2012" Ukraine takes 45th place, Russia - 11th, Poland – 20th. The fastest when compared to last year for developing brands are Ukraine, Poland, Switzerland, China, and Argentina. Event marketing in these countries also showed an increasing global position. Brand Finance report shows that the Polish economy, which is one of the countries that managed to avoid the impact of the recession in 2008, continues to grow.

In addition, The European Championship Cup of 2012 affected positively the rankings of Poland and Ukraine by increasing brand value by 70%, which helped Ukraine to rise from 53rd to 45<sup>th</sup> position when compared to 2011. However, Ukraine was not included in the first 20 positions [The most valuable country - brands 2012].

Analysing the indicators of all 142 countries that received rankings by the Legatum Prosperity Index 2012 [The Legatum Prosperity Index 2012], we could conclude that there is an existence of "two Europes". Western European countries occupy mostly top positions, except Italy and Greece, despite the fact that their socio-economic indicators declined due in part to the effects of the global economic crisis. Whereas, countries of Eastern Europe take "average" positions ranging from 31 to 100, except the Czech Republic and Slovenia, who occupy 28 and 24 respectively. All post-Soviet countries are in this range: Ukraine by Cross-Cutting indicator ranked 71st, Russia - 66, Estonia - 35, Kazakhstan - 46, Latvia - 47 and Belarus - 54. A noticeable trend is the difference between socio-cultural and political and economic indicators. These countries rank highly in "Education" with Ukraine 29, Lithuania 18, Russia 27, Latvia 28 and Belarus 21. However, there is a low indicator in "Management of the country" with Ukraine 121, Kazakhstan 95, Belarus 123 and Russia 118. Economic indicator position Ukraine 110, Lithuania 82, and Latvia 80. With protection of the rights and freedoms of citizens ranking Russia 119, Ukraine 108, Latvia 112 and Estonia 74. Therefore, it is clearly demonstrated that the former Soviet Union countries have a certain inability to increase the value of their brands on a global aspect. And one of the reasons could easily be "brakes strengthening", which slows the strengthening of national identity processes of the citizens of these countries.

Identity in the context of branding the nation-state is irrational and is primarily associated with the state's own idea among the population about success. Moreover, the identity of the inhabitants of a territory should have a set of characteristics that would transform its inhabitants into a unique community. Therefore, the identity of the individual in this context would be the "practical sense / awareness of oneself as a part of the territory" [Goncharuk 2009]. Combining the rational and irrational, the national identity of a state-nation and the foreign audience's attitude, which is formed on the basis of two factors that are cognitive (knowledge of the individual / group on the territory of its unique characteristics and resources) and affective (personal impressions, memories, associative images that form a qualitative assessment of the territory and its inhabitants compared with others). Historians point to the significant role of national / historical / cultural memory and mentality of an area's inhabitants and they provide the political identity by authentic basis. Therefore, without reference on this basis, any brand construct would not be workable because of its unnaturalness.

Since the post-Soviet space has developed sociologically, it would be interesting to analyse the attitudes of people - especially young people - to themselves, their countries, their understanding of success, prospects and value of life standards. The author believes that these indicators are the basis of national identity, which since the years of independence from the former Soviet Union has undergone some transformation.

Russia, Ukraine, Poland and Kazakhstan all ranked highly in the category of education, and this correlates with the inhabitants' motivations of these countries, according to "The Legatum Prosperity Index, 2012". Those citizens believe that education is the basis for a career and social status. Great Britain is placed first for where the population of these countries would like to get education. Only one third of Ukrainian, Russian and Polish youth, would like to live in their countries, whereas in Kazakhstan this indicator is almost equal at 48.6%. And this, as we can see - Ukraine - 55.4%, Russia - 66.5%, Kazakhstan - 68.2% and Poland - 62% - is despite the fact that more than half of them said they are proud of their citizenship [Gorshenin Institute 2012].

Similarly, in these countries the view of young people is that the main barriers to social and economic progress are bribery and corruption, which also correlates with the low rate of economic and social development (protection of public and personal safety) and, again, this is demonstrated in the rankings.

The motivations of the citizens of Russia, Ukraine, Poland and Kazakhstan correlated with high rankings of these countries according to the Legatum Prosperity Index, 2012. The inhabitant of these former Soviet states believe that education is the very basis of a career, and thus by default, their social status. Great Britain ranks first among the countries where people from these countries would like to purchase education though Ukrainians, Russians and Poles stated education is important within their country. Despite the fact that more than half of these citizens said they are proud of their citizenship (Ukraine - 55.4%, Russia - 66.5%, Kazakhstan - 68.2% and Poland - 62%), only one third of them would like to live in their countries. One country to note is Kazakhstan, where the figure is almost equal at 48.6% [Gorshenin Institute 2012].

A further interesting correlation in the four states previously mentioned is that of the low rates of economic and social development (protection of public and personal safety) and the views of the young people of these states; they collectively believe that the main barriers to social and economic progress are corruption and bribery. The topicality of other

issues varies depending on the social and economic situation and specific political situation in a country. For instance, half of the Ukrainian and Polish students surveyed named political instability among the key problems in their countries, while students in Russia and Kazakhstan did not see this as a major problem.

Young Ukrainians, Russians and Poles said the insufficient level of social protection and poverty poses a problem, whereas to their Kazakh contemporaries this was significantly of less importance. Polish students stated that in their country the youth policy suffers from a lack of attention; Kazakh youth emphasised ecological problems; young people in Russia pointed out that alcoholism and drugs abuse were among the key problems along with the threat of terrorism, while Ukrainian students are concerned with the HIV/AIDS epidemic. And Russians and Poles are more concerned with the problem of emigration than their contemporaries in either Ukraine or Kazakhstan [Gorshenin Institute 2012].

Moreover, when looking at indicators of success in these four countries, self-accomplishment, career, material well-being as well as love and friendship were indicated as key factors for students. Ukrainian, Russian, Kazakh and Poles believe that drugs, human trafficking and family violence are unacceptable in the modern world. Polish youth are more tolerant to same-sex marriage and prostitution than their contemporaries, yet categorically condemn adultery and euthanasia, while Kazakh students, first and foremost, condemn alcoholism and premarital sexual intercourse [Gorshenin Institute 2012].

Furthermore, The people in these countries say: "Power cannot hear claims from the youth". Among Poles a great many of them are ready to act and individuals of Ukraine, Russia and Kazakhstan rely on themselves; on their own traits, talents, social capital and moral and material support of family members.

Therefore we can conclude that national identity in Kazakhstan and Poland is higher than in Russia or Ukraine. Comparing the prospects of Russia and Ukraine in this context, we should give preference to Ukraine. The fraternal feelings and self-take precedence are over material well-being for Ukrainians. For Ukrainian people love, friendship (48.9%), freedom and independence (33.2%) and self-realization as an expert and personality (70.2%) are more important than money and career (41.4%). For Russians, material gains and career (54.4%) are not far away from love and friendship (47%) [Gorshenin Institute 2012].

Further statistical analysis shows that, regardless of nationality, every second citizen (49%) of Ukraine considers himself or herself above all, as a citizen of Ukraine; however,

every fourth (27%), identifies himself primarily with the territory nearly one in ten (9%) describes himself as Soviet man or in other words as a citizen of the former Soviet Union and every twentieth (5%) as an inhabitant of the region or a representative of his nationality [Research & Branding Group 2012].

We are able to construct a sense of unity and integration in society by using such socio-psychological tool as a national branding strategy and symbolic forms of articulation of national identity. National branding is part of symbolic politics in that it records all the major mental meanings and national values and an important factor in its success is the harmony of the regional and national political identity.

The policy of national branding must base its strategy of territory by which we mean city, region, resort and nation-states, in its authenticity (verity) by combining regional and national identity. Under other conditions, the characteristics of communities such as language, religion, geopolitical vision of prospects and economic models of conflict become barriers to improving the image and reputation of the country.

The Lviv city branding project is such a positive attempt of harmonic combination of national and regional identity that it impressed guests of Ukraine during Euro - 2012. The citizens of Lviv believe that they have a special identity with unique values and patterns of behaviour. V. Sereda states "Lviv citizens identify themselves primarily as Ukrainian (50%), and then as Lvov (23%), while the representatives of national minorities, which are Russians, Poles and Jews, often put Lviv identity in first place. These two Ukrainian identities are diametrically opposed in the minds of residents': lions do not compete and unite. Ukrainian identity is a part of Lviv identity "[Gritsak 2007]. The image in the minds of Lviv consists of two elements: an Europeaness Lviv and Lviv image as "Ukrainian Piedmont" (emphasis on national, mostly Ukrainian, the character of the city). The Europeanisms image in the minds of its inhabitants is rather declarative. Lviv is often defined as leading or as a unique part of Ukraine, and residents as the last stronghold of the national idea, and, at the same time, as the heart from which this idea is reborn, or is revived [Gritsak 2007].

In Economic Marketing the identity of goods is born with the product: Its creation is a part of the overall marketing strategy whereas, the identity of national or regional community cannot be created: It already exists in the minds of residents, visitors and in the world. National branding is a process that aims to strengthen the competitiveness of the nation-state in the world and improve the self-esteem of its inhabitants; it is forced to find a

compromise by using regional identities for a constant positive image of the country. A positive demonstration of these compromises would be election campaigns, which use regional identities in favour of the state (from region to region, from one group of voters to another).

However, unlike elections, national branding has two audiences - internal and external. The inside identity, to some extent, determines the perception of the country from outside. Therefore, in Ukraine and in former Soviet countries such as Georgia, Kazakhstan, Lithuania, Latvia, Belarus and Russia we could surmise that they have a real problem with no sustainable positive attitude from both audiences. Development of branding cities and specific areas passes faster than a unified national identity and correction of brand nation-states towards positive. The reason is the strong regional and "border" identity.

### **Conclusion:**

People of the world today continue to be marginalized by racial, cultural, ethnic, and political differences, which is easily viewable as a consequence of globalization. In such context, all actors of world policy should have individual faces. This is the issue of its security and prospects. Political processes, ideological transformations in the world, international relations and world policy are based on competition between areas for the possession and use of valuable yet finite resources. The most active agents of globalization and cultural integration are global cities and countries that occupy leading positions in various mechanisms of world rankings. There is no direct relationship to draw between the acquisition of the most competitive states, which could be seen in terms of economics, finance or technology, and a measurable life of for citizens. Thus the conflict between rational and irrational (economics and creativity) is set only to increase. Consequently small, perhaps even fabulous countries and places of comfort will undoubtedly increase among the backdrop of the ever-growing number of mega countries and cities. And, as a result, globalization will default and the world will choose a new vector of development.

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# COMMUNITARIAN ETHICS OF RESPONSIBILITY AS ONE OF THE POSSIBLE APPROACHES AT THE TIME OF CONSUMERISM AND ECONOMIC CRISIS

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## **Abstract**

The paper analyses communitarian approach to the consumerism and economic crises. The author presents communitarian concept of ethics of responsibility applied to various spheres of life, business sphere included.

## **Key words**

*communitarianism, ethics of responsibility, economic and moral crisis, consumerism*

## **Communitarian perspective**

In the Preamble of *The Responsive Communitarian Platform* communitarians declare: "Neither human existence nor individual liberty can be sustained for long outside the interdependent and overlapping communities to which all of us belong. Nor can any community long survive unless its members dedicate some of their attention, energy, and resources to shared projects." [Etzioni 1993: 253] Communitarian perspective recognizes human dignity of the individual, so as well as social dimension of human existence. Preservation of the freedom of the individual depends on the active maintenance of the institutions of civil society, where citizens learn mutual respect, as well as self-respect. And, as communitarians argue [Etzioni 1995] in such institutions together with the recognition of our own rights and the rights of others we also obtain the sense of personal and social responsibility. Communitarian approach hence emphasizes not only the respect for human and civil rights and freedoms, but it also fosters a sense of responsibility and obligation

towards local and national community in contemporary society. Imbalance between the rights and responsibilities causes the decay of the social order.

A Communitarian perspective also recognizes “that communities and polities too have obligations – including the duty to be responsive to their members and to foster participation and deliberation in social and political life.” [Etzioni 1993: 254] Communitarians do not dictate particular policies; they rather mandate attention to what is often ignored in contemporary discussions:

- the social side of human nature;
- the responsibilities that must be borne by citizens in the system of rights;
- the fragile ecology of families and their supporting communities;
- the ripple effects and long-term consequences of present decisions.

Although the political views of the signatories of *The Responsive Communitarian Platform* vary [Etzioni 1995: 12], all concur in the belief that the communitarian perspective must be implemented into the solution of major moral, legal and social problems of the present times – moral and economic crisis included.

## **Consumerism**

Communitarian thinker and sociologist Amitai Etzioni [2012: 1] defines consumerism as “obsession with acquisition” and considers it a social disease of current society. The link of consumerism and economic crisis should be obvious, because a culture in which the urge to consume dominates the psychology of citizens is a culture in which people will do most anything to acquire the means to consume. Hence consumerism is, as much as anything else, responsible for the current economic crisis, and will not disappear from its central position in western culture [Etzioni 2009]. A normative change in society must happen which will bring something that supplants it.

As mentioned above, the notion of balance very often appears in communitarian philosophy and ethics. Related to the issue of crisis and consumerism, communitarians foster a new balance between consumption and other human pursuits. All that is actually needed is for more and more people to “turn current economic crisis into liberation from

the obsession with consumer goods. Communitarians believe that it is better to buy only really necessary things and invest the rest of the energy into more valuable things, such as human relationships, intellection and community participation. New ethics – the ethics of responsibility is required in order to reach this.

### **Ethics of responsibility**

The notion of responsibility is often mentioned in the relation to other persons, but we also owe responsibility to ideals, institutions, and the community as a whole. As Selznick [2002: 28] states, ethics of responsibility inclines us towards strategies of reconciliation, solidarity and inclusiveness.<sup>20</sup>

Responsibility is formed and also enriched or impoverished by the ways we perceive ourselves and our relationship to others. Therefore, we cannot separate the choice from the responsibility – we are responsible for what we choose, and after the act of choice we are responsible for our responsible behaviour. Responsibility must always be understood in the context of how we live. The ethics of responsibility requires not only the responsibility in itself, but it also requires the reflection and understanding and focuses on the ideals and obligations, on the values and rights.

To be truly responsible means to be driven by the responsibility and interest in others, not by the fear of legal punishment. The responsible individual asks who he is and what his duties are and what the situation requires. These questions assume particular commitment – commitment to the family, profession, institution – and the answers to them reveal the close relationship between responsibility and community: “Responsibility is the psychic tissue of community” [Selznick 2002: 30].

From the communitarian perspective it is therefore important to differentiate between two kinds of responsibility: responsibility “from all” and responsibility “for all”. As Etzioni [2000: 30] states “Responsibility from all means that a good person, a member of a good society, contributes to the common good. No one is exempt, although of course people

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<sup>20</sup> In this context, communitarians tend to strengthen some forms of desirable public services. Any such effort, however, must be assessed in terms of cost, benefit and conflicting values.

will vary greatly in the contributions they can make.” This is, naturally, responsibility in the sense of moral, not legal obligation. On the other hand, responsibility from all means that “everybody is to be treated with the respect due to all human beings.” [Etzioni 2000: 31] This means social inclusion. Discrimination based on race, ethnicity, gender, sexual preference, religious background or disability should be the focus of moral discussion and legally banned because it not only offends our elementary sense of justice, but is also incompatible with treating people as ends in themselves. Responsibility for all also means that everybody has access to the basic necessities of life. This is the responsibility of the state to ensure that such provisions are available to all.<sup>21</sup>

Considering, the issue of responsibility it is unavoidable to discuss the question whether the self-interest somehow influences or even violates morality. Alexis de Tocqueville [2009] talks about the properly understood self-interest, which is maintained by character features such as self discipline and credibility. They suppress the raw egoism of the individual. According to Selznick [2002] self-interest understood in this way does not threaten the morals. On the contrary, it is very closely related to the true self-assessment based on the respect for principles and rules. People, who are principled, are reliable from the moral point of view, because they are beholden to ideals and convincingly present moral cohesion.

Max Weber [1990] in this context states that every ethically oriented conduct can be determined by two different, incompatible in principle and contradictory maxims: it is either the ethical conviction or ethical responsibility.<sup>22</sup> This does not mean, however, that the ethics of conviction is identical with irresponsibility and the ethics of responsibility with spinelessness. It is only about the deep and profound antithesis of the maxims on which the conduct is based. One can act in the spirit of the maxims of ethical conviction, expressed in the words of religion: "a Christian is acting properly and leaves the success to the will of God "; or he can act in the spirit of the maxims of ethics of responsibility, according to which one must assume responsibility for the (predictable) consequences of his actions [Weber 1990:

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<sup>21</sup>Basic provisions in communitarian societies include food, shelter, clothing and healthcare.

<sup>22</sup> In Weber's concept the ethics of conviction defines norms and rules as general duties which one has to follow. This is based on the position that if the intention is right, then the consequences of conduct must be right, too. In the opposite case, it is not the fault of the one who acts, but of the external conditions. In the ethics of responsibility one has to be responsible for the consequences of his conduct.

67]. In Weber's view, public life requires in particular the consequential ethics of responsibility. However, he, renounced nor the ethics of conviction, according to which we are also responsible for who we are and what we have done. The consequences of the conduct are relevant from the internal point of view and relate to the "self". As in this context Selznick [2002: 37] notes, each kind of ethics deals with the issue of responsibility from its own position. While ethics of responsibility looks to the practical needs of a community or institution, the ethics of conviction looks to personal and institutional integrity. Hence responsibility has two co-existing, competing, and also mutually reinforcing dimensions.

Communitarians therefore partly agree with conservatives that not only a private, personal responsibility is important, but also the social or collective responsibility, that includes the obligation to care for the vulnerable and disadvantaged. In addition, the communitarians highly value mutual close link between personal and social responsibility: "Personal responsibility is most likely to flourish when there is genuine opportunity to participate in communal life" [Selznick 1998: 62]. Community has to invest in the development of such opportunities. The way and extent this is done directly depends on the prevailing sense of personal responsibility for the common good.

For communitarians the ethos of responsibility is crucial in many areas of everyday life. "New communitarians" recognize private property, the free market and competition, but at the same time they appeal to the socially responsible approach to them. As stated by Selznick [2002: 95], capitalism is beneficial for society in many aspects, but some harms which unbridled capitalism can do to public health, the natural environment, and the quality of social life cannot be accepted as necessary.

From communitarian point of view not only an individual and community is responsible for social security in a society, but also the nation and the state play an important role in this sphere. The state has the responsibility to provide a decent level of health, education, and welfare for its citizens, regardless of their ability to pay [Sandel in Epstein 2004: 89]. Social security is substantially different from other forms of redistribution in society. Individuals in the community have certain degree of responsibility for those who are in need. Richard A. Epstein [2004] states that it is the obligation of individuals to help

themselves. He declares that the mixture of social sanctions and conscience will make rich people help other individuals, although it is very unlikely that they would help everybody. This is far from the idea that community is obliged to help in the way it is obliged to maintain the order or control the private use of force. On the other hand, according to Galston [2004: 94], community as a whole should be in certain extent responsible for social security of its members.

Public health is the most important service for communitarians because it concerns itself with those matters that affect all of us rather than just certain individuals. When the individual desires conflict with the needs of community, the requirement of public health should defend the interests of the community members. Etzioni [2004: 199] mentions the example of parents who neglect the immunization of their children or the example of the libertarians who argue that each person, rather than the city, should fluoridate their water. The policy of public health also deals with the issue of infectious diseases and the thread of biological warfare, which should be solved on higher than only community level.

Communitarian agenda is closely linked with ecological principles, too. According to Selznick [2002: 67] healthy ecosystems depend on regard for the integrity of all components and on balanced diversity. The motto is "handle with care". In human communities, ecological awareness calls for prudent use of social capital (finding life-enhancing ways of overcoming destructive divisions, living within and protecting a distinctive habitat or environment). Ecological principles do not preclude conscious intervention. On the contrary, they support sensible planning for sustainable levels of use or production. So they are necessary guides to rational intervention.

In relation to the perception of responsibility in communitarianism the sphere of economy and business cannot be omitted. Profit in business is not only limited by the legal framework (called a legitimate profit) and by the need of cooperation, but also by the realization of moral responsibility that derives from the business. Maximizing profits is not the only point of business (although still the primary). No business can be part of the community without having to accept what is allowed, and how far it can go in pushing its special goals. It is always relevant to ask how the promotion of concrete business goals

affects the other goals, values and interests. Only such conduct may be regarded as responsible.<sup>23</sup>

The application of a responsible approach to business has not only a direct positive economic impact, but in particular in the case of small and medium-sized businesses it is closely linked to the personal interests, the sense of moral responsibility towards the community and the environment in which a businessman operates, and last but not least also to internal satisfaction and desire to return something back to the local community [Dytrt et al. 2006].

In communitarian point of view, business has to be institutionalised - it must have certain structure, character and culture, and must be able to find a way of the incorporation of values into its organizational structure. Moreover, it also has to take into account the attitudes of the employees. In this context the question of moral duty and responsibility comes relevant again.

The corporate enterprise should be understood as an institution, as a social reality, whose nature is determined by a specific historical, legal and political setting; it is "crucially dependent on many diverse interests for survival and success" [Selznick 2002: 99]. Business is more than just a legal entity and cannot be perceived only as an association of individual investors. Business does not operate in a moral vacuum and certain standard of corporate social responsibility in the area of business is determined by the community, while the other obligations exist on a voluntary basis. The extent of responsibility partly depends on the success of business subject – it is surplus which actually allows entrepreneurs to take a

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<sup>23</sup> The concept of Corporate Social Responsibility (CSR) is today one of the major concepts of ethics of economy and business. It is based on the requirements of acceptance of responsibility and participation in the common good. CSR answers the question: *How to do business so that there is a profit beneficial not only to the business company, but also to a wider circle of people impacted by these business activities?* Corporate social responsibility in business is a kind of imaginary "contract" between the business area and society. It includes a commitment of the company to develop its economic activities effectively and responsibly towards society and the environment, taking into account the interests of all stakeholders. The concept is based on ethical principles, such as engagement, active cooperation with stakeholders, impartiality and transparency, and its fundamental characteristic is universality (i.e. validity for all types of business). Socially responsible entrepreneurship is reflected in economic sphere (tracking and improving the processes by which the company contributes to the development of economic environment); in social sphere (health and safety of employees, the balance of work and personal life, corporate philanthropy, etc.); and in environmental sphere (reducing the negative effects of business activities on the environment, the use of organic products and alternative energy sources, recycling, conservation of natural resources, etc.). For detailed analysis of CSR see Jurová [2011: 91 - 96].



greater degree of moral responsibility for social impact of their businesses. Successful large corporations are often rich and powerful enough to be able to support such activities, which are beneficial to the community. They include citizens in need without affecting the financial position of the corporation in any way.

In the context of socially responsible business there appears the issue of so called “corporate conscience”. This is generated when the values exceeding the self-interest are built into the practice and the structure of the business and they are reflected in the corporate culture and corporate philosophy. Such an approach is then enforced in different ways and supported mostly by particular forms of regulation. Here I agree with Selznick [2002: 101 – 102], who mentions three principles which should govern. The first principle requires the regulation to sustain and encourage productive work while protecting the community from unwanted negative effects (poor air or water quality, oppressive working conditions etc.). This requires sound regulatory policy. The second principle relates to the smart regulation which is sensitive to variation of industries and firms. Taking account of differences makes regulation more effective. The last principle applied in regulation policy is cooperation which fosters common solving of the problems appeared. Hence the main aim is maximum feasible self-regulation in which responsibility sets external standards and then incorporates them to the internal concepts of organizations and rituals of individuals. The policy of responsible self-regulation is, however, not easy and requires cooperation of state (government) and local communities.

### **Instead of conclusion**

There is no doubt that solving the global economic crisis requires legal action, but having good laws is not sufficient. The political will to fight greed, fraud, corruption, endless enrichment, and consumerism is often inadequate. Laws without morality cannot persist, and no legal action can be implemented without moral consciousness based on elementary ethical standards. However, this is not only about individual morality, but also about the morality of society and responsible acting in all spheres of society.

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# GLOBAL CRISIS AND CRISIS OF GLOBALIZATION

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## **Abstract**

The conditions for the outbreak of the global economic crisis were created in the process of globalization significant aspect of which was de-socialization of the economy in the last third of the 19<sup>th</sup> and on the turn of the 20<sup>th</sup> and 21<sup>st</sup> century. The economic crisis is then also a social and a political crisis. A failure to get the social and political aspects of the global economic crisis in the 1930s under control led to World War II. The building of a social state (a welfare state) after World War II was motivated by an attempt to prevent the recurrence of this development. However, the process of globalization at the end of the 20<sup>th</sup> century created the same situation in which the economic crisis leads to social and political crisis. A global economic system built on a growth of production and population threatens also its basic assumption – a global environmental system. It is clear that exceeding the environmental limits of growth is reflected in a form of social, political as well as economic crisis. The result of the mismanagement of the global economic crisis would then also mean an economic crisis which would only intensify a conflict potential in social and political areas.

**Key words:** global economic crisis, economic-political system, de-socialization of economy, growth limits, environmental crisis

## INTRODUCTION

The global economic crisis of 2007-2008 set the attention on examining economic, social and political systems of the global industrial civilization on national, regional as well as global levels. It first appeared in the financial and banking area, later affected the production sector and finally the social field. With the increase in unemployment the social crisis became a political crisis as well. The worldwide scale of this crisis is to an extent a consequence of the process of globalization, which has actually in the past three decades created a global

civilization. The current crisis can be interpreted as a crisis of globalization, a process which began in the second half of the 18th century, when the politics of the Great Powers demonstrated the signs of a global struggle for influence, power, resources and markets. Current globalization then had its predecessor in the 19th century. Then, as it is today, it was mainly about creating a global market for expansion of industry and business, which needed (as it does today) new raw materials and markets.

## GLOBALIZATION

Globalization is then mainly motivated by economy and justified by ideology. The economic crisis reaches to all areas of life of the society and all regions of the world. As P. Ricoeur emphasizes, „only in civilization as ours which in its hierarchy of values puts economy on the highest place, is the economic form of crisis promoted to an example of all the crises“ [Ricoeur 1992: 33]. But it has fundamental consequences for perceiving its threats by such a culture, or what it considers a threat and what it overlooks believing in its harmlessness or insignificance. Therefore Ricoeur emphasizes that „the society ascribing the economic foundation of its existence the highest values experiences an economic disorder of the system not partially but totally“ [Ricoeur 1992: 34].

To rationalize the economic view of the world has other consequences, connected mainly with the phenomenon of globalization. According to Ricoeur, „globalization of the market means time globalization of the atomization phenomenon and prevalence of economy towards other parts of the society in its whole at the same“ [Ricoeur 1992: 35]. Ricoeur, however, doesn't regard Marx's characteristics of the society according to the relationship between productive forces and production means nor the Marxist ideology as the reason for preferring economic values and justification in today's world. In his view, the reason is the ideology of liberalism. He states that, „what imposed on the west world the idea of economic phenomena „as separated from the society and composing in itself a different system to which everything needs to be subordinated“, was... only... the idea of economic liberalism“ [Ricoeur 1992: 35]. This was brought forth in the 19th century and „it is an ideology of de-socialization of the economy“ [Ricoeur 1992: 35].

However, the first attempt to create a free market, not controlled by monarchs, their customs duties and monopolies, vanished in the chaos of the French Revolution and limitations of trade that followed during the war conflicts. Formation of the global market of

the 19th century was connected with the industrial revolution, the expansion of transport (steam engine and cheap coal) and the communication technology, the golden standard which enabled the existence of international trade as well as with the British colonial empire and its navy power which helped to keep so called Pax Britannica in the world oceans. The market existed between the Napoleonic Wars and World War I with a short attempt for its renewal after World War I. It ended in 1929 at the latest when the global economic crisis broke out.

The course of the 19th century was marked by more or less regular repetition of economic crises (for an overview viz. e.g. Juglar 1966 and Röpke 1932), which, together with an exponential growth of population, created more and more complicated social and in its wake political problems. One of the ways in which governments tried to solve these problems were protective duties and import quotas similar to those enforced by the German Chancellor Otto von Bismarck in 1879, couple of years after the unification of Germany. This was, according to W. Röpke, the beginning of the end of the global market and the market economy. An era of customs and business wars started and they led to real wars. An avalanche of protective actions followed and they contributed to the rise of economic patriotism, later nationalism [Röpke 1979: 58 – 59]. A need for new sources of raw materials and outlets for industrial production increased considerably. More and more people working in industry and therefore existentially dependent on an ability to obtain raw materials for industry and the possibility to sell its products on one hand, and an increasing productivity of manufacturing process on the other hand, forced governments to get involved in favour of industry not only on a national level but also on an international.

#### CAUSES OF GLOBAL CONFLICTS

Similar globalization processes of the 19th century and their consequences reflected several thinkers of the 20th century. For example, A. Schweitzer during World War I or shortly afterwards wrote that „because of the modern social problems we are in a class conflict which is weakening and destroying our economic and state conditions. They were, after all, machines and global market that led to the world war“ [Schweitzer 1986: 106]. During World War II a Dutch culturologist J. Huizinga stated that „the theory of economic freedom hid in itself a germ of unrestrained exuberance of capitalism on the one hand and on the other inevitable imperialism of stronger states and nations. ... Teaching about free barter exchange and state restraints in the economic area helped national, even nationalistic

configuration in Europe more than it would obstruct it“ [Huizinga 2002:175]. At the same time an American sociologist of the Russian origin P. A. Sorokin stated that communism and fascism are a legacy of capitalism [Sorokin 1957: 78 – 79]. A British historian and a philosopher of history A. Toynbee shortly after World War II notices that, „One of the considerations that drove the rulers of Nazi Germany and contemporary Japan into aggressive war was their inability to provide more than a minority of their young men with jobs that satisfied their expectations, or even with jobs of any kind“ [Toynbee 1964: 131]. In other words, the way in which the global market based itself on the principle of free trade at least contributed to the outbreak of World War I, when the price and customs wars became a real one. Another consequence of this was a creation of the communist dictatorship in Russia. An attempt to renew the global market after World War I ended in the global economic crisis which led to an unprecedented catastrophe with de facto global dimension and far-reaching consequences not only for the economic theory and practice but if taken as foreplay to World War II, for society, culture and world politics as well. For with its social consequences, it helped Nazis to seize power in Germany. In the short term it made way for World War II and in the long term it enabled the Soviet influence to expand far beyond the former Russian Empire.

The reparations imposed on Germany by the Versailles Peace Treaty also considerably helped Nazis to seize power. The struggle to pay off its international debt led Germany after World War I to restrictive politics, whose results contributed not only to de-socialization of the German economy but also to an increase of social polarization in the society. These processes were finished and multiplied by the global economic crisis. However, as Ricoeur notices, „in 1929 the disequilibrium didn't break out in the manufacturing sector nor in the circulation of products but in the sector of capital circulation. The stock market crisis (the Wall Street Crash in 1929) followed by the banking crisis (withdrawal of deposits) caused the crisis of commerce and industry“ [Ricoeur 1992: 34]. The result was a social and political crisis which many democracies, so not only Germany, weren't able to handle. De-socialization of the economy therefore led to the failure of the modern society, its degeneration to communist and fascist dictatorships coupled with extreme eruptions of violence and total conflicts. The flip side of de-socialization of the economy and setting it over all other subsystems of a society creates social tensions which gradually accumulate. In times of growth and relative prosperity this is generally overlooked or downplayed. But

during a crisis it can lead to a loss of legitimacy of a system and its elites or to intersocial conflicts which are destructive not only for economic, social or political systems, but also for the society itself.

#### RE-SOCIALIZATION OF THE ECONOMIC SYSTEM

After World War II the goal of political elites was to prevent the recurrence of a similar development. „Instead of an idea of inevitability, even necessity of cyclical development, after the 1930s a new paradigm of a stable way of growth set in“ [Borchardt 1992: 100]. In the consequence of the global economic crisis not only the global market was destroyed but also the politics of economic liberalism was abandoned. As a result countries on both sides of the iron curtain made attempts for re-socialization of the economy. These were represented by efforts to build a social state or a welfare state which undoubtedly is „a product of the global economic crisis and World War II“ [Keller 2005:10].

According to J. Habermas the economic and social politics of the Western European countries in the first three decades after World War II can be regarded as a reaction to the phenomenon of the economic crisis. „The structures of advanced capitalism can be understood as reaction formations to endemic crisis. To ward off system crisis, advanced capitalist societies focus all forces of social integration at the point of structurally most probable conflict – in order all the more effectively to keep it latent“ [Habermas 1976: 37 – 38]. One of the consequences of this was „permanent crisis in government finances, together with public poverty (that is, impoverishment of public transportation, education, housing and health care“ [Habermas 1976: 38]. These phenomena have appeared in countries of the former Eastern Block after 1990 and the crisis of 2008 only deepens them. Habermas emphasizes that, „In decades since World War II the most advanced capitalist countries have succeeded (the May 1968 events in Paris notwithstanding) in keeping class conflict latent in its decisive areas; in extending the business cycle and transforming periodic phases of capital devaluation into permanent inflationary crisis with milder business fluctuations“ [Habermas 1976: 38]. The state then took on itself a role of the participant, the regulator of the market and at the same time the compensator of its negative social, cultural and later also ecological consequences. Thus it prevented acute crises to break out. However, the price for this is a systematic overload of public finance in the form of a long-term deficit. Moreover, in the 1970s the Western countries were also affected by acute crises caused by the stop of oil supplies. „If governmental crisis management fails, it lags behind



programmatic demands *that it has placed on itself*. The penalty for this failure is withdrawal of legitimation. Thus, the scope for action contracts precisely at those moments in which it needs to drastically expand.“ [Habermas 1976: 69] Trustworthiness of the institution of the state as a protector against crises as well as the legitimacy of the political elites considerably suffered. As J. Habermas states, one of the features and conditions of the postwar class compromise was „civic privatism – that is, political abstinence combined with an orientation to career, leisure, and consumption – promotes the expectation of suitable rewards within the system (money, leisure time, and security).“ [Habermas 1976: 37] By the end of the 1970s it was beginning to be clear that the state again, as in the pre-war period, is not able to give all a chance for a career and employment, and is certainly not able to provide steady growth in consumption. All this despite the steady increase of the tax burden and broadening areas over which the state is trying to gain bureaucratic or legislative control.

#### RE-EMERGENCE OF THE GLOBAL MARKET

During the Cold War the free movement of goods and capital was limited to such an extent it wasn't really possible to talk about the global market. Beside the so-called Eastern block, which was set itself aside voluntarily and partly due to the sanctions imposed by the Western world, free movement of capital, goods and services was limited by many legal and customs regulations of individual countries of the so-called Western block. But the global market emerged again in the last two decades of the 20th century. Its emergence contributed not only to a systematic pressure to liberalize the international trade and free movement of capital from the World Trade Organization, the World Bank and the International Monetary Fund and multinational organizations, but also cheap oil allowing bulk worldwide shipping of goods and people. And with the global market the ideology of economic liberalism and also economic crises returned (e.g. Mexican crisis of 1994-1995; Asian crisis of 1997-1998; Turkish crisis of 2001; Argentinian crisis of 2002, to the global crisis of 2008). At the end of the 1990s G. Soros in this regard said that we are in the process of reliving the experience of the 19th century „interrupted by a devastating panic after which an economic crisis emerged“ [Soros 1999: 126]. However, according to Soros, the global market of the 19th century was more stable than the current one because it had a single currency in the form of gold (gold standard) and „people were more firmly rooted in the basic values than they are today“ [Soros 1999: 133]. Despite these words he yielded to the powers he himself helped to unleash.

J. Přibáň states that after 1989 „neoliberal economists took control over the politics almost as in a Marxist idyll, in which the economic base determines the political superstructure“ [Přibáň 2012: 40]. The recipe of economic neoliberalism for overcoming the combination of high unemployment, inflation and economic stagnation is deregulation, liberalization and privatization, in other words regulation of tasks and powers, and therefore possibilities of the state. These are considered to be the barriers to an economic growth. Promoted methods allowing another growth of economy are therefore actions that lead to reductions of social and health-care standards. Expenditures on environmental protection and removal of already existing unwanted consequences of the cycle of production and consumption are reduced as well. A further growth in consumption is massively supported. So, we can again see de-socialization of the economy over all other subsystems of the society. „The last 30 years created an extraordinary strong asymmetry in the society between the economic and the political system, which consists in a primitive economic idea that deregulation increases the degree of political freedom. Economic neoliberalism paradoxically was the last phase of Marxism, naively considering all the social problems as economic problems and therefore requiring an exclusive economic solution“ [Přibáň 2012: 44].

#### CURRENT CRISIS

However, as P. Staněk points out, one of the main causes for today's economic crisis is a polarization of income, which is accelerating since the 1970s. The income of the majority of the population stagnates or even decreases, while the income of the richest increases in multiples. Except for the growth of a social tension this has led to a global decrease of consumption, which could be saturated only by a credit expansion. [Staněk 2012: 61 – 62] But also indebtedness has its limits. The first stage of the current economic crisis broke out in 2008 as a mortgage crisis when it became clear that too many credits provided to low-income groups in the USA are bad. So, similarly to 1929 the crisis first broke out in the financial sector and consequently moved to production, social and political systems. Efforts of governments to save the financial system and support the consumption led to a sharp increase of public debts. They continued in the strategy of artificially enhancing consumption, so by marketing and advertisements promoted a life in debt without which economic growth would stagnate – at least in the countries of the rich North. However, in retrospect it is clear that the problem of indebtedness is worldwide and affects all areas of economy. A growth at the expense of debt is not possible long-term. Moreover, the

combination of austerity measures and massive income polarization translates into different protest movements, social tensions, an increase of political extremism and political crises.

It is clear then that de-socialization of the economy is a part, if not directly a condition of current globalization. We can again talk about competitive struggle, trade, currency and customs wars. Current states or their political-economic groupings are intensifying their efforts to gain new outlets and resources of still decreasing stocks of raw materials. Stock market speculations with prices of important commodities and equities and attacks of investors on national currencies leave damages comparable with a direct military attack. Often they are excused as a necessary price for the benefit of the economic growth brought by the freedom of establishment or they are described as something similar to natural elements whose spree we have to endure. At the same time we can observe a repeated growth in economic patriotism and nationalism as well as a certain form of a defense reaction to „globalization pressure“. And this is not limited to Europe or Japan, but we can see it in a greater extent also in India, China, South Korea, Vietnam, Indonesia and other countries with a high economic growth in the last couple of years. These countries increase spending on defense, similarly to the situation in Europe in the beginning of the 20th century.

The similarity with the development in Europe in the first half of the 20th century and the current one can be also seen in radicalization of extreme rightist and leftist movements in all European countries. Just as then these two extremes commonly reject the principles of economic liberalism and the global market. Just as in interwar Germany we can now observe as the pressure of creditors to unconditional debt repayment as quickly as possible leads in Greece as well as in other countries not only to deepening of the economic crisis itself but also – in the consequence of a social disruption caused by it – to radicalization of political scene on one hand and de facto suspension of already mainly formal democratic principles and institutions on the other. Increasing number of protesters clashes with the police in the streets of European cities and outbreaks of violence of frustrated unemployed resemble the situation from the 1930s. Reflections on the crisis of democracy and its failure to respond accordingly to an increasing tension between ideas of a significant number of citizens and economic elites about the level of social and health security and the extent of free rein of market forces are only one of the many similarities of the current and the pre-war development.

The current global market is in many aspects different from the previous and the economic theory changed a lot, too. Environmental and customs arrangements are by far not as extensive as in the interwar era and it's possible they will decrease even more. And capitalism changed, too. The one before World War II was mainly national, the current one is dominated by supranational subjects. Another difference is that as the result of the managerial revolution in the 1960s the ownership of corporations shifted from owners to managers. These are the factors that didn't allow the application of procedures proven in previous crises. It is also clear that these are the factors that significantly contributed to the crisis.

The doubt remains: Can an unregulated movement of goods and capital enrich and stabilize the society or will it impoverish and destabilize it? Because capital can freely move all around the world, but majority of people cannot, which causes a great disequilibrium and a contradiction in the system. Also, majority of people unlike goods and capital doesn't want to and in the increasingly overpopulated and by exhalations from transport polluted world cannot move. Therefore, it can easily happen that they will find themselves in a familiar place, but a place also dangerous or at least uninviting for life. „A company can freely move, the consequences of its move stay. Everybody, who can freely run from the given locality, can run from its consequences as well.“ [Bauman 2000: 14] From this insecurity a fear is born, from it anger and that is a space for all kinds of extremism. M. Valach in this regard notices that these processes affect the middle class, while „the crisis of the middle class“ [Valach 2011: 152] has begun in the 1970s. He also mentions that „militaristic and totalitarian programs are supported mainly by the middle class“ [Valach 2011: 154]. This historical experience from the first half of the 20<sup>th</sup> century Europe „proves that middle classes are for democracy if their living is growing and they have a hope of social advancement“ [Valach 2011: 154].

M. Hauser denotes on the current crisis: „In the history of capitalism this is the fourth big crisis: the first was in the 1870s, the second one was the crisis of 1929, the third one the crisis in the 1970s. The news about the crisis of 2008 is that the ruling economic doctrine cannot create a program that would give us hope to overcome it. ... We find ourselves in a situation when the crisis replicates. It is an economic crisis and also a crisis of economic theories.“ [Hauser 2012: 91] Hauser also notices that mass demonstrations, strikes and protest movements cannot convince political and economic elites of the need to change

their attitude. „We are not only in the economic crisis and the crisis of economic theory, but also in the crisis of resistance. We can say that the crisis is not double but triple.“ [Hauser 2012: 92] However, this can potentially have catastrophic consequences for the society because demonstrations, strikes and protest movements happen in the context of an existing constitutional system. Their continuing failure can lead to a conviction that only procedures ignoring or purposefully violating constitutional principles can be effective.

#### ENVIRONMENTAL CRISIS

But the crisis has at least quadrupled. When in the 1970s, in the name of accelerating the economic growth, began a gradual process of repeated de-socialization of the economy, ideas that questioned the imperative of the growth for still other reasons appeared. The Club of Rome reports [Maedows et al. 1972] drew our attention to limits of an economic growth in a finite world. For the growth of our industrial civilization we need new resources of raw materials, and soil and water are not inexhaustible. Their shortage will not only mean jeopardizing the growth but also an inability to at least keep the existing level of civilization including political and social institutions. This means that not even fast application of the zero growth principle would be sufficient. Moreover, the growth of production and consumption is necessary if only for the growth of the population.

But it's not only the population that grows but also consumer demands of individuals. T. R. Malthus in his famous essay in 1798 [Malthus 1998] draws attention to the risks resulting from the continuing growth of population. In his time he couldn't include the phenomenon of consumer expectations and real consumption of individuals which multiplied the risks identified by Malthus at the end of the 18<sup>th</sup> century in the second half of the 20<sup>th</sup> century. Technocratic reasoning of the need of zero growth brought by in the report of the Club of Rome [Maedows et al. 1972] proved to be insufficient. To meet the requirements of the growth in living standards, so ultimately of the growth of consumption of individuals, became in the second half of the 20th century one of the main criteria of legitimacy of political systems and also individual governments. In its name citizens of many countries were willing to accept cuts in existing levels of social, somewhere even civil rights. But an economic growth is not possible without the growth of environmental pollution and without other negative impacts on the planet's ecological and climate system. An economic growth as well as the sustainable world is subject to maintaining the planetary ecological and climate system at least on the same, already damaged, level as it is now.

40 years from the first report of the Club of Rome [Meadows et al. 1972], or 20 years from its revised version [Meadows et al. 1993] it is clear that although these documents work with more exact data than Malthus had available, they weren't able to take into account all the risk factors caused by spontaneous growth of the global industrial civilization, population size and its consumption demands. They were not even able to clearly present imminent risks for economic, political and social institutions, national and multinational, to abandon the growth imperative. But as J. Habermas notes „with capital accumulation, economic growth is institutionalized in an unplanned, nature like way, so that no option for self-conscious control of this process exists. Growth imperatives originally followed by capitalism have meanwhile achieved global validity through system competition and worldwide diffusion... The established mechanisms of growth are forcing an increase in both population and production on worldwide scale.“ [Habermas 1976: 41], so „Capitalist societies cannot follow imperatives of growth limitation without abandoning their principle of organization“ [Habermas 2000: 42]. If it is really so, then it is not possible to abandon the growth imperative without fundamental changes in economic and political systems. A voluntary change of these systems and his imperative is unlikely despite proliferating information about the growing speed and the range of climatic changes and other limits of growth.

At least in some regions of the world growth limits have been exceeded and the result is food, social and political crises. One of the main causes of series of rioting and conflicts in the countries of North Africa and Middle East is the exceeding of raw materials and environmental limits of population growth and its consumption and subsequent long-term inability of these countries to supply the population with food and drinking water from their own reserves. This was most expressed in the key country of the region – Egypt, the world's top wheat importer. „The Egyptian authorities have been wary of touching food subsidies since rioting swept Egyptian cities in 1977 after government decided to raise the prices of staples. The authorities were forced to rescind their decision to restore order. During the food crisis of 2007-08, which pushed the cost of wheat to an all-time high, many families became reliant on subsidised bread, with long queues in front of bakeries and frequent scuffles breaking out. Army bakeries were drafted in to augment the supply.“ [Terazono – Saleh 2013: 2] The situation worsened when Russia in 2010 due to the drought and extensive fires banned export of wheat and its prices increased to such an amount that due to the

increase in basic food prices riots broke out not only in Egypt but also in other North African countries reliant on its import. These riots destabilized the whole region and in many areas grew into a real war against all. The subsequent regime change in Egypt has not improved the situation neither because the oil production and its sale, which have been the source of foreign exchange used for purchase of wheat, are decreasing and therefore the riots continues. Since 2010 Egypt has spent most of its foreign reserves on wheat import which it is not able to grow for its population because of the lack of suitable farmland and water for irrigation. Together with the huge unemployment mainly among young people and growing population not only in Egypt but also in other countries of the region we can expect a growing social tension and a tendency to a fundamental religion politics.

Rising prices of food and raw materials combined with governments' austerity measures adopted in response to the economic crisis correcting the economic growth carried in the last decades on debt, destabilize also countries in Europe. It is confirmed then, that „The economic crisis results from contradictory system imperatives and threatens social integration. It is, *at the same time*, a social crisis, in which the interests of groups collide and place in question the social integration of the society.“ [Habermas 1976: 29 – 30] This leads to a political crisis, which can lead to a government fall (which happened in many European countries) or to a fall of political regimes or to a civil war as it happened in North Africa and the Middle East. It is clear, that the political stability of the industrial civilization despite the technological progress depends on the ability to produce enough food and also that not even the industrial agro production is immune to climatic changes.

J. Lovelock in this regard says that the environmental crisis threatens the stability of not only the existing political system but also of the civilization itself. In the name of averting this threat „... we have to plan a retreat from untenable positions which we have achieved thanks to inappropriately used technologies; it is much better to retreat when we still have energy and time“ [Lovelock 2008: 175]. He assumes not only zero growth but even negative one. However, at the same time he states „Maybe we will have to adopt certain restrictions, rationing and conscription as in war times and moreover to give up freedom for some time“ [Lovelock 2008: 179]. Climatic changes threaten mainly the ability of the industrial civilization to produce enough food. This threat is doubled because industrial food production depends also on sufficient oil supplies and from it produced fuel and agrochemicals. At the same time, it is assumed that in twenty years the peak oil will be reached and afterwards the oil supplies

will be decreasing, but the population and demand for energies and food will be increasing [Dubnička 2011]. Industrial agro production of food cannot continue without oil consumption and therefore also without production of greenhouse gases. As Lovelock points out the production of food for the current number of the planet's inhabitants itself is a source of an enormous amount of greenhouse gases. „Overall, the impact of agriculture on the climate is comparable to the burning of fossil fuels.“ [Lovelock 2012: 116] Despite the growing damage in infrastructure and also in food production, those are caused by weather events in the last two decades, these Lovelock's opinions have been referred to as groundless alarmism and even extremist. But when at the end of October 2012 the storm Sandy hit the U.S. East and Canada, it killed several dozens of people, caused flooding over wide areas and other damages exceeding 50 billion US dollars. As a result a supply system of wide areas collapsed, so for example rationing of fuel and several other commodities was introduced in New York temporarily and some rights and freedoms were restricted. It is clear that Lovelock's vision is more real than it would seem several years ago. It is also significant that the storm and its aftermath had a direct impact on political events because actions of B. Obama's administration influenced voters' decisions of the ongoing presidential elections in USA.

## CONCLUSION

A greater threat than a reprise of the development following the failure of the previous globalization is a chance that the planet's ecosystem would collapse or at least fundamentally change. As a matter of fact, the globalized market has a considerable influence not only on economic, social, political and cultural systems of all levels, but also on ecosystems – local, regional and the global. Most of the processes – social and ecological – suggest a prevalence of negative influences. So an unwanted result of globalization can be not only an economic crisis but also an energy (oil), food or an ecological crisis, and most likely their combination. Resulting social and political crises can then be more menacing than those after the global economic crisis in the 1930s. The overall risk of crisis increases all the more because the world population has increased immensely since then and with it the consumption of raw materials and energy.

Since the crisis affected the global economic system, it is indeed a global crisis. This dimension highlights also the environmental aspect of the crisis. It is a conflict between the global economic and environmental systems, but also a conflict between national states,



their regulatory, political and legal systems on one hand and global multinational corporations on the other. The imperative of economic growth is in conflict with a need to keep the global environmental system at least on the current level, because its radical change threatens not only economic but also social and political stability of the global civilization.

Many factors show that the present model of the growth of production and consumption has reached or will reach in short time boundaries of sustainability. From this viewpoint we can talk about a crisis of globalization as a model built on the imperative of growth. Depletion of raw materials or degradation of the planetary ecosystem to the level in which the food production would not be possible at least on the current level (e.g. due to climatic changes and/or pollution) would mean a transfer from a surplus economy to a shortage one. The result of a mismanagement of a global environmental crisis would then be an economic crisis, which would intensify a conflict potential in social and political area. Many of the current conflicts can be considered to be environmental conflicts – their nature is a struggle for drinking water and cultivable land. A tendency to deal with the current crisis by increasing consumption is therefore, from a long-term perspective, contraproductive.

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# CRISIS OF TRUTH IN THE GLOBALIZED WORLD OF MASS MEDIA

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## **Abstract:**

This article is dedicated to the epistemological and ethical issue of truth in the globalized and commercialized mass media world. We are eyewitnesses that postmodern civilization means the crisis of classical understanding of truth. It has serious ethical and pragmatic consequences. Human beings can feel lost in this reality. Nothing is sure and everything is flexible. Medial teaching could be a proper way for preparing people, especially the youth to live in these conditions.

## **Key words:**

Mass media, epistemology, crisis, truth

## **Introduction**

This short essay comprises of reflections (contemplations) concerning the importance and role of the truth in post-modern world of mass media. Already in the title I have advanced a thesis that we experience the crisis connected with the truth in mass media messages and contents. I am reading into the causes of it in the transition from industrial civilization to post-industrial one, which in the field of reflections (contemplations) on culture, systems of value and lifestyles is defined as post-modernity. In my reflections (contemplations) I use the method called civilizational interpretation. First and foremost it has an explanatory value. It is not applicable to the explanation of facts. The application of civilizational interpretation allows to notice all the transformations occurring in the life of a given community in a broader civilizational and historiosophical context. It indicates both the specificity of transformations on a given area of social activity or a given territory as well as detects general regularities characteristic of a civilizational transformation [Modrzejewski 2008].

## A short history of truth's theories

Before we move on to the reflections (contemplations) concerning the crisis of truth in the world of mass media, we must first answer the basic question what the truth is. The answer to that question, due to a variety of epistemological approaches, is neither simple nor obvious. Obviously, in everyday life we follow intuition which allows us to separate true information from the false one in a practical manner. Owing to this we can function in the world. This intuitive approach in a philosophical formula is expressed by means of a classical theory of truth, also called correspondence theory of truth. It is the oldest paradigm of the truth dominating in our culture. Despite the fact that since 18<sup>th</sup> century in the history of philosophy there have been other, non-classical theories of truth (evidentialism, consensualism, neopositivist and finally post-modernism), in everyday life we generally refer to the classical approach, which is connected to our habit concerning common sense as an instance (authority) deciding what is true and what is false, what is good and what is bad, what is right and proper and what is wrong and improper. Therefore, I will start my argument by presenting this approach. Moreover, it is the classical theory of truth which is the main accused in the post-modern world. The criticism is conducted not only on epistemological grounds but in the first place on the grounds of political and social philosophy.

In a classical theory of truth, the truth is discussed on two levels: (a) ontological and (b) logical, i.e. cognitive. The critics of this concept often omit the ontological aspect. However, this aspect is primary in relation to logical issues. Therefore, a proper understanding of a classical theory of truth can occur only when the considerations start from ontological issues and in a consistent manner they move onto the level of epistemological divagations [Krapiec 2000: 289].

Truth in an ontological sense is included in the words of Thomas Aquinas: *ens et verum convertuntur*, which can be translated into: "existence and being true are changeable concepts". What originates from its own nature is true and so talking about existence we talk about the essence of being true. This formula is based on two ontological laws: law of identity and law of noncontradiction. Aristotle devoted his attention to these laws and developed them in a philosophically mature manner. In *Metaphysics* he tackled the issue of

existence. Sometimes the authorship of the law of noncontradiction is mistakenly attributed to Aristotle. In fact this law was formulated many years before Aristotle by a Greek philosopher Parmenides. Both laws sound like tautology. Nevertheless, they constitute a foundation of cognitive realism and intelligibility of existence.

The first law (law of identity) states that: “being is being”. In other words what is - exists. In case of analogous concretizing this law can be formulated in a following way: “being is what it is”, “this John is John”, “this chair is the chair”, “this hen is the hen”.

Second law, the law of noncontradiction, states that “being is nothing”, that is if something is, it cannot not be at the same time. This law is understood in such a way that a concrete being cannot be itself and at the same time it cannot be its contradiction: “human being cannot be non-human being”, “a hen is not non-hen”, “a chair is not non-chair”. In the same way it is not possible to be and not be at the same time or to exist as one thing and simultaneously be its contradiction.

If being is being and it is not what it is not, then it must be true in itself. Therefore, truthfulness constitutes a constructive feature of being. As a result, being is true [Krapiec 1985: 175].

The foundation of truth is not our cognition but being – the subject of cognition which is real *per se*. Classical definition of truth called common-sense definition was formulated by Isaac ben Solomon (845-940) on the basis of Aristotle’s considerations in *Metaphysics*. Isaac ben Solomon defined truth as “conformity of intellect (cognition) with being”. This definition was specified by Thomas Aquinas stating that: *veritas est adequation intellectus et rei, secundum quod intellectus dicit esse, quod est, et non esse quod non est*, which is translated into: “truth is a conformity of intellect with being as long as intellect expresses that what is, it is and it does not exist what it is not”.

The experience of being constituted *raison d’être* for Thomas Aquinas. It is the existence of being as it is which determined the truthfulness of cognition. That is why the definition is described as common-sense. Owing to common sense – *sensus communis* - we experience the reality as it is. This type of real cognition is common. In cognitive practice every person is guided by common sense aiming at truth about cognition.

Skeptical philosophers, even if they affirm classical theory of truth, claim that the problem lies not in the fact concerning the statement of factual state, but the truth of this statement. How do we know if a given judgment corresponds with the facts (reality)? Positivists represented the fundamentalist approach rejecting the necessity to define any criteria. They expressed the conviction about the infallibility of empirical cognition [Ajdukiewicz 2004: 19-20], which seems to be a controversial thesis taking into consideration the fact that our senses as a cognitive tool often disappoint. Nevertheless, for positivists, every statement based on a reliable experience is true. On the basis of cognitive skepticism, attempts to indicate the criteria for truthfulness appeared. Usefulness and applicability (pragmatism) or meta-language are included in them (Alfred Tarski and Karl Popper). One of the criterion of truth is also coherence. However, it separates itself from the tradition of common sense. Marxists went even further. They believed in the existence of objective truth but they were convinced that "objective truth requires first and foremost speaking from the perspective of a class and political position" [Gellner 1997: 48]. Objectivism defined through what is real, briefly speaking, through being, which is what it is, was reduced to a peculiar collective subjectivism. In other words objective and *implicite* true is only what a given social group (class, nation, religious movement etc) and usually its representatives perceive that is right and beneficial for it. Therefore, it is cognitive relativism which due to the references to the collective political interests, aspires to take over an absolutist approach (in a epistemological sense). Ernest Gellner sees the sources of post-modern relativism in Marxism and this relativism has negated the existence of objective and universal truth. He replaced the truth with the equivalence of approaches and opinions.

Before post-modernism became dominant, at least in mass culture, the philosophical and opinion-forming trend, it was a French thinker of the Age of Enlightenment Rene Descartes who had conducted the epistemological revolution. Owing to him the subjectivization of truth occurred. This notion is defined as evidentialism. It proclaims that the statement is only true and it is obvious. If the thoughts of an experiencing subject are accompanied by the experience of obviousness which imposes in such a way that it cannot be negated reasonably, then this thought is considered true. While searching the truth one should follow the experience of obviousness.

Descartes was of opinion that wishing to gain certain and true knowledge, one must formulate a statement towards which nobody could have any doubts. Everybody would have to assume it as an absolute truth. A famous Descartes formula *cogito ergo sum*, “I think therefore I am” was such a statement. This sentence is an evident and doubtless foundation of philosophy. Descartes defined the truth in the categories of clear understanding: *verum est quod clare ac distincte percipio* [Ostasz 2010: 108].

While comparing the notion of evidence with classical theory, it is noticeable that objective world has stopped to be a dominating element constituting the truthfulness of cognition. Descartes did not see the need to concentrate on objective reality in a cognition act. Truthfulness does not originate from the correspondence of thoughts (cognition) with matter (fact) but from the inner experience of cognitive subject. Both thought as well as obviousness being a subjective criterion of truth fit in an inner sphere.

Another indication of the theory making truth relative is so-called notion of universal consent, conventionalism. Also in this case there is no reference to objective reality. In both cases only subjective opinions are credible and valuable, with the exception of evidence theory where individual opinion is sufficient, while for conventionalism it is the opinion of the whole [Ferber 2008: 71].

In the contemporary world the main opinion-forming philosophical approach is post-modernism in its various forms [Gálik 2010: 11-12]. On the epistemological level there is the rejection of absolute truth which implies perceiving it as a tool of oppression imposed by the dominating cultural and axiological paradigm of a society on the level of political philosophy. As a critical theory post-modernism formulates the egalitarian postulate of equalization of approaches and opinions, which proclaims epistemological pluralism and consequently also the ethical and axiological one. As such post-modernism appears to us an anti-dogmatism. The post-modern theory can be summarized in the slogan: “There is no absolute truth, there are only subjective opinions.” Therefore, post-modern epistemology does not derive from the ontological issues – being as a source of truth, but from the philosophy of a language. It seeks senses, hidden meanings, it analyses the cultural contexts of communicative relations etc. the truth is, however, some kind of word game. And it is encompassed in “the hands of rhetoric” [Gálik 2010: 15].



## **Civilizational transformation as a cause of the crisis of truth**

Crisis does not only have the economic face aspect, which we got accustomed to while following media messages and the state of our financial resources. However, the crisis of global economy has only temporary character and is inscribed in the cyclical oscillations of economic trends. The crisis accompanying the civilizational transformations has much more severe consequences, though they may not be perceived so strongly. Since the second half of 20<sup>th</sup> century the world has been transforming in a manner and pace which have not been known before. The emergence of new civilizational order described as post-industrial civilization is the consequence of these transformations. It triggers the reaction called metaphorically “future shock”. This term created and popularized by an American futurologist Alvin Toffler [1998] perfectly shows the psychological condition of modern man. Traditional institutions change their character irreversibly. Family, religion, as well as the state are not the same institutions which they were in the industrial epoch, giving not only psychological support and stabilization. Also mass media undergo transformations. Another prominent American futurologist John Naisbitt indicated ten mega trends radically changing our reality [1997]. Among them are the following (1) from industrial to information society; (2) from power technology to ultra technology/ ultrajoint; (3) from national economy to global economy; (4) from short-wave thinking to long-wave thinking; (5) from centralization to decentralization; (6) from institutionalized to self-help; (7) from representative democracy to participatory democracy; (8) from hierarchy to network; (9) from the North to the South and (10) from the “either-or” scheme to multiple choice.

Industrial processes were accompanied by narrowly-specialist professionalization occurring both in factories (a qualified worker) as well as in other sectors of economy and public activity. It also encompassed the world of mass media. A professional group of journalists was created. While showing appropriate professional qualifications they had to gain suitable licences or accreditations enabling their professional work. It was supposed to guarantee professional reliability and professionalism. Media has become the institutions of public trust. They were responsible not only for conveying reliable information but also for raising the society in the spirit defined either by national ideologists, especially in authoritarian and totalitarian countries (media as a tube of official propaganda) or by the

founders and patronage institutions (the Church, social organizations, cultural associations of ethnical minorities, trade unions, political parties etc.)

This situation at least seemingly was giving people the sense of psychological safety. The world in which they live was predictable, understandable, and information was treated as reliable and true. Treating some information as true did not necessarily mean that it is really true. However, the message and media discourse was directed towards objectivism and facts. Positivist – and positivism can be treated as philosophy in a manner fully reflecting the spirit of industrialism – attachment to empiricism and facts caused that cognition, also this occurring in mass media dimension, was supposed to be objective. Moreover, subjectively expressed opinions aspired to the name of objectivism. Scientific approach being a secular quasi-religious doctrine became the fetish of industrial intellectualism. And so religions, and in particular confessions referring to Transcendence, have a canon of revealed truths, having their irrefutable and at the same time absolutist and universalist status of ever-lasting and invariable laws, then secular scientific approach was based on absolute truths whose source is not the revelation but human senses.

Absolute truth, or rather quasi-absolute, especially in authoritarian and totalitarian systems, evolved into “total truth” of the reason based on the ideological foundations (Fascism, Nazism, Bolshevism). Truth constructed in such a way according to Felipe Fernández-Armesto is “the source of temptation for individuals and groups of totalitarian outburst” [1999: 101]. For individuals with ideologized minds things are true and certain only when they are according with the official ideology. Even empirical facts if they are not according with official ideology lose the status of being true.

The collapse of two industrial totalitarianisms (Nazism and Bolshevism) which occurred within 45 years - between 1945 and 1990 – caused the implosion of industrialism. The retreat from industrialism encompassed various spheres of life and human activity (economy, politics, culture, education, science etc). technological revolution was the accelerator of transformations in the field of mass media, especially the creation of global media and channels of communication. The development of technologies connected with the processing and sending information (the Internet, satellite TV, satellite and GSM telephones, etc.) caused that the world has become McLuhan’s “global village”.

Information, despite the attempts of control in some countries, is basically a global good. Besides few cases, such as totalitarian and autarkic North Korea, there is no effective control of the state over its transfer. Therefore, post-modern state is a globalised world. [Drucker 1999: 120].

Nowadays the most globalised are two tightly connected spheres: popular culture and economy. De-materialization is their power, which means the possibility of instant transfer of images, sounds, messages, money transfer, purchase of stocks etc by means of modern communication technologies. In that way globalization makes people who are separated by geographical space closer. Obviously, not only in a physical sense but symbolical. There is a possibility of transferring megabits of various information to the other side of the world. Commercialized Hollywood culture has become a cultural code of globalised world. Similar or even the same contents can be found in various corners of the globe. Popular culture which is created by American media concerns and various local mutations and cooperators reach almost every corner of the globe. It is easily adapted by the representatives of various cultures and civilizations due to the fact that it flatters the average taste of its recipients. It happens with some harm to national cultures inseparably connected with modernistic paradigm. In the conditions of global competition it cannot face oligopolies from the United States of America, that is why so-called high culture becomes an elitist good and its creators more and more often go to the side of pop culture creating works of art basically not much different from American prototypes. The statement of an American scholar Benjamin Barber that new cultural universalism turns out to be simply omnipresent American provincialism dubbed into various languages and financed by multinational co-producers seems right [Barber 1997: 115].

The expansion of American pop culture leads to the uniformization of needs, customs, rules, norms and social values as well as patterns of behaviour. Nevertheless, constant liquidity being a driving force of post-industrial civilization does not allow for permanency and continuity. In post-modernity there are no constant ideas, around which constant communities are created, they are no ever-lasting religions and dogmas, which causes the sacral sphere got commercialized and is subject to commercial rules. Authorities were replaced with idols who in determine fashion and trends only to end up in the depths of media non-existence. Politics, culture, economy and even science and religion are the

fields of commercial experiments whose aim is to stimulate continuous consumption of newer and newer goods. In this world there is no satisfaction, there is no ultimate aim, there are only temporary aims whose reaching leads to setting new aims.

Such phenomena as decentralization, de-concentration, de-hierarchy, de-synchronization and diversification have become civilizational trends in the interval between industrialism and post-industrialism. New post-industrial social order is based on decentralized and de-concentrated network systems which replaced formalized hierarchical systems. These processes are accompanied by the demythologization of absolutist notions whose place was taken over by pluralism of various opinions, outlooks, approaches creating mosaic ideological network. What happens in the network society is the relativization of the position of absolute truth and its form - "total truth" transformed by totalitarian ideologies. If every private opinion may be considered as the truth, there is no place, at least seemingly, for absolutist or even totalitarian approaches (absolutism and totalitarianism in an epistemological sense).

Post-modernism promoting the pluralism of ideas and values is in opposition to the creation and promotion of "total truths" [Gálik 2010: 14]. For post-modernists referring to the argument of truth means the connection or even reference to the tradition of lack of tolerance, violation, violence done in the name of "truth", which the best example were 20<sup>th</sup> century totalitarianisms. Therefore, post-modernism treats the retreat from the principle of truth in social and political life almost as a moral imperative. It is (Barry Allen or Michale Foucault) a tool of control, an instrument of authority over the behaviour [Bartoś 2010: 39-41].

### **Truth in current mass media**

Contemporary media systems of Western liberal societies are based on axiology in which the supremacy of freedom over truth is noticeable. In modern order truth was a guarantee of freedom. As a prominent figure of Polish philosophy Józef Tischner wrote: "There is no freedom in liberation from the value of truth (...) The more truth is among us, the more freedom is among us " [2011: 218]. The codes of journalistic ethics originating from the 19<sup>th</sup> and 20<sup>th</sup> century tradition indicated and often still indicate the moral imperative of aiming at and proclaiming truth. However, it is a kind of an ideal, at which we

should aim, some kind of a reference point for journalists and generally for the people of mass media. The reality shows that media distances itself from the provisions of ethical codes [Makowska-Ratkiewicz 2010: 118]. This discrepancy between a norm indicating the necessity to propagate truth and reality, in which the significance of truth is marginalized is inscribed in the context of civilizational transformations. The present world groundlessly called “liquid modernity” rather avoids the engagement in boring search and remaining in truth. Truth in its absolutist and universal dimension does not guarantee a commercial success. It may become anti-democratic and anti-freedom due to the fact that it may affect both the will of the majority as well as the postulates of the minority groups. Post-modern political philosophy forces us to see a captivating factor in truth which restrains our freedom. The rejection of values of truth for the benefit of relativism and egalitarianism of opinions, ideas and outlooks becomes an ethical order [Modrzejewski 2006].

It leads to the situation when truth is separated from the message. The truth referring to the ontological order and on an epistemological level being the conformity of thought and the ontological order, is not treated as a moral imperative. It is not about the cognition of truth. The place of information which by definition must be at least intentionally true (disinformation is false) is taken by so-called *news* being in fact the commercial product. The aim is to sell *news*, which is media sensation and not informing, and so the transfer of real information. Even if something is defined as truth, it has a *stricte* commercial character, often assuming the form of psychological pornography. An example of such an approach to the issue of truth is a programme broadcast in many language versions *Moments of Truth*. Truth is not treated as an epistemological or ethical category. Its aim is to shock the audience. It is all about the spectacle in which man is stripped of his privacy and intimacy [Goban-Klas 2010: 280].

A paradox of modern times, often defined as information epoch, is imprisonment of truth in the overflow of information, which leads to “information noise”. The proportions vanish. The reality in the world of news is not presented in its whole complexity. What happens is the selection of information material, which on one hand is understandable because of air time, but on the other time it does not allow for the understanding the essence of presented issues. Events deprived of context, wider perspective. It seems to be an extraordinarily difficult skill to separate information from disinformation. The world is

ruled by information and disinformation. Both powers affect the economic situation, political stability, social order, consumers' and political choices. Modern man is unable to select true information on his own. Therefore, it is easy to manipulate in such conditions, which often has a global reach. Ordinary people have no possibility to verify the truthfulness of information broadcast by national or global media; usually this information has some comments attached suggesting the recipient the manner of interpreting facts. Common sense, which man has followed since the dawn of history, in global conditions has been replaced with assessment and opinions of experts paid by various kinds of subjects, taking care of their own interests, for example maximization of profits or imposing their own ideological notion. Therefore, nowadays it is more and more difficult to distinguish the truth from lie, if we can generally talk about truth. That is why the age in which information civilization is emerging in a dizzy speed is also called "the age of lie" [Bauman 2004: 4].

Negative results of this situation can be minimized by the promotion of media upbringing. Its aim should be to gain media competences and skills, especially the acquisition of the ability to think critically [Petranová 2011: 401]. Media upbringing can be referred to both recipients as well as senders of media messages. He should be equipped with critical thinking which can protect him against accepting simplified images of reality.

## **Conclusions**

Paradoxically, it is the disavowing of the value of truth leads to yielding to so-called "total truths", which only seemingly remind of absolute and objective truth. In reality they constitute the falsified or at least extremely subjective image of reality promoted as ultimate and universal truth. We are not certain whether any of the subjective opinions or assessments will become an official ideology imposed to the society. It may assume the form of state ideology, which the best example is the Weimar Republic, where the Nazis came to power in 1933 in a democratic manner. It may be a dictatorship in *light* version, for example political correctness. Without supporting the functioning of media by means of the truth principle it will become a tool of political and commercial manipulation. And at present their power of influence on the consciousness of society is great. American scholars on the basis of empirical research came to the conclusions. First of all, the world presented on TV is significantly different than the real world. Secondly, despite this difference, the viewers assume that what they see on TV is the reflection of true reality [Pratkanis, Aronson 2003:

72]. Politicians, especially those who can be defined as effective political players, are aware of this. The statement of the Prime Minister of Czech Republic Stanislav Grossa was significant: “the only reality is what media report” [Forum 2004, no. 32: 15]. In my opinion such approach leads to both depreciation of the significance of media as means of conveying information as well as it constitutes a threat to democracy which a principle rule is the rationalism of citizens. Manipulated citizens only seemingly can take rational decisions. They rather resemble consumers “enslaved” by commercials. Therefore, the return to absolute truth and overcoming tabloid media heritage is paramount. Absolute truth is not simply given to us. In other words – speaking in ethical categories – it is assigned. Using the metaphor of Karl Popper we are “the searchers of truth” and as such we have to take the trouble connected with discovering it. As “searchers” we will continue to strive for the cognition of reality, we will not be satisfied with easy answers, we will be resistant to manipulations and propaganda. At the same time we will be ready for a dialogue and exchange of opinion and information.

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## **VARIA**

### **ON RAWLS'S CONCEPT OF TOLERATION**

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#### **Abstract**

The paper analyses Rawls's concept of toleration applied to the international sphere. The author presents this liberal view of international toleration on the basis of Rawls's political concept of justice and reasonable pluralism in society.

#### **Key words**

*toleration, justice, political philosophy of Rawls*

#### **Political concept of justice**

For Rawls's concept of pluralistic democratic society toleration became the important component of political concept of justice. This is strictly differentiated from a complex, comprehensive doctrine. Rawls's ambition was to provide a political concept of justice as fairness practiced in pluralistic democratic society, where individuals follow various complex doctrines but in the name of common good they are able to agree on the conditions of the existence of reasonable public base of justification from the perspective of basic political issues. [Rawls 1996, 2001a]

The content of Rawls's political concept of justice which applies to the basic structure of society follows from the public political culture of democratic society. Political concept of a person plays an important role in the process of accepting of this concept in original position. Citizens are perceived as free individuals who dispose of moral ability to form the own concept of good, they have legitimate requirements, and are capable of taking

responsibility for their deeds. In these conditions the principles of justice are accepted in the process called "*procedure of construction*". This process includes certain hierarchy of political values, from the values expressed by the principles of practical reason related to the concepts of society and person, to the values expressed by the principles of political justice.

Political concept of person is related to Rawls's understanding of individual autonomy. Rawls writes about autonomy of citizens, which is political, not ethical value [Rawls 1996]. Citizens in his concept reach the complete autonomy by public recognition and personification of the principles of justice in their political life and in accordance with their sense of justice. [Jurová 2011: 133] Political autonomy is realized here on the acceptance of political principles of justice and usage of the protection of basic rights and freedoms. It has to be differentiated from ethical values of autonomy and individuality, which can relate to social as well as individual life.

The idea of mutual respect and reasonableness is in Rawls's concept enhanced by so called *moral psychology of persons*, as well as by the idea of *overlapping consensus*.<sup>24</sup> Persons as citizens of a well-ordered democratic society act on the basis of certain dispositions, which could be called moral psychology – this influences also moral motivation of persons. [Jurová 2011: 138] Hence the persons as citizens act according to certain dispositions and have tolerant attitude to other citizens.

### **The principle of toleration**

The principle of toleration can be understood as a principle rooted in the ideal of democratic citizenship, which requires reasonable moral psychology. Toleration can be fully guaranteed only when there is a functioning just and stable society which results from the overlapping consensus. The principle of toleration applied in its full range can be vindicated only in the conditions of stability, which is reached by the overlapping consensus. A theory of justice as fairness [Rawls 2001a] provides strong arguments for equal freedom of conscience for all. Rawls assumes that these arguments can be appropriately generalised in order to support the principle of equal freedom for all. The contractual parties in society then have the good reasons to accept this principle. It is evident that these factors are important by the reasoning of freedom. From the perspective of constituent assembly these arguments lead

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<sup>24</sup> For the concept of *overlapping consensus* see e. g. Jurová 2011: 80 – 83.

to the selection of such regime that guarantees freedom of morality, conscience, religion etc. These freedoms can be also regulated by the state in the interest of public order and security. [Rawls 1971] The state cannot privilege any religion, and no punishment or disadvantages can result from the fact that somebody is or is not a member of particular religious community. Various associations and communities can be formed freely and they can live their own life and follow their own order limited only by the real opportunity of their members to keep or end their membership. The law protects the right of asylum so that the disaffection is not considered the violation of the law. The state in this way maintains the freedom of morality and conscience.

Arguments for freedom are in this context characterised by their exclusive basis on the concept of justice. Toleration is derived neither from practical necessity nor from the reason of state interests. Moral and religious freedoms follow from the principle of equal freedom; it means that when we assume the priority of this principle, then the only reason to deny the equal freedom is to prevent more extensive injustice or even more extensive loss of freedom.

Freedom of conscience is limited by the common interest in public order and security. This limitation simply follows from the theory of contract. However, it does not imply that the public interests are somehow superior to moral and religious interests. This limitation does not require the government to consider the issues of religion indifferent. The government does not have a right to suppress any philosophical views if these conflict with state affairs. Government as Rawls defines it has no power to allow or not to allow some associations; as it has no competence aimed at arts and sciences. Accepting the principles of justice, such a state is rather the association of equal citizens. State does not deal with philosophical or religious doctrines, but it only regulates the promotion of moral and religious interests of people in accordance with the principles they would agree about in some original position of equality. [Rawls 1971]

It follows from the principles of justice that the government has neither the right nor the duty to promote its will or the will of majority in the issues of morality and religion. As an example Rawls provides the case of intolerant sect and asks if any intolerant sect has the right to complain that it is not tolerated. It seems that such a sect is not justified to complain

in case it is denied of equal freedom. At least this follows from the premise that nobody is justified to complain about the acting of other people, which is in accordance with the principles that would be used in similar situation to justify own acting. [Rawls 1971] As Rawls states, we have the right to complain only about the violation of principles which we accept. Complaint is a protest addressed to other people in bona fides. It relates to the violation of a principle that is accepted by both sides.

From Rawls's perspective no special interpretation of religious truth, which would be generally binding for all citizens, can be recognized in the conditions of original position. His opinion is similar in the case of authority which would have the right to address the issues of a theological nature. Each person must insist on the same right to decide about his religious commitments. This right cannot be transferred to other persons or institutional authority. In fact, even if he decides to accept the authority of other and considers it unfailing, he exercises his freedom, because even afterwards he does not give up his constitutionally guaranteed freedom of conscience. [Rawls 1971] Everyone can change his faith and this right does not depend on whether or not he applies his freedom regularly or reasonably. In this context, we can state that the equal freedom of conscience for all is compliant with the idea that all people should obey God and recognize the truth. The problem of freedom thus concerns the choice of principles, which would coordinate the mutual religious claims of people.

Rawls in this context may assume that the intolerant sect does not have permission to complain about intolerance. But even then it is not possible to argue that, for example, tolerant sects have the right to suppress intolerance. They may have the right to complain. They may have this right not because of intolerance itself, but for the sake of the right to make complains, whenever the principle of justice is violated.

The question of toleration and intolerance is closely bound up with the issue of the stability of a well-ordered society that is regulated by the two principles of justice. People become members of various religious communities from the position of equal citizenship. This position should be the platform for their mutual discussion. Citizens in a free society should not think that someone else does not have a sense of justice unless this is necessary

due to the equal freedom for all. If some intolerant sect appears in a well-ordered society<sup>25</sup>, other people should bear in mind the basic stability of their institutions. According to Rawls, this conviction operates on the basis of the psychological principle that those whose freedoms are protected by the Constitution and who benefit from this protection will be loyal to it after some time. [Rawls 1971] With regard to the innate stability of the just Constitution, the members of a well-ordered society believe that it is necessary to restrict the freedom of the intolerant only in special cases - only if it is necessary to maintain the same freedom for all.

In the framework of efforts to create a tolerant, reasonable and cooperating society, where the individuals respect each other, Rawls pays attention to the persons who can be tolerant and fully cooperating members of society throughout their life. The ability of social cooperation is considered to be fundamental, because the basic structure of society is accepted as the first object of justice. Fair conditions of social cooperation in this case define the content of the political and social concept of justice. If we understand persons in this way, two qualities are ascribed to them as to the moral personalities. These two features are the ability to have a sense of truth and justice; and the ability to create a concept of the good. The ability to create a concept of the good is the ability to form, correct and rationally realize such a concept, i.e. the concept of what we consider valuable human life for ourselves.

These two moral qualities in Rawls's concept are considered to be the necessary and sufficient condition for persons to become full members of society also in matters of political justice. Equal citizens in this sense are only those individuals who can participate in social cooperation throughout their lives and are willing to respect the reasonable decent conditions of cooperation. At this point, Rawls assumes that moral characteristics are realized on at least the minimum required degree and are always associated with certain concept of the good.

In this context, however, Rawls draws attention to the fact that there is one crucial prerequisite for liberalism: equal citizens may have different and actually mutually

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<sup>25</sup> *Well-ordered society* is a society in which everyone accepts and knows that the others accept the same principles of justice, and the basic social institutions satisfy and are known to satisfy these principles. [Rawls 1971: 453 - 434]

contradictory concepts of the good. In a modern democratic society the existence of such a diverse range of ways of life is considered to be a normal condition, which can only be removed by autocratic application of the state power. Thus, liberalism accepts the pluralism of the concepts of the good as a symbol of modern life, of course, provided that these concepts respect the boundaries defined by appropriate principles of justice. Rawls attempts to show both that a plurality of concepts of freedom can adopt this mode of pluralism, so as to achieve all the benefits of human diversity. [Rawls 1996]

### **Toleration in international sphere**

The processes of globalisation and intense interaction between the cultural and civilisation spheres raised a request for the clarification of the interpretation of justice not only in the framework of the national state, but also in international context. Rawls is one of the few contemporary philosophers who deal with tolerance as an international issue, which is linked to the issue of peace and justice at the international level. Rawls transposed his concept of justice into a transnational framework via its political conception of the international arrangement, in particular in the work called *The Law of Peoples*. It contains theses, which with regard to the plurality of cultures and respect for fundamental human rights, support the legitimate arrangement of democratic countries worldwide. Rawls called his concept of *The Law of Peoples* “a realistic utopia”. As he states, political philosophy is realistically utopian when it extends what are ordinarily thought of as the limits of practical political possibility. [Rawls 2001b: 6] The hope we have in the future our society is based on the belief that social world allows the existence of a reasonably fair constitutional democracy as a member of a reasonably fair Society of Peoples.

In a reasonably just national society the fact of reasonable pluralism belongs to its historical conditions. In the Society of Peoples, the parallel to reasonable pluralism is the diversity among reasonable peoples with their different cultures and traditions of thought, both religious and nonreligious. [Rawls 2001b: 11] *The Law of Peoples* must be acceptable also for different reasonable nations and it has to treat them fairly.

Rawls in his book *The Law of Peoples* prefers the phenomenon of “the people” to “the state”. *The Law of Peoples* perceives liberal democratic peoples (and decent peoples) as actors in the field of a Society of Peoples in the sense as citizens are actors of national

community. Liberal peoples have three fundamental characteristics: a reasonably fair constitutional democratic government that serves their fundamental interests; citizens, who are associated on the basis of so-called “mutual respect”; and the moral nature. The first characteristic is institutional, the second is cultural, and the third requires fixed link to the political concept of law and justice.

Rawls uses word “peoples” emphasizing particular features which differentiate them from “states” in traditional meaning. Rawls reasons their moral nature and reasonably just or fair character of their government. So he differentiates between the nature of *the people* and the nature of *the state*. As he perceives it, states are the actors in many theories of international politics, which deal with the underlying causes of declarations of war and maintaining peace. They are often seen as rational factors, which scrupulously ensure their power and ability to militarily, economically or diplomatically influence other states and always act only on behalf of their fundamental interests. [Rawls 2001b]

In Rawls’s concept the difference between liberal peoples and states lies also in the fact that just liberal peoples define their fundamental interests as required by reasonableness and as allowed by their concepts of law and justice. Liberal peoples want to protect their territory, to ensure the safety of their citizens, and to maintain the free political institutions and the freedom of culture of their civil society. They also endeavour to ensure reasonable justice for all of their citizens and peoples. It follows that the liberal peoples can live together with other peoples, which have similar nature, provided justice and peace are maintained. All hope, which is inserted into the efforts to create a realistic utopia, lies in the fact that there are reasonable liberal and constitutional governments, which are sufficiently entrenched and effective enough in order to create a viable Society of Peoples.

Toleration as the central theme of *The Law of Peoples* is considered to be a necessary condition for justice in international sphere. Toleration is essential for fair regulation of relations between well-ordered societies (liberal and decent) that behave according to the principles which they themselves have chosen. Rawls states that these principles may also allow the emergence of various forms of cooperation and the framework of associations and federations among peoples. However, he points out that they will not affirm “*the world state*”. Rawls [2001b: 37] defines them as follows:

- Peoples are free and independent, and their freedom and independence are to be respected by other peoples.
- Peoples are to observe treaties and undertakings.
- Peoples are equal and are parties to the arrangements that bind them.
- Peoples are to observe a duty of non-intervention.
- Peoples have the right to self-defense but no right to instigate war for reasons other than self-defense.
- Peoples are to honor human rights.
- Peoples are to observe certain specified restrictions in the conduct of war.
- Peoples have a duty to assist other peoples living under unfavourable conditions that prevent their having a just or decent political and social regime.

Rawls claims that the principles mentioned above are supposed to be superior to all other principles. Similarly, as when examining the principles of distribution in the concept of justice as fairness [Rawls 2001a], he puts his argument on *equality*; in the case of justice as fairness his argument is based on equality with regard to social and economic good; in this case it is primarily on equality and equal rights for all peoples. Rawls presents *The Law of Peoples* as an extended liberal concept of justice of the national establishment of a Society of Peoples. By developing *The Law of Peoples* in the context of the liberal conception of justice, Rawls draws up the ideals and principles of the foreign policy of reasonably just liberal people. Rawls distinguishes here between the public reason of liberal peoples and the public reason of a Society of Peoples: “The first is the public reason of equal citizens of domestic society debating the constitutional essentials and matters of basic justice concerning their own government; the second is the public reason of free and equal liberal peoples debating their mutual relations as peoples. [Rawls 2001b: 86]

As one of the main objectives in the implementation of the law of the peoples to the non-liberal peoples, Rawls set a task to specify how the liberal peoples may tolerate non-liberal peoples. To tolerate in this sense means not only to refrain from the imposing political and other sanctions in an effort to change behaviour and attitudes of particular people. It also means to acknowledge these non-liberal societies as equal participants having the good position in the Society of Peoples with certain rights and obligations. Liberal societies, according to his interpretation, should cooperate with all the peoples that are



legitimate members, and help them. If all the societies were required to be liberal, the idea of toleration of political liberalism to other acceptable arrangements of society would have only vague nature. In this spirit, we can, inter alia, note that the liberal society in the framework of its internal definition has to respect the freedom of conscience of its citizens in religious, philosophical and moral sense, provided that it is promoted in a way that is consistent with the reasonable political concept of justice and public reason.

In this context Rawls emphasizes that if the basic institutions of a nonliberal society meet the conditions of political law and justice, and if they inspire people to follow the reasonable and just law of the Society of Peoples, liberal people should tolerate and accept this society. The societies which meet these conditions are called "*decent societies*". [Rawls 2001b: 3] His concept of fairness is defined also through decent hierarchical societies, which are peaceful, they ensure respect for human rights to their members, and they have a common concept of justice, which is considered the source of the fair regulation of social institutions.

Some critics of *The Law of Peoples* consider it not sufficiently liberal. This claim has mostly two forms. In the first, some believe that human rights are essentially the same rights which citizens have in a reasonable constitutional democratic establishment. This view simply expands the group of human rights so that it includes all of the rights which are provided by liberal governments. Human rights in *The Law of Peoples*, however, define a specific group of urgent rights, such as freedom from slavery and serfdom, freedom of conscience and the protection of ethnic groups against the mass murdering and genocide. Violation of this group of rights is condemned by reasonable liberal peoples as well as by decent hierarchical peoples.

In the second objection, the critics express their opinion that only liberal democratic governments are able to effectively protect also those human rights that are defined by *The Law of Peoples*. They refer to the historical fact that took place in various parts of the world. Human rights play also other specific role in *The Law of Peoples*: they restrict the reasons justifying war and the forms of warfare, and they specify the boundaries of the internal autonomy of establishment. In this sense they also reflect two fundamental and historically deep changes in the understanding of the powers in the area of sovereignty after World War

II. Firstly, the war is no longer any accepted form of government policy and is forgivable only in the case of self-defence or in severe cases of intervention in order to protect human rights. Secondly, the internal autonomy of the government today is limited.

To reflect the above ideas briefly, we can say that *The Law of Peoples* in Rawls's concept of international arrangement serves as a specific political conception of justice and law having the aim to apply this interpretation to the standards of international law. In *The Law of Peoples* Rawls searches for an international arrangement, which he wants to achieve by stating the ideally harmonised coexistence of peoples in the Society of Nations. This seeks to bring a political dimension of justice which is based on two fundamental pillars: tolerant respect for particular differences in well-ordered non-Western societies and the respect for fundamental universal human rights. Comprehensively we can describe these ideas as interculturally oriented political theory of international arrangement, which is based on respect for human rights.

In many countries Rawls's interpretation of *The Law of Peoples* has aroused controversial debate reflecting the two disputes in particular: social and intercultural. The first dispute is a polemic between advocates of an international and cosmopolitan arrangement. In this context, in particular Thomas Pogge is known for his *global* theory of social justice, which he puts into contrast with Rawls's socially more modest *international* theory. More fundamental objections in this respect are raised by the authors of global capitalism school, such as William Robinson, who criticizes the system of global capitalism from his position of global social justice. The second line of the dispute unfolds in a discussion about the question whether this political arrangement should be enforced only in the West or also in other parts of the world. Rawls advocates an open intercultural opinion towards other cultural and civilization spheres, and hence he opposes the theories that promote the planetary dissemination of liberal-democratic political arrangement which they consider to be universal.

Whether we agree with Rawls's concept of international toleration in *The Law of Peoples* or we rather criticize it, it seems that this concept a challenge that deserves deep analysis and discussion.

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