

INCREASE OF PUBLIC FINANCE IMPORTANCE IN CONDITIONS OF FINANCIAL CRISIS – IS IT JUST A RULE?

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Abstract

The article brings up problems of public finance importance in the period of a financial crisis. The growing role of the state in the process of alleviating the economic cycle as well as consequences of such policy have been presented by showing a budget as a main stabilizing instrument of public finance. The next problems that caused the crisis on the territory of European Union have been mentioned in this paper. The final part of the article presents reforms propositions in the system of economic management suggested by the European Commission in order to limit possibilities of further getting into debts of member countries.

Key words: crisis, economics, public finance, euro zone, budget, fiscal treaty.

1. Introduction

The end of the first decade of the XXI century is associated with the crisis époque although its first symptoms were noticed at the turn of centuries. The first wave of the present crisis started in 2007 in the United States of America where the breakdown of mortgage loans market happened. The economy responded to crisis phenomena dynamically. This recession influenced the condition of public finance hence this article's objective is to analyze reasons of the public sector crisis. It constitutes the article's format where in the first part the essence and the importance of public finance are presented taking into account the significance of a budget as a main instrument in the system of public finance. In the second part the condition of public finance in European Union countries in years 1998-2007 is presented

– before the Economic and Monetary Union /UGiW/ formation and before qualifying countries that met the convergence criteria until the moment of the crisis beginning. In the third part the author presents how the crisis influenced the condition of public finance. The fourth part presents new postulated by the EU institutional solutions that were to improve the condition of public finance of member countries in the context of their harmonization.

2. State budget – stabilizing instrument of public finance

The theory of economics has always had problems with defining the public sector that means, with identifying the rules of its functioning, presenting aims and objectives that the public sector is obliged to fulfill. It results mainly from the fact that the theory of economics is not the only one and it is divided into different trends that differ in modified paradigms (Kleer 2005: 9). According to P.J. Gaudemet, economics deals with financial phenomena research in the macroeconomics perspective analyzing the financial flow. Economics concentrates on examining consequences of budget imbalance for the economy as well as it examines the results of public investment expenditures for the economic growth. Next, public finance examine the mechanisms of particular financial phenomena searching for rules of imposing taxes on taxpayers and at the same time specifying techniques of expenditures control (Gaudement, Molinier 2000: 17-18). It is difficult to understand financial operations when they are not “located” in economic environment that gives them the full and proper meaning.

Economic factors influence the financial phenomena and vice versa – financial phenomena influence the economics. If assumed that the economics is the science on wealth, public finance, being the part of this wealth, are conditioned economically (Gaudement, Molinier 2000: 18).

The basic definition of public finance underlines the aspect of public means management. The instrument that serves the process is the budget. According to S. Owsiak, the present definition of a budget describes it as a centralized public fund that is used to collect financial resources associated with the state functions. So, a budget is nothing else but a financial plan that constitutes a base for public entities activities in a budget year. Thanks to this plan, the state’s objectives and tasks are achieved (Owsiak 2013: 102).

A contemporary budget, its functions and accompanying rules have caused discussions and debates for years. Commodity and money market has influenced significantly the development of a budget. The economic growth has contributed not only to the increase of societies well-being but it has caused also the budget development and the increase of “the na-

tion's consumption", what is mirrored in the rise of the state's fiscal needs (Owsiak 2013: 105).

The next reason that contributed to the increase of a budget importance, not only in a quantitative dimension but also its functioning in social and political mechanisms, was the increase of the nation's role in the social sphere. Provided that fulfilling social functions happened gradually, the nation's entering the economic sphere processed very rapidly. It is no doubt that in VIIth century a state started to implement fiscal instruments in a form of duties protecting the domestic market from the foreign goods flow. Hence till the moment of the great economic crisis in 1929-1933, the role of a nation in n economic sphere was not significant (Owsiak 2013: 106-108). Until the end of the 1920's of XX century, a nations activity directed to mitigate the fluctuation of an economic cycle increased. The appearance of the state intervention meant the automatic development of a state budget. Next, it influenced the increase of budget instruments such as: taxes, expenditures, subsidies or transfers. It also caused that, to a larger extent, fiscal objectives and tasks were determined by the Nation's economic goals (Owsiak 2013: 109).

Over a span of XX and XXI centuries, the development of economic and financial relations happened and at the same time the integration processes gathered strength what affected the new budget quality. On one hand, we deal with the process of limiting the national fiscal authorities' sovereignty to international organizations and on the other hand, decisions concerning a budget in particular countries are controlled and evaluated – the example of the European Union (Owsiak 2013: 111).

Awarding the public finance a crucial role in a contemporary society and economy functioning, it is necessary to mention issues of the stability of sources that supply a public sector as a reasonable condition of using available financial means managed in such a way in order to avoid financial crises (Owsiak 2011: 28).

A state disposes two types of financial supply: the money revenue that comes from public donations – a basic source of a public income – and money loans that come from loans or from sales of securities. The size of a public income is a derivation of a tax system as well as real economic processes that generate this income. A contemporary nation is a tax nation where the intensity of the money flow to a budget is decided by the intensity of public donations. The money loans is different money from the point of view of its quality because it is return money and using it requires avoiding the idea of budget balance (Owsiak 2011: 30).

Real economic processes are cyclic what causes the drop or increase of a public income. A breakdown of economy brings about the decrease of an income to a budget and the necessity of cuts in public spending. It implies

the necessity of creating such a mechanism that would depreciate results of system changes as well as changes in the economic cycle (Owsiak 2011: 32). As a result of the present crisis, the European Union countries focus on creating such a mechanism.

3. Public finance status in countries of the euro zone before the financial crisis

The existence of a budget deficit and in consequence, a public debt is recognized as a rule, not an exception in capitalist countries. In Great Britain a debt has been occurring continuously since the end of XVII century. In the period of the Napoleon Wars and at the end of the II World War, a public debt exceeded 200% in relation to the Gross Domestic Product GDP. The situation is similar in the United States where only one time, at the end of the II World war, the ratio of a public debt to the Gross Domestic Product GDP exceeded 100%. Merely at the end of the first half of XIX century there was a short period when the debt was completely repaid.

In capitalist countries the indebtedness of a public sector is a constant phenomenon. However, the occurrence of a balanced budget or even a budget surplus is classified as a very rare phenomena (Łaski 2011: 7-8). The object of analysis is the period of 2001-2007, the time of creating and forming the Economic and Monetary Union /UGiW/ to which initially 11 countries were qualified (Austria, Belgium, Finland, France, Spain, Holland, Ireland, Luxemburg, Germany, Portugal and Italy: in 2001 Greece joined the euro zone and in 2007 – Slovenia did) till the moment of the financial crisis beginning. The Table No 1 presents the deficit/surplus of the public financial sector of the euro zone countries as a percentage of GDP in mentioned above years.

Table 1. Deficit/surplus of the public finance sector of the euro zone countries as a percentage of GDP in 2001-2007

Item No	Country/years	2001	2002	2003	2004	2005	2006	2007
1.	Belgium	0,4	-0,1	-0,1	-0,1	-2,5	0,4	-0,1
2.	Germany	-3,1	-3,8	-4,2	-3,8	-3,3	-1,6	0,2
3.	Ireland	0,9	-0,4	0,4	1,4	1,7	2,9	0,1
4.	Greece	-4,5	-4,8	-5,6	-7,5	-5,2	-5,7	-6,5
5.	Spain	-0,5	-0,2	-0,3	-0,1	1,3	2,4	1,9
6.	France	-1,5	-3,1	-4,1	-3,6	-2,9	-2,3	-2,7
7.	Italy	-3,1	-3,1	-3,6	-3,5	-4,4	-3,4	-1,6
8.	Luxemburg	6,1	2,1	0,5	-1,1	0,0	1,4	3,7

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9.	Holland	-0,2	-2,1	-3,1	-1,7	-0,3	0,5	0,2
10.	Austria	0,0	-0,7	-1,5	-4,4	-1,7	-1,5	-0,9
11.	Portugal	-4,8	-3,4	-3,7	-4,0	-6,5	-4,6	-3,1
12.	Slovenia	-4,0	-2,4	-2,7	-2,3	-1,5	-1,4	0,0
13.	Finland	5,1	4,2	2,6	2,5	2,9	4,2	5,3

Source: Own study on the basis of Eurostat, II nd quarter of 2013 <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00127>, 15 June 2013.

Deficits accompanied the foundation of the Economic and Monetary Union. The permissible deficit threshold of 3% of GDP, established in the Maastricht Treaty, was exceeded in big and leading countries of the EU such as: Germany, Italy or Portugal and of course in Greece. Violating the threshold values happened in 2001-2005 – the crisis period. The improvement of such a situation resulted from the EU enlargement by 10 new members. The revenue amount of the public sector in the euro zone countries' budgets is presented in the Table 2.

Table 2. The revenue amount of the public sector in the euro zone countries as a percentage of GDP in 2001-2007

Item No	Country/years	2001	2002	2003	2004	2005	2006	2007
1.	Belgium	49,5	49,6	50,9	48,9	49,3	48,8	48,1
2.	Germany	44,5	44,1	44,3	43,3	43,6	43,7	43,7
3.	Ireland	34,1	33,2	33,6	35,0	35,5	37,3	36,9
4.	Greece	40,9	40,3	39,0	38,1	39,0	39,2	40,7
5.	Spain	38,1	38,7	38,0	38,8	39,7	40,7	41,1
6.	France	50,0	49,6	49,3	49,6	50,6	50,6	49,9
7.	Italy	44,5	44,0	44,4	44,0	43,4	45,0	46,0
8.	Luxemburg	44,2	43,6	42,3	41,5	41,5	39,9	39,9
9.	Holland	45,1	44,1	43,9	44,3	44,5	46,1	45,4
10.	Austria	51,1	49,8	49,7	49,2	48,2	47,5	47,6
11.	Portugal	38,3	39,6	40,9	41,4	40,1	40,6	41,1
12.	Slovenia	43,4	43,8	43,6	43,5	43,8	43,2	42,4
13.	Finland	53,1	53,2	52,8	52,5	53,0	53,3	52,7

Source: Own study on the basis of Eurostat, II nd quarter of 2013

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00021>, 15 June 2013.

On the basis of data presented in Table 2, it can be noticed that only in Ireland the public sector “collected” the smallest percentage of revenue in comparison to the rest of the euro zone countries. The countries where the

percentage of the revenue to the state's budget reaches the value close to 50% had smaller deficits. Together with the revenue value drop, the deficits increased. The expenses affected the size of deficits – Table 3.

Table 3. Total expenses of the public sector of the euro zone countries as a percentage of GDP in 2001-2007

Item No	Country/years	2001	2002	2003	2004	2005	2006	2007
1.	Belgium	49,1	49,8	51	49,2	51,9	48,5	48,2
2.	Germany	47,6	47,9	48,5	47,1	46,9	45,3	43,5
3.	Ireland	33,2	33,5	33,2	33,6	33,8	34,4	36,8
4.	Greece	45,4	45,1	44,7	45,5	44,6	45,3	47,5
5.	Spain	38,7	38,9	38,4	38,9	38,4	38,4	39,2
6.	France	51,7	52,9	53,4	53,3	53,6	53,0	52,6
7.	Italy	47,7	47,1	48,1	47,5	47,9	48,5	47,6
8.	Luxemburg	38,1	41,5	41,8	42,6	41,5	38,6	36,3
9.	Holland	45,4	46,2	47,1	46,1	44,8	45,5	45,3
10.	Austria	51,3	50,7	51,3	53,8	50,0	49,1	48,6
11.	Portugal	43,2	43,1	44,7	45,4	46,6	45,2	44,4
12.	Slovenia	47,3	46,2	46,2	45,7	45,3	44,6	42,4
13.	Finland	48,0	49,0	50,3	50,2	50,3	49,2	47,4

Source: Own study on the basis of Eurostat, II nd quarter of 2013

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00023>, 15 June 2013.

In the period when the Economic and Monetary Union was being formed and it was before the present crisis, the expenses fluctuations were not big, although in 2007 the fluctuations drop was noticed in almost all countries (exception: Ireland, Greece and Spain) in comparison to former years.

Now the theory of optimal economic areas formulated by Robert Mundell in the beginning of the 60's of the XX century should be mentioned. This theory determines benefits of the common currency introduction. R. Mundel claimed that it was profitable for the state to resign from the state's own currency at the time when profits resulting from the elimination of traditional costs (the necessity of the currency exchange in international transactions) were bigger than costs resulting from the loss of independence in monetary and exchange rate policy. He also commented on the situation when the economies of partner countries are heterogenic, what means that they are receptive to asymmetric shocks, and when labor markets do not provide the sufficient mobility of the labor force as well as payments flexibility. In such a situation these countries should not change their present currency and should possess possibilities of introducing changes of the exchange rate in

order to adapt the economy to external shocks without the necessity of the employment decline (Rosati 2013: 107-108).

After a couple of years R. Mundell modified his theory completing it with a description of a situation on the assets financial market and he took into consideration the existence of dynamic expectations. He paid attention to a private sector which kept its resources in the form of a currency or securities. R. Mundel also indicated that assets would lose their value if the state that is the assets issuer suffered the asymmetric shock. Because of this reason and in order to diversify a risk, a private sector of a given country will aim at differentiating its assets completing them with ones emitted by other countries and in different currencies. However, the factor that inhibits the desirable diversification of assets is the risk of the exchange rate. It induces the financial agents to balance assets and liabilities in one currency. This way the striving for lowering the risk of assets value loss caused by the asymmetric shock remains in a conflict with lowering the foreign exchange risk (Rosati 2013: 109). On the basis of this study, R. Mundell drew the following conclusion: the more a country is vulnerable to asymmetric shocks, the more justified is its entrance to the common currency.

Then a private sector in a given country can protect itself from the risk of loosing the assets value caused by the asymmetric shock thanks to exchange rate risk elimination. Maintaining own currency in these conditions makes the desired diversification of assets impossible and it increases bonuses for the exchange rate risk in national interest rates. This observation has become important for the purposefulness analysis to enter the currency union by countries possessing small open economies and whose currencies are at big rate risk. Since that moment it has been realized that a key advantage of entering the currency union can be the drop of interest rates resulting from a rate risk elimination (Rosati 2013: 110).

The theory of the currency union has gone through a deep evolution. The main reasons of these transformations were changes in the world economy including globalization and markets integration. In the last half-century the autonomy of particular countries in running the independent monetary policy was limited significantly because of capital flows whose effects were mirrored in exogenous changes in the national currency supply. Transaction expenses connected with currency exchange as a result of a rapid development of international trade and financial markets increased. Possessing an own currency was more expensive and entering the currency union became advantageous – not mentioning the macroeconomic strengthening in less developed countries (Rosati 2013: 110-112).

Despite a new perspective on problems connected with the optimal currency area, since 2002 the situation in the European Union has started to

get worse. At that time the decrease of GDP both in Germany and Portugal happened but on the whole territory of the European Union it increased only by 1,5%. It was mirrored in the financial situation of member countries where the increase of deficit and a public debt occurred. These unfavorable changes hit the following countries: Germany, Italy, France, Austria – the leading UE countries. The change of the trend took place in 2004 when the European Union was enlarged by 10 countries of the Middle East Europe. The Union started to develop and the growth rate was about 2-3% of GDP, but the development was observed in the newly recruited countries. But the growth which was noted was not reflected in sufficient reforms that would let fulfill the convergence criteria.

Another element is worth mentioning. The research that was conducted in European Union countries indicated that significant reductions of budget deficit and public debts caused the so called non-Keynes' effects and fast economic growth (Wojciechowska-Toruńska 2009: 44-45). However European experience indicates that the phenomenon of non Keynes' effects have a lot in common with a fiscal policy consisting in stimulating the economic growth through structural reforms of public expenses and a tax system rather than through the reduction of deficit and a public debt (Wojciechowska-Toruńska 2009: 44). Germany and France, these are the countries that were striving for stabilization of the increase of the public debt in order to cope with the requirements of the Stability and Growth Pact. On the other hand Ireland or Finland concentrated on achieving the excessive economic growth, at the same time, achieving successes in public finance stabilization, in comparison with the first group of European countries.

Moreover, in the case of some member countries of the euro zone, the initial cause of the debt crisis was not the excessive indebtedness of a public sector but the immoderate expansion of bank loans and the indebtedness of a private sector. In Ireland or Spain the debt level of the public sector before the crisis was low and it was adequately 25,0% and 36,0%. However, as a result of the expansive policy run by banks that granted loans in order to finance houses building or real estate purchases, banks got into financial trouble. The scale of losses turned out big enough to question the solvency of banks and their deposits security. Regardless of the fact whether the initial cause of the debt crisis was the excessive public or private sectors indebtedness, there appeared the necessity of rescuing domestic banks what, at the same time, was an attempt and a challenge for the European Union where, despite the existence of the common currency, there are 17 different systems of banks control and supervision. It turned out that it is one of the most important drawbacks of European integration causing the crisis deepening.

4. Financial crisis – public finance stability attempt period

European public finance crisis has resulted from the crisis that started in the United States of America in 2007. The crisis in the euro zone started one year later when the next EU countries fell into the debt trap, financial markets subjected to instability and the economic growth rapidly slowed down. The deficit/surplus and the public debt as a percentage of GDP in the euro zone countries in 2008-2012 are presented in the Tables 4 and 5.

Table 4. Deficit/surplus of the public finance sector of the euro zone countries as a percentage of GDP in 2008-2012

Item No	Country/years	2008	2009	2010	2011	2012
1.	Belgium	-1,0	-5,6	-3,8	-3,7	-3,9
2.	Germany	-0,1	-3,1	-4,1	-0,8	0,2
3.	Estonia	-2,9	-2,0	0,2	1,2	-0,3
4.	Ireland	-7,4	-13,9	-30,8	-13,4	-7,6
5.	Greece	-9,8	-15,6	-10,7	-9,5	-10,0
6.	Spain	-4,5	-11,2	-9,7	-9,4	-10,6
7.	France	-3,3	-7,5	-7,1	-5,3	-4,8
8.	Italy	-2,7	-5,5	-4,5	-3,8	-3,0
9.	Cyprus	0,9	-6,1	-5,3	-6,3	-6,3
10.	Luxemburg	3,2	-0,8	-0,9	-0,2	-0,8
11.	Malta	-4,6	-3,7	-3,6	-2,8	-3,3
12.	Holland	0,5	-5,6	-5,1	-4,5	-4,1
13.	Austria	-0,9	-4,1	-4,5	-2,5	-2,5
14.	Portugal	-3,6	-10,2	-9,8	-4,4	-6,4
15.	Slovenia	-1,9	-6,2	-5,9	-6,4	-4,0
16.	Slovakia	-2,1	-8,0	-7,7	-5,1	-4,3
17.	Finland	4,4	-2,5	-2,5	-0,8	-1,9

Source: Own study on the basis of Eurostat, II nd quarter of 2013

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00127>, 15 June 2013.

The deficit criterion was met in Germany, Malta, Estonia, Luxemburg, Austria and Finland. The situation got worse in Ireland where the year 2010 was the worst one because the deficit reached the value of 30%. Also the situation was not interesting in Greece, Spain, and Portugal. The increase of deficits that should have been financed affected the increase of the public debt /Table 5/.

Table 5. Public debt of the euro zone countries as a percentage of GDP in 2008-2012

Item No	Country/years	2008	2009	2010	2011	2012
1.	Belgium	89,2	95,7	95,5	97,8	99,6
2.	Germany	66,8	74,5	82,4	80,4	81,9
3.	Estonia	4,5	7,2	6,7	6,2	10,1
4.	Ireland	44,5	64,8	92,1	106,4	117,6
5.	Greece	112,9	129,7	148,3	170,3	156,9
6.	Spain	40,2	53,9	61,5	69,3	84,2
7.	France	68,2	79,2	82,4	85,8	90,2
8.	Italy	106,1	116,4	119,3	120,8	127
9.	Cyprus	48,9	58,5	61,3	71,1	85,8
10.	Luxemburg	14,4	15,3	19,2	18,3	20,8
11.	Malta	60,9	66,4	67,4	70,3	72,1
12.	Holland	58,5	60,8	63,1	65,5	71,2
13.	Austria	63,8	69,2	72,0	72,5	73,4
14.	Portugal	71,7	83,7	94,0	108,3	123,6
15.	Slovenia	22,0	35,0	38,6	46,9	54,1
16.	Slovakia	27,9	35,6	41,0	43,3	52,1
17.	Finland	33,9	43,5	48,6	49,0	53,0

Source: Own study on the basis of Eurostat, II nd quarter of 2013

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdde410>, 15 June 2013.

The amount of the public debt in Estonia, Luxemburg, Slovenia, Slovakia and Finland was not the European Union's concern. Similarly, as in the case of deficits, the high level of the public debt was noted in Ireland, Greece, Portugal or in Italy and France – the next two financial powers in the EU.

However after 2009 the new problem occurred and it was connected with the inability of the EU countries to undertake activities aiming at overcoming the crisis. At the same time the weakness of the European institutional and political system that was not able to handle new challenges was revealed. What we deal with nowadays is the indebtedness crisis of some euro zone member countries. It is accompanied by the political crisis connected with the inability of joined actions in the European Union (Rosati 2013: 60-64). Wherein in some European countries, the crisis was caused by the excessive indebtedness of the government sector – examples: Greece and Portugal, or by the excessive banks indebtedness of the private sector – the example: Spain, or by the excessive and risky expansion of the bank sector – the example: Ireland. All these examples, regardless of the reason, present that the excessive debts ultimately affected the private

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sector. If these countries were out of the common currency area such a huge indebtedness would not happen. However, the fact that countries belong to the Economic and Monetary Union causes that member countries provide help in order to avoid negative consequences of their possible bankruptcy and the collapse of the economy in the euro zone.

The activities that were undertaken by particular euro zone member countries governments during the economic crisis led to changes of budgets balances. The biggest deficits occurred in 2009 in connection with activities that had to limit consequences of the crisis in the real sphere. Next year the majority of European countries further limited the size of the deficit, excluding Ireland where the deficit amounted to 31% of GDP – 5 times more than the permissible value agreed in Maastricht. At the same time, the situation in Slovenia got worse. Both the deficit and the public debt increased there.

The financial situation worsening resulted, first of all, from reducing the rate of the economic growth. The negative midyear economic growth rate was noted in Ireland, Denmark, Greece, Italy, France and Portugal.

In consecutive years the European economy was shrinking. The year 2010 was completed with the 2% increase of the real production in comparison to 2009. After this short-term economy improvement, in most of the EU countries, again, the GDP growth rate slowed down reaching the level of 1,5% (Szymańska 2012: 35-36).

However, something else is worth mentioning. Countries belonging to the Economic and Monetary Union that were hit by the crisis have been suffering from the imbalance of international turnover and they indicate deficits on the current accounts of payment transactions for a long time. The situation is presented in the Table 6.

Table 6. Current account balance as a percentage of GDP in 2003-2011

Item No	Country/ years	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	Belgium	3,4	3,2	2,0	1,9	1,9	-1,3	-1,4	1,9	-1,4
2.	Germany	1,9	4,7	5,1	6,3	7,4	6,2	5,9	6,0	5,7
3.	Estonia	-11,3	-11,3	-10	-15,3	-15,9	-9,2	3,4	2,9	2,1
4.	Ireland	0	-0,6	-3,5	-3,5	-5,4	-5,7	-2,3	1,1	1,1
5.	Greece	-6,5	-5,8	-7,6	-11,4	-14,6	-14,9	-11,2	-10,1	-9,9
6.	Spain	-3,5	-5,2	-7,4	-9,0	-10,0	-9,6	-4,8	-4,5	-3,5
7.	France	0,4	0,5	-0,5	-0,6	-1,0	-1,7	-1,3	-1,6	-2,0
8.	Italy	-0,8	-0,3	-0,9	-1,5	-1,3	-2,9	-2,0	-3,5	-3,1
9.	Cyprus	-2,3	-5,0	-5,9	-6,9	-11,7	-15,6	-10,7	-9,8	-4,7
10.	Luxemburg	8,1	11,9	11,5	10,4	10,1	5,4	7,2	8,2	7,1
11.	Malta	-3,0	-5,8	-8,5	-9,5	-6,2	-4,9	-7,4	-4,9	-0,3
12.	Holland	5,5	7,6	7,4	9,4	6,7	4,3	5,2	7,7	9,7

13.	Austria	1,7	2,2	2,2	2,8	3,5	4,9	2,7	3,4	0,6
14.	Portugal	-6,4	-8,3	-10,3	-10,7	-10,1	-12,6	-10,9	-10,6	-7,0
15.	Slovenia	-0,8	-2,6	-1,7	-2,5	-4,8	-6,2	-0,7	-0,6	0
16.	Slovakia	-5,9	-7,8	-8,5	-7,8	-5,3	-6,2	-2,6	-3,7	-2,1
17.	Finland	4,8	6,2	3,4	4,2	4,3	2,6	1,8	1,5	-1,6

Source: Own study on the basis of Eurostat, II nd quarter of 2013

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00043>, 20 Feb. 2013

Germany running the policy of slowing down the nominal payments increase in relation to the increase of labor efficiency for a long time has caused the decrease of labor costs and increase of competitiveness obtaining new outlets at the same time. Countries that could not cope with such competitiveness had to introduce the currency devaluation. As a result of such a situation, the problem started again. However, since the moment of entering the Economic and Monetary Union, the possibility of the national currency devaluation disappeared.

Then the countries forming the Economic and Monetary Union should start running the stabilization policy of mutual competitive ability. That means that every country should adjust the increase of nominal payments to the increase of real labor efficiency and correct it according to the inflation goal of the European Central Bank (Łaski 2011: 11-12). However it has not happened.

The weakness of the Economic and Monetary Union, which was ignoring the problem of relative competitiveness inside the European Union, has not been reveled since the moment of the crisis. What is worse, this problem has been passed over in the moment of demanding the finance consolidation in order to calm financial markets.

The countries response to the present crisis indisputably indicates that despite the progressing European integration, the fiscal policy is still the domain of member countries. The main burden of the crisis consequences struggle rests on the states budgets. The scale of this fiscal expansion is significant, although, differences both in relation to its size and its structure occur among countries. In 2009 Germany of France supported the financial sector suitably: 4,2% and 2,7% of GDP while Great Britain and Holland had to pump money into the financial sector in the amount of 17,8% and 13,7% of GDP (Tomkiewicz 2010: 142-143). Table 7 presents the costs that were born by member countries to fight the crisis.

Table 7. Financial support of the euro zone countries in 2008-2011 according to used instruments

Country	Size of capital support		Warranties		Intervention on the assets market		Financial instruments other than warranties		2008-2011	
	Billion EUR	% of GDP 2011	Billion EUR	% of GDP 2011	Billion EUR	% of GDP 2011	Billion EUR	% of GDP 2011	Billion EUR	% of GDP 2011
Belgium	20,40	5,54%	44,23	12,01%	7,73	2,10%	0	0%	72,36	19,65%
Germany	63,24	2,46%	135,03	5,25%	56,17	2,19%	4,75	0,18%	259,19	10,08%
Estonia	0	0%	0	0%	0	0%	0	0%	0	0%
Ireland	62,78	40,13%	284,25	181,70%	2,60	1,66%	0,08	0,05%	349,71	223,54%
Greece	6,30	2,93%	56,30	26,17%	0	0%	6,90	3,21%	69,49	32,31%
Spain	19,31	1,80%	62,20	5,79%	2,86	0,27%	19,31	1,80%	103,68	9,66%
France	22,46	1,12%	92,73	4,64%	1,20	0,06%	0	0%	116,39	5,83%
Italy	4,05	0,26%	10,90	0,69%	0	0%	0	0%	14,95	0,95%
Cyprus	0	0%	2,83	15,91%	0	0%	0	0%	2,83	15,91%
Latvia	0,51	2,53%	0,54	2,69%	0,41	2,03%	0,97	4,86%	2,43	12,12%
Luxemburg	2,60	6,07%	1,65	3,84%	0	0%	0,19	0,44%	4,43	10,35%
Malta	0	0%	0	0%	0	0%	0	0%	0	0%
Holland	18,86	3,13%	40,90	6,79%	5,00	0,83%	30,40	5,05%	95,16	15,80%
Austria	7,38	2,45%	19,33	6,43%	0,40	0,13%	0	0%	27,11	9,01%
Portugal	0	0%	8,54	5,00%	0	0%	2,85	1,67%	11,39	6,66%
Slovenia	0,25	0,70%	2,15	6,03%	0	0%	0	0%	2,40	6,73%
Slovakia	0	0%	0	0%	0	0%	0	0%	0	0%
Finland	0	0%	0,12	0,06%	0	0%	0	0%	0,12	0,06%

Source: Own study on the basis of Eurostat, Source: DG Competition 07.05.2013.

The level of member countries involvement in the crisis struggle is different both in the scope of relations to GDP and to provided tools. The financial sector capital support and warranties have become the instruments that are mostly implemented. The uncertain financial situation is still a thread for the national budgets stability in many countries, first of all in Spain and Cyprus. These mutual relations of governments and banks create a vicious circle that is difficult to cut. The situation is worsened by the increasing unemployment rate that reaches the highest levels in Spain, Greece or Portugal. It causes the increase of expenses of states whose public finance are in an extremely poor condition. It brings about the necessity to increase budget revenues what is connected with the perspective of increasing the tax burden (direct and indirect taxes) but this consequently decreases the citizens' income. It arouses the moods of anxiety and the lack of trust to undertaken government's actions among European societies. In reply to the situation, the member countries had to decide on institutional reforms.

5. Methods of public finance improvement of the European Union member countries

Since 2009 the European Union has been involved in the arrangements concerning the second reform of the Stability and Growth Pact as well as changes in the scope of strengthening the economic policy coordination of member countries. The suggested solution postulates aim at enlarging preventive and repairing activities within the scope of supervision and realization of the convergence criteria including aspects of the government institutions sector indebtedness (Marchewka-Bartkowiak 2011: 48).

Undertaken activities, in response to the crisis, were following two directions. Firstly, the European Union countries tried to control the persisting crisis and to restore the stability on financial markets. Secondly, it was desired to run such reforms in the EU economic management in order to prevent similar crises in future and to create an effective system that would make impossible to get into debts by member countries (Rosati 2013: 72-73).

In 2011 the so called “Sześciopak” was agreed. It is the set of 6 legal acts concerning, among others, the rules of creating state budgets, the rate of expenses increase as well as the required rate of a public debt reduction. First of all, the aim of this package is to strengthen the economic management in the European Union, mainly in the euro zone. ‘The procedure of the exceeded imbalance’ that provides sanctions for the lack of discipline has been established. The main element of the package is: strengthening the debt criterion that played less vital part than the deficit criterion. The package provides also for increasing the transparency of the decision-making process of economic policies coordination in the European Union. Establishing and strengthening a dialogue among EU institutions, as well as intensifying governments’ and parliaments’ commitments to obey commonly worked out rules are the crucial objectives included in the package.

Next, the fiscal treaty specifies that the balance of government institutions must be balanced or it has to demonstrate a surplus. This requirement will be possible to fulfill if the annual balance of government institutions is equal to the MTO – medium term objective defined in the amended package, admitting that the lower limit of the structural deficit equals 0,5% of GDP. Every nation’s objective is to reach the MTO quickly but the time frame of this relation will be presented by the European Commission taking into account the risk of a given country economic stability.

The treaty provides for situations when a nation can temporally give up the defined MTO and the adjustment path. These exceptional circumstances occur when:

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- a debt of government institutions sector in relation to GDP, counted in market prices, remains below 60% and a low risk of losing the long-term stability of public finance occurs,
- a lower limit of MTO can be equal to a structural deficit that amounts at the most 1% of GDP in market prices.

The automatic correcting mechanism in which the European Commission will present the description, range and plan of repair activities will be activated when significant deviations from MTO and from the adjustment path are noted. In the situation when the public debt exceeds the reference value – it is 60% of GDP, the state will be obliged to decrease the debt value, on average, one twentieth annually. At the same time the pact forces countries of the high debt level to limit the expenditure growth. The agreed rate of the GDP increase in the medium term cannot be exceeded.

The treaty defines also the role of the European Commission while monitoring and applying programs of the deficit limitation. This institution is important because it monitors and approves these programs¹²⁶.

Among new European Commission propositions that have to contribute to the discipline and supervision increase in public finance of the European Union countries there is a postulate to implement the procedure of excessive macroeconomic imbalance as well as to establish the uniform requirements concerning rules and procedures that create budgetary framework in member countries (Marchewka-Bartkowiak 2011: 52).

The treaty, first of all, concerns countries that create the euro zone, but the rest of the member countries, especially those that plan to introduce the common currency in future, should take into consideration the change of the attitude related to a problem of the exceed deficit and a public debt in connection with realized integration processes.

The acceptance of the fiscal treaty, which assumes the discretionary fiscal sovereignty limitation, seems to be right if a defense for the common currency will become successful. Especially Germany strives for this. For this country accepting binding fiscal rules and effective European Union control of the rules obeying are the key elements of the success. Poland has also managed to obtain advantageous bequests. During negotiations it was possible to agree issues that increase the flexibility in the approach to the pension reform system. The commission, while assessing the macroeconomic situation of our country, has to take into consideration processes connected with the change of the economic system and the necessity of

¹ http://biznes.gazetaprawna.pl/artykuly/683357,pakt_fiskalny_co_zawiera_kogo_uza-leznia_komu_sluzyl.html, 19 Feb. 2013.

“catching up” the European leading member countries what entails incurring financial expenditures and affects financial balance².

Undertaking actions leading to tightening cooperation in the framework of the fiscal pact aims at accelerating the consolidation of public finance that will open the way to the euro zone.

The undertaken structural reforms should be mentioned here. In 2011 the European Union adopted the “Euro plus Pact” containing resolutions aiming at strengthening the economic dimension of the currency union, improving the coordination of the economic policy and strengthening the competitiveness of European economies in longer perspective. It has to be done thanks to the labor market reforms, pension systems and increasing expenditures for education and academic research. Every year member countries will be obliged to undertake reforms in order to bring their economies closer to each other. The status of commitments implementation will be evaluated periodically in the framework of, the so called: “European system”. It should be remembered that this pact is the political commitment; it does not have the legal binding and its regulations are implemented by means of secondary legislative acts, including the “Sześciopak” (Rosati 2013: 77).

Undertaken actions should be assessed in a positive way because they fill out the gap in the previous European system of finance and economic management. The weakness of these resolutions can be the commitments voluntariness (Pact „Euro plus”), others present the compromise character what has an impact upon the effectiveness of their implementation and realization. The European Union suffers from the lack of the sense of community and member countries still describe their priorities in the name of the narrowly defined public interest.

6. Summary

Nowadays in Europe (but also in USA) that is in crisis, the problem of the state’s role and public finance involvement come into being again. Today a demand is the problem but actually its insufficient level (not a supply). A big number of European countries plunge in a deep stagnation that is close to the economic breakdown. In order to go out of the impasse, the expansion both monetary and fiscal is necessary. Blaming the state’s well-being for a crisis is not fair because this is not the reason of the excessive indebtedness of a give country. Today we pay for debts. They sprang into existence as a result of the bank and financial crisis and expenditures cuts, including

² http://finanse.wnp.pl/ue-zaostrza-zasady-dyscypliny-budzetowej-szesciopak-przyjety,151723_1_0_2.html 28.09.2011.

social spending, cause further consumption decrease as well as the economy slowing down what can result in further recession³.

In the era of the financial crisis, the increase of state's activity in the field of economic situation stability, including the increase of public finance, is expected. It has been noticed several times that markets response to governments' interventions is positive but unfortunately short-lived. This mechanism is listed in the economy functioning. The financial system has an important meaning for the whole economy and taking risk of further financial system destabilization can be recognized as irresponsible. For the next time the crisis revealed the weakness of institutional framework, especially regulations and supervision. To avoid the repetition of the next crisis or economic collapses in future, it seems to be necessary to change the terms of its functioning. We hope that the prepared by the European Union fiscal pact will contribute to the improvement of the financial condition of member countries. However it will be possible on conditions – widely understood economic aspect will get a chance to be spoken or when the destabilization is not profitable. It is predicted to be a long-lasting process.

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